

Company's Registered Number: 5098945



METALS EXPLORATION PLC

Group report and accounts for the year ended

30 SEPTEMBER 2006

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DIRECTORS AND ADVISORS

Directors	S M Smith (<i>Chairman</i>) J Beardsworth (<i>Chief Executive</i>) G R Powell (<i>Executive Director</i>)
Secretary	S M Smith
Registered office	7 Savoy Court Strand London WC2R 0ER
Bankers	National Westminster Bank Plc Hammersmith Branch 22 Kings Mall London W6 0QD
Auditors	Nexia Smith & Williamson Chartered Accountants 25 Moorgate London EC2R 6AY
Nominated Advisor and Broker	Collins Stewart Europe Limited 9th Floor 88 Wood Street London EC2V 7QR
Solicitors	Kerman & Co LLP 7 Savoy Court Strand London WC2R 0ER
Registrars	Capita IRG Plc 34 Beckenham Road Beckenham Kent BR3 4TY
Company's registered number	5098945

CHAIRMAN'S STATEMENT

It has been a year of considerable achievement for Metals Exploration plc ("Metals Ex" or "the Company") during which we have made the transition from being a speculative country/exploration play to becoming established as an altogether more substantive company based around a potentially world class gold deposit in Runruno.

At the start of the accounting period we had not completed a single drillhole at Runruno. By the end of the period we had announced an inferred resource of 1.7 million ounces of gold (since increased to 2.03 million ounces, as announced on 6 December 2006) and 34 million pounds of molybdenum. This is a most impressive rate of resource development, and I congratulate all involved in the Philippines whose commitment and professionalism have made it possible.

Financial

In October 2006, the Company raised £5 million (£4.7 million net of expenses) in a Secondary Placing on AIM, as a result of which we have sufficient funds for normal operations for the foreseeable future.

Management

Realising that the successful development of the Company was going to place greater demands on management, we were pleased to welcome Jonathan Beardsworth as Chief Executive Officer in September 2006. Jonathan joined the Company from Standard Bank where he was responsible for the bank's Mining & Metals team's London, Moscow and Shanghai offices. He has been involved in corporate finance and M&A in the mining industry for over a decade and brings substantial and directly relevant skills and expertise.

Current Operations

A summary of the current operations follows in the statement by the Chief Executive Officer.

Board Changes

Philip Barnett and Kevin Mahoney (both non-executive directors) resigned from the Board (for personal reasons) since the last financial year end. We are grateful to Philip and Kevin for their contribution and support to the Company since the listing on AIM in October 2004 and we wish them well.

We expect to be in a position to announce a new Board member shortly. We also intend to strengthen the Board further through the year, particularly from a technical perspective, to reflect and assist the Company's move from exploration into project development and ultimately mining operations.

Future Prospects

The various items I have mentioned: the continuing exploration success at Runruno, our sound financial position, the strengthened management team, and anticipated Board additions, all suggest that the Company is well positioned for another year of achievement and success.

I would like to thank the various officers of the Company and the shareholders for their support during the period under review.



SM Smith

CHIEF EXECUTIVE'S REVIEW

It is with the greatest pleasure that I present what I hope will be the first of many annual reviews of our Company's current position.

As an exploration company with ambitions to move into development, there are essentially three questions that have to be addressed:

- (a) Does the company have a deposit or deposits that look viable?
- (b) Does the company have the people to bring its projects to account?
- (c) Is the country (i.e. the Philippines) one in which one can realistically expect to be able to operate?

Let me address each of these issues briefly in turn.

Deposit Quality

Our flagship project is Runruno, to which we have rights to an 85 per cent. interest. Runruno is shaping up to be a world class gold project with the potential also of molybdenum credits. We have already announced on 6 December 2006 a Joint Ore Resources Committee (JORC) inferred resource of 2.03 million ounces of gold and 34.4 million pounds of molybdenum, and we are confident of being able to identify more. Our immediate aim is to firm up the existing resource through Indicated and Measured JORC categories via a programme of infill drilling through the rest of this calendar year. This will form the basis for the production of a feasibility study, which we hope will demonstrate an economic operation of approximately 200,000 ounces of gold a year.

