

ORION METALS LIMITED

ACN 096 142 737

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012**

ORION METALS LIMITED

ACN 096 142 737

CONTENTS

Corporate Governance Statement	1
Directors' Report	7
Auditor's Independence Declaration	17
Consolidated Statement of Comprehensive Income	18
Consolidated Statement of Financial Position	19
Consolidated Statement of Changes in Equity	20
Consolidated Statement of Cash Flows	21
Notes to the Financial Statements	22
Directors' Declaration	46
Independent Audit Report	47

ORION METALS LIMITED

ACN 096 142 737

CORPORATE GOVERNANCE STATEMENT

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the recommendations of the ASX Corporate Governance Council (“Recommendations”) in the reporting period. These Recommendations are guidelines designed to improve the efficiency, quality and integrity of the Company. The Recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its own circumstances, the company has the flexibility not to follow it. Where a company has not followed all the Recommendations, this Statement must identify which Recommendations have not been followed and give reasons for not following them.

The Company’s Corporate Governance Charter (“Charter”), this Corporate Governance Statement (“Statement”) and other information for stakeholders is displayed on the Company’s website www.orionmetals.com.au

A table is included at the end of this Statement which sets out the Recommendations and states whether the Company has complied with each recommendation in the reporting period, and the reasons for any non-compliance are given in the notes referenced in the table.

Role of the Board

The Board’s primary responsibility is to oversee the Company’s business activities and management for the benefit of shareholders which it accomplishes by:

- establishing corporate governance and ethical business standards;
- setting and monitoring objectives, goals and strategic direction with a view to maximising shareholder value;
- approving and monitoring budgets and financial performance;
- ensuring adequate internal controls exist and are appropriately monitored for compliance;
- ensuring significant business risks are identified and appropriately managed;
- approving financial and other reporting, and announcements prior to lodgement with the ASX and release to shareholders;
- ensuring the composition of the Board is appropriate, selecting directors for appointment to the Board and reviewing the performance of the Board and the contributions of individual directors; and
- setting remuneration policy and evaluating the performance of senior executives.

Board Composition

The Board comprises a non-executive Chairman (David Barwick) and three non-executive directors (Andrew Gillies, Adrian Day and Tao Li), none of whom are considered to be independent directors.

The Board considers that an independent director is a non-executive director who meets the criteria for independence included in the Recommendations, but with its present composition the Board is of the opinion that none of the directors meet this criteria.

Also, the Board has not at this time set any specific materiality thresholds in relation to directors on the basis that such are considered subjective, may depend on each relevant situation and do not impact on independence criteria.

All directors have a broad range of qualifications, experience and expertise in managing mineral exploration companies as set out in the Directors’ Report. There is no requirement for any director’s shareholding qualification, however three of the current directors do hold direct or indirect interests in the Company’s shares and the other is the nominee of a substantial shareholder in the Company.

As the Company’s activities increase in size, nature and scope, the composition and size of the Board will be reviewed periodically to ensure it comprises the optimum number of directors required to adequately supervise the Company’s business.

The evaluation of individual director’s performance is undertaken by the Chairman as and when appropriate.

ORION METALS LIMITED

ACN 096 142 737

CORPORATE GOVERNANCE STATEMENT

All directors, apart from any Managing Director, are subject to shareholder re-election following initial appointment and by rotation at least every three years. The Company's Constitution provides that one-third of the directors retire by rotation each Annual General Meeting. Those directors who are retiring may submit themselves for re-election by shareholders, including any director appointed to fill a casual vacancy since the date of the last AGM.

Access to Independent Professional Advice

The Company acknowledges that directors require high quality information and advice on which to base their decisions and considerations. With the prior approval of the Chairman, all directors have the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as directors. If the Chairman is unable or unwilling to give approval, majority Board approval will be sought.

Board Processes

The Board of the Company meets on a regular basis. The agenda for these meetings is prepared by the Chairman and the Company Secretary in conjunction with the directors and any CEO. Relevant information is circulated to directors in advance of Board meetings.

Board Committees

The Company does not have at this time any of the recommended committees covering nomination, audit or remuneration. The full Board of Directors undertakes the functions of these individual committees. Given the composition of the Board and the size of the Company it is considered that individual committees are not presently warranted; however it is expected that as the Company's operations expand some of these committees may be established.

Role of Management

At the present time the Company does not have a CEO (or Managing Director) and the functions and duties of this role are being performed by a part-time Chief Operating Officer.

The Board has delegated responsibilities and authorities to the executive staff to enable management to conduct the Company's day-to-day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits or do not form part of the approved budget, require Board approval.

An evaluation of the performance of senior management during each financial year, including any Managing Director or CEO, will be undertaken at a meeting of the Board of the Company by the non-executive directors, with the Chairman then discussing this review separately with the Managing Director/CEO. This is considered to be an appropriate process as the Company is in the exploration and evaluation stage therefore it is not possible to evaluate performance against revenue or profit targets.

Details of the Company's remuneration practices in relation to key management personnel are set out in the audited Remuneration Report section of the Directors' Report.

ORION METALS LIMITED

ACN 096 142 737

CORPORATE GOVERNANCE STATEMENT

Ethical Standards

As part of the Board's commitment to the highest standard of conduct, the Company has adopted a Code of Conduct to guide executives, management and employees in carrying out their duties and responsibilities. The Code of Conduct is incorporated within the Charter and encompasses:

- responsibilities to shareholders;
- compliance with laws and regulations;
- relationships with clients, customers and consumers;
- conflicts of interest;
- employment practices; and
- responsibilities to the community.

All directors are also required to adhere to a Corporate Ethics Policy - which is included in the Charter as well - covering the ethical and legal requirements in relation to their conduct as directors both within the Company and externally to other parties.

The Board has resolved that the relevant sections of the Charter, particularly the Code of Conduct, Corporate Ethics Policy, and continuous disclosure obligations should also extend to cover all executives, employees and consultants of the Company.

In addition, the Company has established a Share Trading Policy under which directors and key management personnel are restricted from dealing in Company shares when they are in possession of price sensitive information and during specified periods before or after the release of half and full-year financial results.

Diversity

The Board has approved a workplace Diversity Policy in compliance with the Recommendations but cognizant of the constraints of a mining exploration company, particularly in relation to gender diversity. This Policy is available on the Company's website.

The Policy outlines measurable objectives for achieving gender diversity over the longer term: these are:

- *Employment Balance* - aiming to increase the proportion of women directors on the Board, in senior management and in the organisation overall, including contractors and consultants.
- *Non-Traditional Roles* - increasing the number of women working in non-traditional roles, employed through focussed recruitment - very relevant in a mining exploration company.
- *Development & Promotion* - provide equal opportunities for both men and women to attend training and development courses - and to be promoted purely on merit.
- *Remuneration* - equity in pay regardless of gender.
- *Flexible Work Practices* - removal of differentiation between genders - eg, with maternity/parental leave or compassionate leave - and opportunities to work from the home environment (which might assist where there are young children or aged relatives that need some care at times).
- *Discrimination & Harassment* - curbing practices which might prejudice employees because of their gender through appropriate training.

At the date of this Statement the Company has no employees. Further, there have been no changes in the composition of the Board since the last Statement. Accordingly, there has been very little scope for achieving these objectives. However, the Company engages 6 part-time contract staff in its head office, of whom 3 are male and 3 female.

ORION METALS LIMITED

ACN 096 142 737

CORPORATE GOVERNANCE STATEMENT

Continuous Disclosure & Shareholder Communication

The Board is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market. In accordance with continuous disclosure obligations under the ASX Listing Rules, the Company has procedures in place to ensure that all price sensitive information is identified, reviewed by management and disclosed to the ASX in a timely manner. These procedures are also detailed in the Charter. All information disclosed to the ASX is posted on the Company's website.