We have previously identified potential similarities between Runruno and the Cripple Creek gold mining operation (operated by the Cripple Creek & Victor Gold Mining Company – a joint venture between AngloGold Ashanti and Golden Cycle Gold Corporation) in Colorado, USA. We are investigating this further, but whether the analogy is eventually considered to be valid or not, the point is that our review of publicly available data about Cripple Creek has helped enhance our understanding of the real potential of the area surrounding and incorporating Runruno, and is already bearing fruit in exploration results.

Whilst we have an identified resource of 2.03 million ounces of gold, the upside potential appears most encouraging, as we hope to demonstrate through the remainder of this calendar year.

Quality of Personnel

The greatest and most welcome finding in my first 6 months is the quality of the people in the Company. We have a team of 25 full time staff in the Philippines, all well educated, most professionally qualified, and several with international experience. It is their collective professionalism, enthusiasm and commitment that underpins the progress we have already made.

The Company is committed to its responsibilities towards the local community and this is reflected in the level of support the Company receives from the community. The Company with the Government of the Philippines are co-benefactors of the Runruno Livelihood Foundation ("RLF"), which provides community projects, education, health care and skill training. As recently as 17 March 2007 the local Governor at a speech at Runruno congratulated the Company and RLF on how the community programmes were operating.

Community relations are one of those intangible aspects to which it is impossible to place a value, and yet the plain fact is that without community support it would be difficult to develop an operation in the Philippines.

Country Risk

We are very comfortable in the Philippines and find it a most conducive place in which to work. In part this reflects the many years of accumulated experience in the Company of working in-country. We have long established relationships with key people and understand the bureaucratic procedures and process. This is a serious asset in a country becoming increasingly attractive to international investors who will not have this advantage at the outset.

At the macro level, the Philippines has made great strides in the last couple of years to attract foreign investment generally, and mining investment in particular. The landmark Supreme Court decision in December 2004 affirmed the constitutionality of the 1995 Mining Act; a decision that the Supreme Court ruled in February 2005 cannot be appealed. The 1995 Mining Act establishes a legislative and regulatory regime consistent with international standards, including provision for 100 per cent. foreign ownership of projects.

The legal support for mining is backed up by Executive Order No. 270 dated 16 January 2004, which specifically commits the Philippines to move from a position of “tolerance” of mining, to one of active promotion. The effect of these legal and policy changes is apparent to those working on the ground, and we are confident in the Philippines as a country supportive of mining.

Regional Development

Most of the value in the Company currently resides in the Runruno Project. However we have also filed Exploration Permit (“EP”) applications over the Puray and Worldwide Projects, both of which look interestingly prospective, and we are constantly reviewing a number of other prospective projects to add to our project pipeline.

Inevitably most of the attention is focused upon Runruno, but we see scope for a strong regional story in this extremely geologically prospective area, and aim to add to our portfolio through the year.

Our focus in the northern Philippines, on Luzon Island, has caused us to relinquish our interest in the Masapelid Project further south on Masapelid Island following the advice from our joint venture partners in January 2007 that they had withdrawn from the Joint Venture and subsequent relinquishment of their interest in the project.

Funding

We remain well funded following our £5 million secondary placing in October 2006. We were gratified at the support from existing institutional shareholders during the Placing, and pleased to welcome important new institutional shareholders.

Future Strategy

Our strategy is very simple... to keep doing what we are already doing with what we have already got. During the coming financial year:

- We aim to upgrade the 2.03 million ounce resource at Runruno through to Indicated and Measured JORC categories;
- We will aim to expand the resource beyond 2.03 million ounces and will seek to demonstrate the true potential of the Runruno project to contain significantly more resources;
- We will initiate and continue with studies aimed at demonstrating the economic viability of an operation at Runruno;
- We will progress our EP applications at Puray and Worldwide;
- We will seek to identify and secure new prospective projects to add to our portfolio, and
- We will remain open to all corporate opportunities to increase shareholder value.