Shareholders are forwarded the Company's Annual Report, if requested, and documents relating to each General Meeting, being the Notice of Meeting, any Explanatory Memorandum and a Proxy Form, and shareholders are invited to attend these meetings. The Company's external Auditor is also required to be present at Annual General Meetings to answer any queries shareholders may have with regard to the audit and preparation and content of the Audit Report.

Managing Business Risk

The Board constantly monitors the operational and financial aspects of the Company's activities and is responsible for the implementation and ongoing review of business risks that could affect the Company. Duties in relation to risk management that are conducted by the Board include but are not limited to:

- initiate action to prevent or reduce the adverse effects of risk;
- control further treatment of risks until the level of risk becomes acceptable;
- identify and record any problems relating to the management of risk;
- initiate, recommend or provide solutions through designated channels;
- verify the implementation of solutions; and
- communicate and consult internally and externally as appropriate.

The Board has identified the material business risks which might affect the Company, has developed a policy for the management of those risks and has delegated responsibilities for managing those to the executive staff. With the planned growth in business the Board has also requested the executive to design and implement a risk management and internal control system to more adequately manage the Company's material business risks and to report to the Board on matters relating to risks, including the effectiveness of that risk management system.

In addition, in accordance with section 295A of the Corporations Act 2001, the persons performing the roles of Chief Executive Officer and Chief Financial Officer are required to provide a declaration to the Board that:

- the financial records of the Company have been properly maintained, and
- the financial statements comply with the accounting standards, and give a true and fair view of the Company's financial position and performance

and, as required by the Recommendations:

- the declaration is founded on a sound system of risk management and internal control which implements policies adopted by the Board, and the Company's risk management and internal compliance control system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.

ORION METALS LIMITED

ACN 096 142 737

CORPORATE GOVERNANCE STATEMENT

Compliance with Recommendations

The table below contains each of the Recommendations. The Board has implemented these Recommendations insofar as they are relevant to the size of the Company and the nature of its activities at the present time. Where the Company has complied with a Recommendation, this is indicated with a “Yes” in the relevant column, and details can be found in the Charter or this Statement. Where the Company has considered it is not appropriate to comply with a particular Recommendation, this is indicated with a “No” and the Board’s reasons are set out in the corresponding note appearing at the end of the table.

	Recommendations	Complied	Note
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	Yes	
1.2	Disclose the process for evaluating the performance of senior executives	Yes	
1.3	Provide the information indicated in the Guide to reporting on Principle 1	Yes	
2.1	A majority of the Board should be independent directors	No	1
2.2	The Chair should be an independent director	No	1
2.3	The roles of Chair and Chief Executive Officer should not be exercised by the same individual	Yes	
2.4	The Board should establish a Nomination Committee.	No	2
2.5	Disclose the process for evaluating the performance of the Board, committees and individual directors	Yes	
2.6	Provide the information indicated in the Guide to reporting on Principle 2	Yes	
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> - the practices necessary to maintain confidence in the Company’s integrity - the practices necessary to take into account legal obligations and the reasonable expectations of stakeholders - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	Yes	
3.2	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 and for the Board to assess annually both the objectives and progress in achieving them	Yes	
3.3	Disclose in each Annual Report the measurable objectives for achieving gender diversity	Yes	
3.4	Disclose in each Annual Report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board	Yes	
3.5	Provide the information indicated in the Guide to reporting on Principle 3	Yes	
4.1	Establish an Audit Committee.	No	2
4.2	The Audit Committee should be structured so that it: <ul style="list-style-type: none"> - consists only of non-executive directors - consists of a majority of independent directors - is chaired by an independent chair, who is not the Chair of the Board - has at least 3 members 	No	1
4.3	The Audit Committee should have a formal charter	No	2
4.4	Provide the information indicated in the Guide to reporting on Principle 4	Yes	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies	Yes	
5.2	Provide the information indicated in the Guide to reporting on Principle 5	Yes	

ORION METALS LIMITED

ACN 096 142 737

CORPORATE GOVERNANCE STATEMENT

	Recommendations	Complied	Note
6.1	Design a communications policy for promoting effective communication with the shareholders and encouraging participation at general meetings and disclose that policy or a summary of that policy	Yes	
6.2	Provide the information indicated in the Guide to reporting on Principle 6	Yes	
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies	Yes	
7.2	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 effectiveness of the Company's management of its material business risks	Yes	
7.3	Disclose whether the Board 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	Yes	
7.3	Provide the information indicated in the Guide to reporting on Principle 7	Yes	
8.1	Establish a Remuneration Committee	No	2
8.2	The Remuneration Committee should be structured so that it: <ul style="list-style-type: none">- consists of a majority of independent directors- is chaired by an independent director- has at least 3 members	No	1
8.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	Yes	
8.4	Provide the information in the Guide to Reporting on Principle 8	Yes	

Notes

1. The Company has four directors, all currently non-executive (The Chairman was an Executive Director for part of the year) but none are considered to be independent. The Recommendations propose that a majority of the Board and of the Committees be independent directors. The Board believes that, given the size of the Company and its stage of commercial maturity, it is not practical to appoint any independent directors to the Board and considers industry experience and specific expertise, as well as general corporate experience, to be more important attributes of its Board members than independence at this time.
2. At this time the Company does not have Audit, Remuneration or Nomination Committees of the Board of Directors. The full Board undertakes the roles of these individual committees. Given the composition of the Board and the size of the Company, it is felt that these individual committees are not yet warranted, however it is expected that when the Company's operations expand some of these committees may be established.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Orion Metals Limited and its controlled entities at the end of, or during the year ended, 29 February 2012.

1. THE DIRECTORS

The following persons were directors of the Company during the financial year and up to date of this report:

David Keith Barwick - Age 68 — **Chairman**

Qualifications — N/A
Experience — Appointed Chairman and Board member on 28 November 2008.
Interest in Shares and Options — 2,500,000 ordinary shares and 500,000 options
Directorships held in other listed entities — Chairman of

- Metallica Minerals Limited- appointed 11 March 2004-Continuing
- MetroCoal Limited- appointed 6 January 2006-Continuing
- Jumbo Interactive Limited - appointed 28 August 2006-Continuing
- Planet Metals Limited -appointed 9 June 2009-Continuing

Andrew Gillies - Age 49 — **Non-Executive Director**

Qualifications — Bachelor of Science (Geology), MAusIMM
Experience — Appointed director on 28 November 2008
Interest in Shares and Options — 1,325,000 ordinary shares and 500,000 options
Directorships held in other listed entities —

- Metallica Minerals Limited - appointed 15 January 1997-Continuing
- MetroCoal Limited - appointed 6 January 2006-Continuing
- Planet Metals Limited - appointed 9 June 2009-Continuing

Directorships formerly held in other listed entities — Cape Alumina Limited - appointed 2 February 2004, resigned 30 November 2011

Adrian Day - Age 67 — **Non-Executive Director**

Qualifications — Bachelor of Science (Geology), MAIG
Experience — Appointed director on 8 March 2001
Interest in Shares and Options — 699,250 ordinary shares and 500,000 options
Special Responsibilities — Director of Exploration
Directorships held in other listed entities — Nil

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

1. THE DIRECTORS (Cont'd)

<i>Dr Tao Li - Age 57</i>	—	<i>Non-Executive Director</i>
Qualifications	—	PhD in Mining Engineering
Experience	—	Appointed director on 30 September 2010
Interest in Shares and Options	—	500,000 options
Directorships held in other listed entities	—	Alternate director of Metallica Minerals Ltd appointed 12 May 2009 - Continuing Director of Liberty Mines Inc., listed on TSX Canada appointed 3 February 2010 - Continuing
<i>James Canning-Ure - Age 54</i>	—	<i>Managing Director</i> <i>(Appointed 18 March 2010, resigned 21 April 2011)</i>
Qualifications		B.Comm
Experience and other Directorships in listed entities		Appointed Board member on 18 March 2010; resigned 21 April 2011. Previous Director of: Macarthur Minerals Limited (TSX-V) - appointed 18 January 2005 - ceased 31 August 2009.
<i>Company Secretary</i> <i>Bill Lyne</i>	—	<i>Company Secretary</i>
Qualifications	—	BCom, CA, FCIS, FAICD, FFIN
Experience	—	Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to public companies. He is secretary of a number of other listed companies and has a wealth of experience in corporate governance principles and practice.
Directorships held in other listed entities	—	Jumbo Interactive Limited (30 October 2009 ~ current)

2. PRINCIPAL ACTIVITIES OF THE CONSOLIDATED ENTITY

The principal activity of the consolidated entity is the exploration for Rare Earth Elements (REE), with a major focus on the Heavy Rare Earth Elements (HREE), and gold. There have been no significant changes in the nature of principal activities during the year.