I look forward with great confidence to another year of substantive achievement.



J Beardsworth

DIRECTORS' REPORT

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report for the year ended 30 September 2006. The corresponding period represents the trade from incorporation on 8 April 2004 until 30 September 2005.

PRINCIPAL ACTIVITIES

The principal activity of Metals Exploration plc ("Metals Ex" or the "Company") is to identify and acquire mining companies, businesses or projects with particular emphasis on precious and base metals mining opportunities predominantly in the Western Pacific Rim region.

Since the Company's admission to AIM in October 2004, Metals Ex has focused efforts on the acquisition of significant interests in exploration properties in the Philippines which the Company considers to have substantial exploration opportunities.

BUSINESS REVIEW

Runruno Project

Metals Ex, through a Memorandum of Agreement ("MOA") dated 1 February 2005, acquired a 40 per cent. shareholding in FCF Mining Corporation ("FCF"), the holder of the Runruno Exploration Permit. As part of the MOA, Metals Ex will acquire a further 30 per cent. shareholding in FCF on completion of a bankable feasibility study on Runruno. On 23 November 2005, Metals Ex announced that the Company has agreed with Christian Mining Inc ("CMI") the terms of an option (the "Option") that gives Metals Ex the exclusive option to purchase an additional 15 per cent. shareholding in FCF. The key terms of the Option are an annual option fee of US\$65,000 and an exercise price of US\$6,000,000. The Option can be exercised or terminated at the sole discretion of Metals Ex.

These agreements give Metals Ex rights to an 85 per cent. interest in FCF.

Runruno is located approximately 200 km north of Manila in Nueva Viscaya Province. Geologically the area comprises an alkaline diatreme complex within a Syenitic basement. Gold mineralization has been known to exist in Runruno since the early 1960's and the property has a long history of exploration. In 1972 a local Philippine company, Fil-Am, calculated a 13.4 million tonne resource at an average grade of 1.41 g/t gold for a total of 607,500 contained ounces of gold.

After signing the MOA in February 2005, Metals Ex carried out a review of all previous works and reports, a basic structural analysis of the deposit, field mapping and sampling, and extensive sampling of the small scale miners' tunnels found on the property.

In November 2005, after completion of the underground tunnel sampling programme, a diamond drilling programme commenced with the objective to define a resource with better grades than previously obtained in the 1970's, and to increase the known resource size.

On 9 May 2006 the Company announced a preliminary resource estimate for Runruno on the basis of its first 17 diamond drill holes, together with two drill holes from Greenwater Mining Corporation who had conducted some work on the property in 2000. The resource was calculated to total an estimated 23 million tonnes at an average grade of 2.3 g/t gold and 0.07 per cent. molybdenum for a total of 1.7 million ounces of gold and 34 million pounds of molybdenum.

The Resource estimate was classified as an inferred resource as defined by the JORC Code, the Australasian Code for Reporting Identified Mineral Resources and Ore Reserves.

Metals Ex maintains an active camp at Runruno with staff that includes geologists, surveyors, accountants, geological aides, samplers and field workers.

Puray project

The Company has held the option to purchase the Puray copper-zinc-silver-gold project located in the Philippines ("Puray") since June 2005.

Puray comprises one Exploration Permit Application originally covering some 6,075 hectares and is located only 28 kilometres from the city of Manila. Puray has been explored and partially mined since the 1930's. The mineralization is polymetallic, containing high grade and disseminated copper-zinc-silver-gold. The style of mineralization is similar to the Kuroko style of massive sulphide deposits which have been major producers of copper, zinc, silver, gold and lead in Canada (eg. Kidd Creek, Ontario, Canada). The high grade and commonly high precious metal content of Kuroko deposits make them attractive exploration targets.

A 200 tonne parcel of ore from Puray was reportedly mined and shipped to Japan in the early 1970's grading 20 per cent. copper, 5.75 per cent. g/t gold, and 196 g/t silver. Samples obtained from the surface during a field visit by the Company returned assays ranging up to 8.9 per cent. copper, 1.7 per cent. zinc, and 1.3 g/t gold.