3. OPERATING RESULTS

The net result of operations of the consolidated entity for the year ended 29 February 2012 was a loss of \$1,502,405 (2011 - loss of \$1,423,847).

The consolidated entity's strategy for future years is to continue the exploration, evaluation and development of its mineral projects, and to sell or joint venture non-core assets. The consolidated entity believes its future strategy is achievable.

4. DIVIDENDS

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend since 29 February 2012 and to the date of this report.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

5. REVIEW OF ACTIVITIES

The consolidated entity's business strategy has been to focus shareholder funds into exploration for major new discoveries, and further evaluation of existing projects. During the year ended 29 February 2012, the consolidated entity actively explored its REE and gold prospects throughout Australia and took a strategic position in a private company with South Korean REE prospects.

The consolidated entity's activities included:-

- Completed second RC drilling programme on the Killi Killi REE and gold project
- Entered in a farm-in with a private company with prospects on a newly discovered REE and uranium area at Broughton Creek in NW Queensland.
- Commenced field work for new Broughton REE project in NW Queensland.
- Acquired a strategic investment in Ultimate Resources Pty Ltd, which holds REE prospects in South Korea. ORM Chairman joined its board.
- Completion of the Rutherford Table sale for \$450,000

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

7. EVENTS SUBSEQUENT TO BALANCE DATE

On 2 April 2012, Orion Metals announced the amicable resolution of the protracted dispute with a former non-geologist consultant and associated entity Slatey Creek Pty Ltd.

Following the execution of the mediated settlement agreement by the parties, Orion Metals subsidiary Rich Resources Investments Pty Ltd withdrew all proceedings in the Warden's Court of Western Australia.

Except for the above matter, no other matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated group in the financial year.

8. LIKELY DEVELOPMENTS

The directors of Orion Metals continue to seek additional opportunities to expand its REE and gold prospects, as well as carrying out extensive exploration programs on its existing exploration tenements.

9. COMPANY HEALTH & SAFETY POLICY

Orion Metals is committed to developing a culture that supports its safety and health values by encouraging behaviours and implementation of processes that ensure the safety and health of all employees, contractors, customers and the communities associated with its business. In support of this Orion Metals believes that:

- No business activity will take priority over safety and health;
- All incidents and injuries are preventable on and off the job;
- Responsibility for safety and health rests with every individual;
- Its people will be involved in implementing their own simple and robust safety and health system;
- Individuals must identify, assess and manage hazards;
- Each person will recognise our legal obligation to our workmates and associates; and
- Individuals will be trained and equipped to ensure an incident free workplace.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

10. CULTURAL AND COMMUNITY PERFORMANCE

The consolidated entity exercises the highest degree of liaison and relationships with respect to the traditional landowners, cattle graziers and landholders of any region where it is undertaking exploration activities and has infrastructure on their land. It is the Cultural and Community policy that pledges that its activities will not cause disturbance or encroachment or offence to any cultural site or belief or member of traditional landowner groups or to any landholder or business enterprise falling within the exploration tenements of the consolidated entity.

11. ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is subject to and complies with environmental regulation in relation to its mineral exploration activities in North Queensland and Western Australia. At the date of this report there have been no known breaches of any environmental obligations.

The following policy has been adopted as the official Environmental Policy of the consolidated entity for its activities in both Queensland and Western Australia:-

The consolidated entity is committed to being a leader in environmental excellence by;

- Minimizing the effect of its activities on the environment.
- Rehabilitation of disturbed areas using environmental best practices.
- Meeting and where necessary exceeding applicable laws, regulations and voluntary commitments.

In achieving these objectives the Company will:

- Comply with all applicable environmental laws, regulations and conditions, upholding the spirit of those laws and where the law does not adequately protect the environment, applying the most appropriate environmental standard to each area in which the Company operates.
- Ensure that it has in place management systems to identify, control, monitor and audit environmental risks arising from its operations, products and services.
- Liaise with governmental and other authorities at all levels to develop and maintain responsible and effective environmental policies, laws, regulations and standards.
- Communicate openly with government and the community on environmental issues.
- Ensure that all employees, contractors and suppliers are informed of this policy, aware of their environmental responsibilities and their role in assisting in the implementation of this policy.
- Undertake research into process and practices that will lead to improved environmental performance.

12. SHARES UNDER OPTION

Unissued ordinary shares of Orion Metals Limited under option at the date of this report are as follows:

Expiry Date	Exercise Price	Number under option
1 July 2014	20 cents	500,000
29 July 2013	12 cents	2,000,000

Option holders do not have any rights under the options to participate in any share issue of the Company.

Shares issued on the exercise of options

No Orion Metals Limited ordinary shares were issued during the year ended 29 February 2012 as a result of the exercise of options over unissued shares in the Company.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

13. DIRECTORS' MEETINGS

The number of directors' meetings held during the financial year and the number of meetings attended by each director whilst a director is as follows:

Director	Meetings of Directors Held *	Meetings of Directors Attended
David Barwick	8	8
Andrew Gillies	8	8
James Canning-Ure (resigned 21/4 11)	1	1
Adrian Day	8	8
Dr Tao Li	8	8

* at which eligible to attend

David Barwick and Andrew Gillies are directors, and Tao Li is an Alternative Director of Metallica Minerals Limited which holds 12,552,686 shares in Orion Metals Limited.

Dr Tao Li is representing Jien Mining Pty Ltd, which holds 11,100,000 shares in Orion Metals Limited.

14. REMUNERATION REPORT - AUDITED

Remuneration Practices

The Consolidated entity's policy for determining the nature and amount of remuneration of key management personnel, including Board members is set out below.

The remuneration structure for key management personnel, excluding non-executive directors, is set by the Board of Directors and is based on a number of factors including, market remuneration for comparable companies, particular experience of the individual concerned and overall performance of the consolidated entity. The contracts for service between the consolidated entity and key management personnel are on a continuing basis the terms of which are not expected to change in the immediate future. The Consolidated entity retains the right to terminate contracts immediately by making payment of an amount based on the employee's years of service. Upon retirement or termination key management personnel, excluding non-executives, are paid employee benefits accrued to date of retirement or termination. Compensation is determined in accordance with the general remuneration policy. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as considered appropriate by the Board of Directors.

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The board ensures that director and executive rewards satisfy the following key criteria:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

14. REMUNERATION REPORT - AUDITED (Cont'd)

The Consolidated entity has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

The remuneration framework is aligned to shareholders' interests through:

- a focus on sustained growth in share price and key non-financial drivers of value
- attracting and retaining high calibre executives.

The remuneration framework is aligned to employees' interests through:

- rewarding capability and experience
- reflecting competitive rates of remuneration in respect of skills and responsibility
- providing a clear structure for earning rewards
- providing recognition for contribution.

Relationship between remuneration and Company performance

Because the Company is in exploration and not production, there is no direct relationship between the Company's financial performance and the level of remuneration paid to key management personnel.

Given that the remuneration is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage of a minerals company. Share prices are subject to the influence of international metal prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration. The Company may issue options to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the Company's shareholders.

Unless otherwise stated, service agreements do not provide for pre-determined compensation values or the manner of payment.

Except in so far as directors and other key management personnel hold options over shares in the Company, there is no relationship between remuneration policy and the Company's performance. The Company's shares were last traded at 8.5 cents on 29 February 2012.

The table below sets out summary information about the Company's earnings and movements in shareholders wealth for the five years to 29 February 2012:

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

14. REMUNERATION REPORT - AUDITED (Cont'd)

Description	29 February 2012	28 February 2011	28 February 2010	28 February 2009	29 February 2008
Revenue	\$8,719	\$2,502	\$ 18,620	\$ 117,863	\$ 154,469
Net profit/(loss) before tax	\$(1,502,405)	\$(1,423,847)	\$(460,734)	\$(2,815,904)	\$(578,598)
Net profit(loss) after tax	\$(1,502,405)	\$(1,423,847)	\$(460,734)	\$(2,815,904)	\$(578,598)
Basic earnings/(loss) per share (cents)	(1.89)	(2.66)	(2.39)	(4.70)	(1.11)
Change in share price (cents) *	(12.5)	5.0	(0.11)	(0.81)	(0.72)

* share prices adjusted for share consolidation in calculating change in share price

There were no dividends paid or returns of capital by the Company during the year or previous 4 years.

Remuneration of the non-executive directors is approved by the Board and set in aggregate within the maximum amount approved by the shareholders from time to time. The fees have been determined by the Board having regard to industry practice and the need to obtain appropriately qualified independent persons. The aggregate pool of remuneration paid to Non-executive Directors was approved by shareholders in 2011 and is currently \$300,000 per annum. The amount paid to non-executive directors in directors' fees and consulting fees while acting as non-executive directors is included in the table following.

The key management personnel of Orion Metals Limited and the consolidated entity includes the directors of the Parent Entity, Mr David Barwick (Chairman), Mr Andrew Gillies (Non-executive Director), Mr Adrian Day (Non-executive Director), Dr Tao Li (Non executive Director) and the Company Secretary Mr Bill Lyne and Chief Operating Officer Mr Garry Gill.

James Canning-Ure was Managing Director until his resignation on 21 April 2011 and his role was not replaced. David Barwick then became Executive Chairman (previously non-executive) until the appointment of Garry Gill as Chief Operating Officer on 3 November 2011

The Company has adopted a policy in respect of employees and directors trading in the Company's securities. This policy generally prohibits employees and directors hedging exposure to holdings of the Company's securities.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

14. REMUNERATION REPORT - AUDITED (Cont'd)

2012 Remuneration

	Short-term employee benefits		Share Based Remuneration	Post Employment Benefits	Total	Performance Related Percentage	% consisting of options
	Salary & fees	Bonus	Equity Settled Options*	Superannuation			
			\$	\$			
Directors							
DK Barwick	78,000	-	-	-	78,000	-	-
AL Gillies	36,000	-	-	-	36,000	-	-
AC Day	85,800	-	-	-	85,800	-	-
Dr T Li	36,000	-	55,300	-	91,300	-	61%
J Canning-Ure	32,900	-	-	-	32,900	-	-
Other Key Management Personnel							
B. Lyne							
(Company Secretary)	40,743	-	-	-	40,743	-	-
GC Gill (Chief Operating Officer)	30,600	-	-	-	30,600	-	-
Total	340,043	-	55,300	-	395,343		

2011 Remuneration

	Short-term employee benefits		Share Based Remuneration	Post Employment Benefits	Total	Performance Related Percentage	% consisting of options
	Salary & fees	Bonus	Equity Settled Options	Superannuation			
			\$	\$			
Directors							
DK Barwick	41,000	-	18,454	-	59,454	-	31%
J Canning-Ure	71,250	-	36,672	-	107,922	-	34%
AL Gillies	42,677	-	18,454	-	61,131	-	30%
AC Day	83,409	-	18,454	-	101,863	-	18%
Dr T Li	15,000	-	-	-	15,000	-	-
Other Key Management Personnel							
T Psaros							
(Former Company Secretary)	-	-	18,454	-	18,454	-	100%
B. Lyne (Company Secretary)*	55,743	-	-	-	55,743	-	-
Total	309,079	-	110,488	-	419,567		

*appointed 19 January 2010

No termination benefits were paid in either year.

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

14. REMUNERATION REPORT - AUDITED (Cont'd)

Service Agreements

Remuneration and other terms of employment for key management personnel, other than directors, are formalised in service agreements. Details of these agreements are as follows:

Name: Garry Gill
Title: Chief Operating Officer
Agreement commenced: 3 November 2011
Term of agreement: From the date of agreement until the agreement is otherwise terminated in accordance with its terms.

Details: The Company has entered into an agreement with Garry Gill and his company Corporate and Financial Services Pty Ltd to provide services on a part time basis. The agreement may be terminated by either party on the giving of 1 month's notice.

Remuneration Options

The following Key Management Personnel options were granted as remuneration during the year. (2011: 3,000,000).

	Grant date	No. of options	No. of options vested	Total value of options	Expiry date	Exercise price	Value at Grant Date
Directors							
Dr T Li	1/07/11	500,000	500,000	\$ 55,300	1/07/14	20 cents	11.06 cents

No options were exercised during the 2012 year.

No consideration has been paid by the recipients for the granting of the options. No performance conditions exist for these options and the options were issued to Dr Tao Li to align his remuneration and incentives with those provided to other directors.

END OF REMUNERATION REPORT

ORION METALS LIMITED
ACN 096 142 737

DIRECTORS' REPORT

15. NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 27 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

16. INDEMNIFICATION AND INSURANCE OF OFFICERS OR AUDITOR

Each of the Directors and the Secretary of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company to those Directors and Secretary. The Company has insured all of the Directors of Orion Metals Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 (Cwlth) does not require disclosure of the information in these circumstances.

The Company has not indemnified or insured its auditor.

17. PROCEEDINGS ON BEHALF OF 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 purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any other such proceedings during the year.

18. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 29 February 2012 has been received and forms part of this directors' report and can be found on page 17.

This report is made in accordance with a resolution of the Directors.

Signed:


D K Barwick
Chairman

20 April, 2012



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 18, 300 Queen St
Brisbane QLD 4000,
GPO Box 457 Brisbane QLD 4001
Australia

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

As lead auditor of Orion Metals Limited for the year ended 29 February 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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



C R JENKINS

Director

BDO Audit Pty Ltd

Brisbane, 20 April 2012

ORION METALS LIMITED
ACN 096 142 737

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Note	2012	2011
		\$	\$
Revenue	7	8,719	2,502
Depreciation expense	15	(10,952)	(39,279)
Other expenses	8	(431,896)	(431,270)
Personnel expenses	8	(359,943)	(422,567)
Loss on disposal of equity investments		-	(3,073)
Loss on disposal of plant & equipment		(9,735)	-
Impairment of plant & equipment	15	-	(42,793)
Impairment of investments		(220,000)	-
Impairment of exploration and evaluation assets	16	(672,728)	(572,864)
Results from operating activities		(1,696,535)	(1,509,344)
Finance income	7	194,130	85,516
Finance costs		-	(19)
Net finance costs		<u>194,130</u>	<u>85,497</u>
Profit/(loss) before income tax		(1,502,405)	(1,423,847)
Income tax expense		-	-
Profit/(loss) after income tax		<u>(1,502,405)</u>	<u>(1,423,847)</u>
Other comprehensive income		-	-
Total comprehensive income		<u>(1,502,405)</u>	<u>(1,423,847)</u>
Profit/(loss) attributable to: the owners of the company		<u>(1,502,405)</u>	<u>(1,423,847)</u>
Total comprehensive income attributable to: the owners of the company		<u>(1,502,405)</u>	<u>(1,423,847)</u>
Basic earnings/(loss) per share (cents per share)	20	(1.89)	(2.66)
Diluted earnings/(loss) per share (cents per share)	20	(1.89)	(2.66)