The occurrence of bornite and chalcopyrite ore indicates the potential for delineating high grade Kuroko style mineralization of significant size over a potential strike length of up to 6 kilometres.

Recently, the Exploration Permit Application has been subject to area clearances, and once it has been granted, Metals Ex intends apply modern exploration techniques to define the project's size and grade potential.

Worldwide Project

On 7 March 2006 the Company announced that it had applied for an Exploration Permit for a property ("Worldwide") located in the district of Northern Luzon, Philippines, adjoining the historic Santa Nino copper-gold producer.

The Exploration Permit Application (EPA) covers an area of approximately 5,845 hectares and is located about 10 kilometres to the northeast of Baguio City. The property is underlain by quartz diorite and andesite rock types and was previously the subject of extensive exploration for copper-gold-molybdenum porphyry mineralization during the 1970s.

On 20 June 2006 the Company further announced that certain historical data had been obtained and collated in respect of the application. Between 1974 and 1981, Worldwide Mineral and Industrial Corporation (WMIC), a Philippine corporation, reputedly completed 44 diamond drill holes for an aggregate total of 12,989 metres over a surface area of 600m x 1,200m. The data package obtained related to 34 of these holes, drilled on a grid spacing of between 100 and 200 metres, for an aggregate total of 10,407 metres. WMIC estimated a non-JORC compliant resource of approximately 150Mt at an average grade of 0.3 per cent. copper and 0.2 g/t gold.

In 1982, Worldwide submitted a small batch of samples (21kg) to the nearby Philex Metallurgical and Assay Laboratory for metallurgical testing. The laboratory reported that "the submitted sample was fast floating and no problem was encountered in producing separate concentrates of copper and molybdenum of marketable grade".

Given the limited nature of the data collated so far, no assurance or implication is being given, or should be assumed to be being given, by the inclusion of this historical data that the mineralization has been, or will in the future be, deemed to be economic.

The Company intends to carry out some confirmatory drilling once the EPA is granted and will then evaluate the results to determine the next phase.

Masapelid project

The Company announced the acquisition of a 70 per cent. interest in the Masapelid project in December 2004.

METALS EXPLORATION PLC

On 25 January 2005 the Company announced that it had signed a joint venture agreement over Masapelid with Medusa Mining Limited (“Medusa”) and Philsaga Mining Corporation (“Philsaga”) under which Medusa and Philsaga had the right to earn an 84 per cent. share of the Company’s interest in Masapelid under certain terms.

The Company has since relinquished its interest in Masapelid (see Post Balance Sheet Events – below).

Other projects

The Company has a policy of reviewing projects as they are offered to the Company and is continually looking for other exploration/mining opportunities within the Western Pacific Rim and in particular, the Philippines.

OUTLOOK

The Directors consider, as outlined in the above descriptions of Runruno, Puray and Worldwide, that each of the projects have considerable merit.

The Company will keep its shareholders fully informed as these projects advance.

RESULTS AND DIVIDENDS

The Group recorded a loss of £1,118,086 (2005: loss of £176,914) for the year. The Directors do not recommend a dividend (2005: nil).

FINANCIAL RISK MANAGEMENT

The Group’s main financial risk relates to foreign exchange risk, and in particular the exposure to the US dollar, with payments made for costs of exploration in this currency. The Company does not have a formal policy in place to manage this currency risk, but the directors monitor the Company’s exposure on a regular basis. The remaining other assets and liabilities of Group are in Sterling.

DIRECTORS AND THEIR INTERESTS

The directors at the year end and their interests in the shares of the company are shown below:

		<i>Ordinary shares of £1 each</i>	
		<i>30 September</i>	<i>30 September</i>
		<i>2006</i>	<i>2005</i>
SM Smith*	<i>(Chairman)</i>	1,500,000	1,500,000
J Beardsworth	<i>(Chief Executive – appointed 4 September 2006)</i>	–	–
GR Powell	<i>(Non-executive)</i>	1,000,000	–
KD Mahoney	<i>(Non-executive – resigned 6 November 2006)</i>	500,000	–

* – SM Smith’s holding is held through Reef Securities Limited, a company controlled by him.