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the financial statements

ORION METALS LIMITED
ACN 096 142 737

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 29 FEBRUARY 2012

	Note	2012 \$	2011 \$
Current Assets			
Cash and cash equivalents	10	525,384	825,320
Financial assets	10	2,500,000	3,539,426
Trade and other receivables	11	54,339	4,748
Other assets	13	4,726	3,828
Held for sale assets	12	-	450,000
Total Current Assets		3,084,449	4,823,322
Non-Current Assets			
Other assets	13	-	8,881
Investments	14	-	-
Property, plant and equipment	15	5,000	20,687
Exploration and evaluation assets	16	900,127	650,417
Total Non-Current assets		905,127	679,985
TOTAL ASSETS		3,989,576	5,503,307
Current Liabilities			
Trade and other payables	17	112,584	129,210
Other liabilities		-	50,000
Total Current Liabilities		112,584	179,210
TOTAL LIABILITIES		112,584	179,210
Net Assets		3,876,992	5,324,097
Equity			
Issued capital	18	11,272,741	11,272,741
Reserves	19	467,838	412,538
Accumulated losses		(7,863,587)	(6,361,182)
Total equity		3,876,992	5,324,097

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements

ORION METALS LIMITED
ACN 096 142 737

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Issued Capital \$	Options reserve \$	Accumulated losses \$	Totals \$
Balance at 1 March 2011	11,272,741	412,538	(6,361,182)	5,324,097
Profit / (Loss) after income tax	-	-	(1,502,405)	(1,502,405)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(1,502,405)	(1,502,405)
Transactions with owners, recorded directly with equity				
Share based payments	-	55,300	-	55,300
Balance at 29 February 2012	11,272,741	467,838	(7,863,587)	3,876,992
Balance at 1 March 2010	6,008,471	302,050	(4,937,335)	1,373,186
Profit / (Loss) after income tax	-	-	(1,423,847)	(1,423,847)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(1,423,847)	(1,423,847)
Transactions with owners, recorded directly with equity				
Share based payments	-	110,488	-	110,488
Options exercised during the year	1,848,491	-	-	1,848,491
Shares issued during the year	3,575,257	-	-	3,575,257
Share issue costs	(159,478)	-	-	(159,478)
Balance at 28 February 2011	11,272,741	412,538	(6,361,182)	5,324,097

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements

ORION METALS LIMITED
ACN 096 142 737

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Note	2012 \$	2011 \$
Cash Flows From Operating Activities			
Receipts from customers and GST		118,565	20,000
Payments to suppliers and employees		(882,927)	(799,055)
Interest and finance costs paid		-	(19)
Interest received		194,130	85,516
Net Cash Provided By/ (Used In) Operating Activities	25	<u>(570,232)</u>	<u>(693,558)</u>
Cash Flows From Investing Activities			
Deposit received for sale of tenements		-	50,000
Proceeds from sale of tenements		400,000	-
Proceeds from sale of equity investments		-	221,927
Receipt/payment for financial assets		1,039,426	(3,539,426)
Payment for property, plant and equipment		(5,000)	-
Payment for investments		(220,000)	-
Payment for exploration expenditure		(944,130)	(569,346)
Net Cash Provided By/ (Used In) Investing Activities		<u>270,296</u>	<u>(3,836,845)</u>
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		-	5,423,748
Payment of borrowings		-	(126,184)
Payments for share issue costs		-	(159,478)
Net Cash Provided By/ (Used In) Financing Activities		<u>-</u>	<u>5,138,086</u>
Net Increase/(Decrease) In Cash and Cash Equivalents		(299,936)	607,683
Cash and Cash Equivalents opening balance		<u>825,320</u>	<u>217,637</u>
Cash and Cash Equivalents closing balance	10	<u><u>525,384</u></u>	<u><u>825,320</u></u>

The Consolidated Statement Cash Flow should be read in conjunction with the notes to the financial statements

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

1 REPORTING ENTITY

Orion Metals Limited (the 'Company') is a listed public company, incorporated and domiciled in Australia. The address of the Company's registered office is 71 Lytton Road East Brisbane Qld 4169. The consolidated financial statements of Orion Metals Limited as at and for the year ended 29 February 2012 comprise the Company and its subsidiaries (together referred to as the Consolidated Entity).

The financial statements are presented in the Australian currency. Orion Metals Limited is a company limited by shares incorporated in Australia and whose shares are publicly traded on the Australian Securities Exchange. The Group primarily is involved in the exploration for Rare Earth elements (REE), with emphasis on the Heavy Rare Earth Elements (HREE), and gold.

2 BASIS OF PREPARATION

A. Statement of compliance

The financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Consolidated Entity comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 23 April 2012.

B. Basis of measurement

The financial statements have been prepared on the historical cost basis, modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

C. Use of estimates and judgements

The preparation of financial statements in conformity with AASB's requires management to make judgements, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about critical estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are outlined below:

D. Impairment

The Consolidated Entity assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may lead to impairment of other assets and financial assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations are performed or market based information is obtained in assessing recoverable amounts that incorporate a number of key estimates.

E. Share based payments

The Consolidated Entity measures the cost of equity-settled transactions with directors and employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Black-Scholes option-pricing formula detailed in Note 28.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

2 BASIS OF PREPARATION (Cont'd)

F. Exploration & evaluation expenditure

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

G. Uncertainty regarding going concern

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. The ability of the consolidated entity to maintain normal continuity of business activities, to pay its debts as and when they fall due is dependent on the ability of the consolidated entity to successfully raise additional capital and/or successful exploration and exploitation of areas of interest through sale or development.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied by all entities in the Consolidated Entity.

A. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Orion Metals Limited ('Company' or 'parent entity') as at 29 February 2012 and the results of all subsidiaries for the year then ended. Orion Metals Limited and its subsidiaries are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and special purpose entities have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

B. Income tax

The charge for current income tax expense is based on the profit/loss for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Current and deferred tax is recognised in the profit or loss, except where it relates to items recognised in the other comprehensive income or directly in equity. In this case the tax is recognised in the other comprehensive income or directly in equity respectively.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences or tax losses can be utilised.

C. Plant and Equipment

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

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 consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

All assets are depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	15-33% per annum

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

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

D. Available for Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets, principally equity securities, that are either designated as available-for-sale or not classified as any other category. After initial recognition, fair value movements are recognised directly in the available-for-sale reserve in equity. Cumulative gain or loss previously reported in the available-for-sale reserve is recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

Available-for-sale financial assets are considered impaired when there has been a significant or prolonged decline in value below initial cost.

E. Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost using the effective interest method.

F. Impairment of Financial Assets

At each reporting date, the Consolidated Entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of loans and receivables, the Consolidated entity first assesses whether objective evidence of impairment exists for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Consolidated entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Consolidated entity of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. In the case of available for sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Losses are recognised in the profit or loss.

G. Impairment of Non-Financial Assets

At each reporting date, the Consolidated Entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed in the profit or loss.

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

H. Equity Settled Share Based Compensation

The Consolidated Entity issues equity-settled share-based payments to directors and employees. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a valuation which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instrument that eventually vest.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

I. Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

J. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Interest revenue is recognised using the effective interest rates applicable to the financial assets. Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

All revenue is stated net of the amount of goods and services tax (GST).

K. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

L. Issued Capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are recognised as transactions under AASB 139 and shown as a deduction from equity.

M. Earnings per share

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

N. Leases

Leases of property, plant and equipment, where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the consolidated entity are classified as finance leases.

Finance leases are capitalised recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value. Leased assets are depreciated over the shorter of the asset's useful life and the lease term. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments under operating leases, where substantially all the risks and benefits remain with the lessor, are charged to the profit or loss on a straight line basis over the period of the lease.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

O. New accounting standards and interpretations

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 29 February 2012, but have not been applied in this financial report.

AASB 9 Financial Instruments (effective from 1 January 2015)

The AASB aims to replace *AASB 139 Financial Instruments: Recognition and Measurement* in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Group's management have yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

AASB 10 Consolidated Financial Statements (AASB 10)

AASB 10 supersedes AASB 127 Consolidated and Separate Financial Statements (AASB 127) and Interpretation 112 Consolidation - Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any noncontrolling interests and changes in control remain the same.

AASB 11 Joint Arrangements (AASB 11)

AASB 11 supersedes AASB 131 Interests in Joint Ventures (AASB 131). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, AASB 131's option of using proportionate consolidation for joint ventures has been eliminated. AASB 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

AASB 12 Disclosure of Interests in Other Entities (AASB 12)

AASB 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to *AASB 127 and AASB 128 Investments in Associates and Joint Ventures (AASB 128).*

AASB 127 now only deals with separate financial statements. AASB 128 brings investments in joint ventures into its scope. However, AASB 128's equity accounting methodology remains unchanged.

AASB 13 Fair Value Measurement (AASB 13)

AASB 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Group's management have yet to assess the impact of this new standard.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Amendments to AASB 101 Presentation of Financial Statements (AASB 101 Amendments)

The AASB 101 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

4 DETERMINATION OF FAIR VALUES

Certain accounting policies and disclosures of the Consolidated Entity require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Share-based payment transactions

The Consolidated Entity issues equity-settled share-based payment options to directors and officers of the company as part of their remuneration. The fair value of the options issued to directors and officers is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

5 FINANCIAL RISK MANAGEMENT

Risk management is carried out under policies set by the Board of Directors.

The Board provides principles for overall risk management, as well as policies covering specific areas.

A. Financial risk management objectives

The Board monitors and manages the financial risk relating to the operations of the Consolidated entity. The Consolidated entity's activities include exposure to market risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on the financial performance. Risk management is carried out under the direction of the Board of Directors.

B. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

C. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

D. Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral. The consolidated entity is not exposed to any material credit risks and only trades with credit worthy third parties.

E. Liquidity risk

Liquidity risk is the risk that the consolidated entity's will not be able to meet its financial obligations as they fall due.

The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

6 SEGMENT REPORTING

The Consolidated Entity 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 Consolidated Entity 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 Consolidated Entity level. The Consolidated entity does not have any products/services it derives revenue from.

Accordingly, management currently identifies the Consolidated Entity as having only one operating segment, being exploration. There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the Consolidated Entity as one segment. The financial results from the segment are equivalent to the financial statements of the Consolidated entity as a whole.

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
7 REVENUE AND OTHER INCOME		
Revenue		
Sundry income	8,719	2,502
Total revenue	8,719	2,502
Total finance income	194,130	85,516
8 EXPENSES		
Profit/(loss) before income tax expense has been determined after:		
Rental and office expenses	30,710	38,595
External consultants and contractors	63,915	66,544
Audit and accountancy fees	38,068	59,822
Legal fees	145,354	81,223
Share registry expenses and listing fees	55,538	100,695
Insurance	15,850	26,563
Travel and accommodation	17,018	30,087
Other miscellaneous costs	65,443	27,741
Administrative expenses	431,896	431,270
<i>Employee expenses:</i>		
Directors fees and consultancy fees	233,300	256,336
Other fees	71,343	55,743
Share based payments	55,300	110,488
	359,943	422,567

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
9 INCOME TAX		
Components of tax expense comprise:		
Current tax	-	-
Deferred tax	-	-
	-	-
<i>Numerical reconciliation of income tax benefit to prima facie tax payable</i>		
Loss from operations for the year	1,502,405	1,423,847
The prima facie income tax benefit on loss before income tax at a tax rate of 30% (2011: 30%)	450,722	427,154
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Deferred tax asset not recognised on current year loss	(434,132)	(1,016,964)
Share based payments	(16,590)	(33,146)
Prior year Share issue costs - deferred tax asset not recognised	-	(14,306)
Under/over provision relating to tax	-	637,262
Total income tax expense	-	-
<i>Net unrecognised deferred tax assets</i>		
Net Deductible temporary differences	246,090	75,495
Exploration and evaluation expenditure	(270,038)	(330,125)
Unused tax losses	3,412,356	3,051,845
Net unrecognised deferred tax asset	3,388,407	2,797,215
<i>Gross amounts of items in net unrecognised deferred tax assets</i>		
Net Deductible temporary differences	820,298	251,650
Exploration and evaluation expenditure	(900,127)	(1,100,417)
Unused tax losses	11,374,520	10,172,817
Total unrecognised deferred tax assets	11,294,691	9,324,050

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

The consolidated entity has no franking credits.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

10. CASH AND CASH EQUIVALENTS

Cash at bank	525,384	825,320
Financial assets - term deposits	2,500,000	3,539,426
	<u>3,025,384</u>	<u>4,364,746</u>

11. TRADE & OTHER RECEIVABLES

Trade debtors	26,692	-
Other debtors	27,647	4,748
	<u>54,339</u>	<u>4,748</u>

No receivables are past due or impaired (2011: nil) no collateral is held (2011:nil)

12. HELD FOR SALE ASSETS

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
Rutherford tenements	-	450,000

In November 2010 the Consolidated Entity entered into a tenement sale contract to sell Rutherfords Table (ML 1035 and ML 1060) and plant and equipment for \$450,000 plus GST. The due diligence process was completed in December 2010 and Orion received a \$50,000 deposit in January 2011. The balance was received on 13 May 2011, following formal ministerial approval and recognition of this sale.

13. OTHER ASSETS

Current

Deposits	78	78
Prepayments	4,648	3,750
	<u>4,726</u>	<u>3,828</u>

Non-Current

Security deposits	-	8,881
	<u>-</u>	<u>8,881</u>

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

14. INVESTMENTS

Investments	220,000	-
Accumulated impairment	(220,000)	-
	<u>-</u>	<u>-</u>

The consolidated entity acquired an interest in Ultimate Resources Pty Ltd on 23 August 2011 for cash consideration of \$200,000. This investment, after further due diligence, was increased by an additional cash payment of \$20,000 on 1 October 2011. As at 29 February 2012 the consolidated entity held a 17.1% in Ultimate Resources Pty Ltd.

The investment has not traded and holds an interest in tenements and is an early stage exploration company. The Directors' assessment of this investment at 29 February resulted in the full impairment of this investment. The Directors do not believe significant influence exists and the investment has not been accounted for as an associate.

15. PLANT & EQUIPMENT

Plant & equipment at cost	25,595	253,540
Accumulated depreciation and impairment	(20,595)	(232,853)
	<u>5,000</u>	<u>20,687</u>

Reconciliation

Reconciliations of the carrying amount of each class of plant and equipment between the beginning and the end of the financial year

Balance at the beginning of the year	20,687	102,759
Additions	5,000	-
Disposals	(9,735)	-
Depreciation	(10,952)	(39,279)
Impairment	-	(42,793)
Balance at the end of the year	<u>5,000</u>	<u>20,687</u>

16. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation expenditure carried forward in respect of areas of interest

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
Reconciliation		
Balance at the beginning of the year	650,417	1,102,864
Additions	922,438	570,417
Transfer to Held for Sale Assets	-	(450,000)
Impairment	(672,728)	(572,864)
Balance at the end of the year	<u>900,127</u>	<u>650,417</u>

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

17. TRADE AND OTHER PAYABLES

Trade payables and accruals	112,242	113,688
GST payable	342	15,522
	112,584	129,210

18. ISSUED CAPITAL

79,597,443 (2011: 79,597,443) fully paid ordinary shares	11,432,219	11,432,219
Transaction costs relating to share issues (net of tax)	(159,478)	(159,478)
	11,272,741	11,272,741

	Consolidated entity 2012		Consolidated entity 2011	
	#	\$	#	\$
Ordinary shares				
Balance at the beginning of the year	79,597,443	11,272,741	24,695,843	6,008,471
Rights issue	-	-	30,995,843	1,549,657
Options exercised	-	-	15,400,757	1,848,491
Other share issues	-	-	8,505,000	2,025,600
Share issue costs	-	-	-	(159,478)
Balance at the end of the year	79,597,443	11,272,741	79,597,443	11,272,741

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In common with many other exploration companies, the parent raises finance for the consolidated entity's exploration and appraisal activities in discrete tranches. The consolidated entity's overall strategy remains unchanged from 2010.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

18. ISSUED CAPITAL (Cont'd)

Details of the options outstanding as at the end of the year:

Grant Date	Expiry Date	Exercise price \$	Consolidated entity and Parent Entity 2012	Consolidated entity and Parent Entity 2011
29 July 2010	31 October 2011	10 cents	-	500,000
29 July 2010	31 October 2011	15 cents	-	500,000
29 July 2010	29 July 2013	12 cents	2,000,000	2,000,000
1 July 2011	1 July 2014	20 cents	500,000	-
			2,500,000	3,000,000

19. RESERVES

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
Options reserve		
Opening balance	412,538	302,050
Options issued	55,300	110,488
Closing balance	467,838	412,538

The option reserve account is to account for share based payments

20. EARNINGS PER SHARE

	2012 (Number)	2011 (Number)
Weighted average number of shares used as the denominator in calculating basic and diluted earnings per share	79,597,443	53,530,917
	2012 \$	2011 \$
Net loss after tax used in calculating basic earnings per share	1,502,405	1,423,847
Net loss after tax used in calculating diluted earnings per share	1,502,405	1,423,847

Options are considered to be “potential ordinary shares” but were anti dilutive in nature and therefore the diluted loss per share is the same as the basic loss per share.

21. CONTROLLED ENTITIES

Investments in controlled entities

	Country of incorporation	% ownership 2012	% ownership 2011	Class of shares
Rich Resources Investments Pty Ltd	Australia	100%	100%	Ord
Broughton Orion Pty Ltd *	Australia	100%	n/a	Ord

* Broughton Orion was incorporated during the year for the purpose of acquiring the Broughton tenements.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
22. COMMITMENTS FOR EXPENDITURE		
Commitments for maintaining exploration tenements payable		
- Not longer than 1 year	41,500	24,520
- Longer than 1 year but not longer than 5 years	185,000	25,410
- Longer than 5 years	-	-
	226,500	49,930
Tenement rentals		
- Not longer than 1 year	27,619	18,310
- Longer than 1 year but not longer than 5 years	84,672	21,612
- Longer than 5 years	-	-
	112,291	39,922

23. CONTINGENT LIABILITIES AND ASSETS

The possibility of native title claim applications at some future time, under the provisions of the Native Title Act (1993), may affect access to and tenure of exploration tenements. Any substantial claim may have an effect on the value of the tenement affected by the claim. No provision has been made in the accounts for the possibility of a native title claim application.

The consolidated entity is liable to pay royalties of 1% of gross sales proceeds from the Killi Killi Hills project, capped at \$100,000. As this project is still in the early stages of exploration it is premature to determine whether a royalty will be payable in future years.

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.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

	Consolidated entity 2012 \$	Consolidated entity 2011 \$
24. RELATED PARTIES		
Key management personnel compensation		
Short term employee benefits	340,043	309,079
Post-employment benefits	-	-
Long term benefits	-	-
Share-based payments	55,300	110,488
	395,343	419,567
Shareholdings of key management personnel		
	Balance 1 March	Received as Remuneration
		Options exercised
		Net change other
		Balance 29 February
2012		
Directors		
D Barwick	2,350,000	-
J Canning- Ure(<i>resigned</i> <i>21/4/11</i>)	2,950,000	-
A Gillies	1,325,000	-
A Day	699,250	-
Dr T Li	-	-
	7,324,250	(2,800,000)
Other Key Management Personnel		
B Lyne	-	-
G Gill	-	-
2011		
Directors		
D Barwick	25,000	600,000
J Canning-Ure (<i>appointed 18/3/10</i>)	30,000	1,140,000
A Gillies	-	575,000
A Day	474,250	150,000
Dr T Li	-	-
Other Key Management Personnel		
B Lyne	-	-
T Psaros	-	-
	529,250	2,465,000
	7,324,250	4,330,000

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

24. RELATED PARTIES (Cont'd)

Option holdings of key management personnel

	Balance 1 March	Received as Remuneration	Options exercised	Net change other	Balance 29 February
2012					
Directors					
D Barwick	500,000	-	-	-	500,000
J Canning-Ure	1,000,000	-	-	(1,000,000)	-
A Gillies	500,000	-	-	-	500,000
A Day	500,000	-	-	-	500,000
Dr T Li	-	500,000	-	-	500,000
Other Key Management Personnel					
W Lyne	-	-	-	-	-
G Gill	-	-	-	-	-
	<u>2,500,000</u>	<u>500,000</u>	<u>-</u>	<u>(1,000,000)</u>	<u>2,000,000</u>
2011					
Directors					
D Barwick	-	500,000	(600,000)	600,000	500,000
J Canning-Ure	-	1,000,000	(1,140,000)	1,140,000	1,000,000
A Gillies	-	500,000	(575,000)	575,000	500,000
A Day	-	500,000	(75,000)	75,000	500,000
Dr T Li	-	-	-	-	-
Other Key Management Personnel					
W Lyne	-	-	-	-	-
T Psaros	-	500,000	-	(500,000)	-
	<u>-</u>	<u>3,000,000</u>	<u>(2,390,000)</u>	<u>1,890,000</u>	<u>2,500,000</u>

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

24. RELATED PARTIES (Cont'd)

Loans and/or transactions with key management personnel

There were no transactions with or loans outstanding to key management personnel for the year ended 29 February 2012 (2011: nil)

On 1 October 2011 the Company purchased 100,000 shares in Ultimate Resources at 20 cents per share, 50,000 from Chivas Group, an entity controlled by David Barwick and 50,000 from the Andrew Gillies Superannuation Fund, an entity controlled by Andrew Gillies for \$10,000 each. These shares were sold to the Company at cost, and at the same price per share as the Company initial investment in Ultimate Resources Pty Ltd, to avoid any potential future conflict of interest with respect to this transaction.

25. CASH FLOW INFORMATION

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
<i>Reconciliation of cash flow from operations with profit / loss) after tax</i>		
Profit / (loss) after tax	(1,502,405)	(1,423,847)
Non-cash flows:		
Depreciation	10,952	39,279
Bad debts	3,859	-
Loss on disposal of fixed assets	9,735	-
Loss on sale of equity investments	-	3,073
Share based payments	55,300	110,488
Impairment of exploration and evaluation expenditure	672,728	572,864
Impairment of investments	220,000	-
Impairment of fixed assets	-	42,793
Changes in operating assets and liabilities	(529,831)	(655,350)
(Increase)/decrease in prepayments and receivables	(27,647)	19,110
(Increase)/decrease in other assets	8,872	(3,750)
Increase/(decrease) in creditors and payables	(21,626)	(53,568)
Net cash used in operating activities	(570,232)	(693,558)

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

26. FINANCIAL INSTRUMENTS

Capital risk management

The Consolidated Entity manages its capital to ensure it will be able to continue as a going concern.

The capital structure of the Consolidated entity consists of equity attributable to equity holders of the parent entity, comprising of issued capital, reserves and accumulated losses as disclosed in the Statement of Changes in Equity. In common with many other exploration companies, the parent raises finance for the Consolidated entity's exploration and appraisal activities in discrete tranches. The Consolidated Entity's overall strategy remains unchanged from 2009.

The working capital position (i.e. liquidity risk) of the Consolidated Entity is as follows:

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
Current assets	3,084,449	4,823,322
Current liabilities	(112,584)	179,210
Working capital surplus/(deficit)	2,971,865	4,644,112

The consolidated entity is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expense are recognised, in respect of each class of financial asset, financial liability, and equity instrument are disclosed in Note 3 to the financial statements.

Financial risk management objectives

The financial risks of the consolidated entity include market risk (including currency risk and price risk), credit risk and liquidity risk. The consolidated entity does not hedge these risk exposures. The Consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

26. FINANCIAL INSTRUMENTS (Cont'd)

Market risk

Market risk is the risk that changes in market prices such as interest rates and equity prices will affect the Consolidated entity's income and value of its holdings.

The Consolidated Entity's activities expose it primarily to the financial risks of changes in interest rates on its cash and cash equivalents. It is the policy of the Consolidated Entity to manage their risks by continuously monitoring interest rates. There has been no change to the Consolidated Entity's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(i) Foreign currency risk management

The functional and presentation currency of Orion Metals Ltd and its Australian subsidiaries is Australian dollars (A\$).

The Consolidated Entity does not undertake any transactions denominated in foreign currencies.

(ii) Interest risk management

Interest rate risks are caused by fluctuations in interest rates which, in turn, are due to market factors.

Interest rate sensitivity

The Consolidated Entity's main interest rate risk arises from cash and cash equivalents. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the consolidated entity's profit/loss before taxes through the impact on cash and cash equivalents and held to maturity investments with a decrease or an increase of 0.25% in interest rates.

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
Sensitivity		
Cash and cash equivalents	3,025,384	4,364,746
Effect on profit or loss before taxes		
Increase 0.25%	7,563	10,912
Decrease 0.25%	(7,563)	(10,912)

(iii) Price risk management

The Consolidated Entity did not hold any listed equity securities at balance date.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

26. FINANCIAL INSTRUMENTS (Cont'd)

Liquidity risk management

Liquidity risks are caused by the inability to raise the money needed to meet payment of liabilities as and when they fall due. The Consolidated Entity manages liquidity risk by maintaining of reserves and by continually monitoring forecast and actual cash flows and cash balances. The parent entity raises equity for the Consolidated Entity's exploration and appraisal activities in discrete tranches.

At 29 February 2012 and 28 February 2011 the only financial liabilities of the Consolidated Entity were trade payables and accruals. All trade payables and accruals have a contractual maturity of 6 months or less. The working capital position is disclosed in Note 26(a).

Credit risk management

In relation to financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under a contract or arrangements. Credit risk for the Consolidated Entity arises from cash and cash equivalents and outstanding receivables. The Consolidated Entity is not exposed to any material credit risks and only trade with credit worthy third parties, outside of cash & cash equivalents which are all held with Australian regulated banks. The maximum exposure to credit risk is the carrying amount of the financial assets recognised in the statement of financial position.

Fair values

The carrying amounts of all financial assets and liabilities primarily comprising cash and cash equivalents, trade and other receivables, and trade and other payables are stated at their fair value.

	Consolidated Entity 2012 \$	Consolidated Entity 2011 \$
27. AUDITORS REMUNERATION		
Amounts paid/payable for audit or review of the financial statements	34,500	35,000
	34,500	35,000
Amounts paid/payable for tax services	20,550	6,000
	55,050	41,000

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

28. SHARE-BASED PAYMENTS

The following options were issued during the year:

On 1 July 2011, 500,000 options were granted to a director. These options vest immediately, are exercisable at 20 cents and expire on 1 July 2014.

During the prior year the following options were granted:

On 29 July 2010, 500,000 options were granted to directors. These options vest immediately, are exercisable at 10 cents and expired on 31 October 2011.

On 29 July 2010, 2,000,000 options were granted to directors and other key management personnel. These options vest immediately, are exercisable at 12 cents and expire on 29 July 2013.

On 29 July 2010, 500,000 options were granted to directors. These options vest immediately, are exercisable at 15 cents and expired on 31 October 2011.

Consolidated Entity

	2012		2011	
	No. of options	Weighted average exercise price	No. of options	Weight ed average exercise price
Outstanding at beginning of year	3,000,000	12.2 cents	-	-
Granted	500,000	20.0 cents	3,000,000	12.2 cents
Forfeited	(1,000,000)	12.5 cents	-	-
Exercised	-	-	-	-
Outstanding at year-end	2,500,000	14.0 cents	3,000,000	12.2 cents
Exercisable at year-end	2,500,000	14.0 cents	3,000,000	12.2 cents

	2012	2011
Weighted average exercise price	20 cents	12.2 cents
Weighted average life of the option	3 years	3 years
Weighted average remaining contractual life of the option	2 years, 4 months	2 years, 5 months
Underlying share price	18 cents	6 cents
Expected share price volatility	98.606%	120.98%
Risk free interest rate	4.76%	4.82%
Number of options issued	500,000	3,000,000
Value (Black-Scholes) per option	11.1 cents	3.68 cents
Total value of options issued	\$55,300	\$110,488

Historical volatility has been the basis for determining future share price volatility, as it is expected that this share price volatility will not change significantly over the life of the options. Included under administrative expense in the Statement of Comprehensive Income is \$55,300 (2011: \$110,488), which relates in full expensing of equity-settled share-based payment transactions.

**ORION METALS LIMITED
ACN 096 142 737**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012**

29. SUBSEQUENT EVENTS

On 2 April 2012, Orion Metals announced the amicable resolution of the protracted dispute with a former non-geologist consultant and associated entity Slatey Creek Pty Ltd.

Following the execution of the mediated settlement agreement by the parties, Orion Metals subsidiary Rich Resources Investments Pty Ltd withdrew all proceedings in the Warden's Court of Western Australia.

Except for the above matter, no other matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated group in the financial year.

ORION METALS LIMITED
ACN 096 142 737

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 29 FEBRUARY 2012

30. PARENT ENTITY DISCLOSURES

	2012	2011
	\$	\$
Result of parent entity		
Profit/loss for the year	(2,532,916)	(1,707,688)
Other comprehensive income/(loss) for the year	-	-
Total comprehensive income	(2,532,916)	(1,707,688)
 Financial position of parent entity at year end		
Current Assets	2,951,631	5,113,602
Total assets	2,962,660	5,530,355
 Current Liabilities	87,113	177,192
Total liabilities	87,113	177,192
 Total equity of the parent entity comprising :		
Issued capital	11,272,741	11,272,741
Reserves	467,838	412,538
Accumulated losses	(8,865,032)	(6,332,116)
Total equity	2,875,547	5,353,163

31. COMPANY DETAILS

The Company's registered office and principal place of business is located at:

71 Lytton Road
 East Brisbane QLD 4169

Company Secretary : William Gordon Lyne

ORION METALS LIMITED

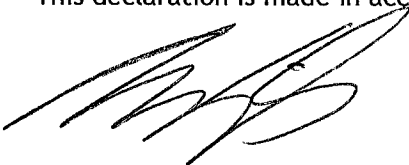
ACN 096 142 737

DIRECTORS' DECLARATION

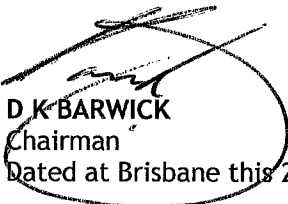
The Directors of the Company declare that are in accordance with the Corporations Act 2001, including :-

1. The financial statements and notes:
 - (a) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) giving a true and fair view of the financial position as at 29 February 2012 and performance for the year ended on that date of the consolidated entity,
2. The financial statements also comply with International Financial Reporting Standards as disclosed in note 2.
3. The Remuneration Report as set out in the Directors' Report complies with Section 300A of The Corporations Act 2001.
4. The Managing Director and Chief Financial Officer have declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Australian Accounting Standards (including Australian Accounting Interpretations); and
 - (c) the financial statements and notes for the financial year give a true and fair view.
5. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



A L GILLIES
Director



D K BARWICK
Chairman

Dated at Brisbane this 20th day of April 2012



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 18, 300 Queen St
Brisbane QLD 4000,
GPO Box 457 Brisbane QLD 4001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Orion Metals Limited

Report on the Financial Report

We have audited the accompanying financial report of Orion Metals Limited, which comprises the statement of financial position as at 29 February 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Orion Metals Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Orion Metals Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 29 February 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in Section 14 of the directors' report for the year ended 29 February 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion on Remuneration Report

In our opinion, the Remuneration Report of Orion Metals Limited for the year ended 29 February 2011, complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

C R JENKINS

Director

Brisbane, 20 April 2012