PC Barnett resigned as director on 25 April 2006.

See note 3 to the accounts for warrants and share options held by the Directors.

POST BALANCE SHEET EVENTS

Runruno Project

On 6 December 2006 the Company announced the definition of a total inferred mineral resource of 28.3 million tonnes at an average grade of 2.23 g/t gold and 0.06 per cent. molybdenum, containing a total of 2.03 million ounces of gold and 34.4 million pounds of molybdenum.

On 31 January 2007, the Company announced preliminary metallurgical test results that demonstrated gold recoveries of 92 per cent. on a fresh composite sample using a combination of gravity concentration followed by flotation.

Testwork is continuing to improve the recoveries of both gold and molybdenum.

The following is a summary of the metallurgical test work results received to date:

<i>Test work</i>	<i>Summary Results</i>
Process	
Au recovery by Gravity + CIL	»» 60% Gold recovery 35% Gold recovered by conventional gravity circuit 25% Gold recovered by conventional CIL process
Au recovery by Gravity + Flotation	»» 93% Gold recovery 25% Gold recovered by conventional gravity circuit 68% Gold recovered by Flotation process
Mo recovery by Flotation	»» 38% Molybdenum recovery 38% Molybdenum recovered by Flotation process

Metallurgical testwork is continuing to determine optimum processing methodologies to recover gold from the concentrates, including:

- Ultra-fine grinding of sulphide concentrate + cyanidation;
- BiOx – Bio-oxidation of sulphide concentrate;
- Pressure Oxidation of sulphide concentrate; and
- Roasting of sulphide concentrate.

Similarly there is ongoing testwork to improve the recovery of the molybdenum.

Masapelid project

On 31 January 2007, the Company announced that Medusa Mining Limited through Phsamed Mining Corporation, in accordance with Clause 5.1 of the Masapelid Joint Venture agreement, had given notice to the Company of its withdrawal from the Masapelid Joint Venture effective on 31 January 2007. After reviewing the results of the exploration programme and given the Company's current focus on the Runruno Project and the northern Luzon area, the Company in turn, in accordance with Clause 5 of the Memorandum of Agreement, has advised San Manuel Mining Corporation that it is withdrawing from the Agreement effective 31 January 2007.

The Company now has no retained equity or ongoing obligations in the Masapelid Project.

POLICY AND PRACTICE OF PAYMENT OF SUPPLIERS

The Group's policy on payment of suppliers is to settle the amounts due on a timely basis taking into account the credit period given. At 30 September 2006, the Group had an average of 43 days (2005: 60 days) purchases outstanding.

DISCLOSURE OF INFORMATION TO THE AUDITORS

Each director of the company has confirmed that in fulfilling their duties as a director, they have.

- Taken all the necessary steps in rules to make themselves aware of any information relevant to the audit and to establish that the auditors are aware of that information; and
- So far as they are aware, there is no relevant audit information of which the auditors have not been made aware.

METALS EXPLORATION PLC

AUDITORS

After the year end our auditors, Nexia Smith & Williamson Limited, changed their name to Nexia Smith & Williamson Audit Limited and now trade as Nexia Smith & Williamson. A resolution to reappoint the auditors, Nexia Smith & Williamson, will be proposed at the next AGM.

Approved by the board of directors and signed on behalf of the board

A handwritten signature in black ink, appearing to read 'SM Smith', with a stylized, overlapping flourish at the end.

SM Smith

Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the accounts;
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position for the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Nexia Smith & Williamson

Independent auditors' report to the shareholders of Metals Exploration plc

We have audited the group and parent company accounts ('the accounts') of Metals Exploration plc for the year ended 30 September 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 23. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report, the Chairman's Statement and the Chief Executive's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 30 September 2006 and of the group's loss for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

Nexia Smith & Williamson

Nexia Smith & Williamson
Chartered Accountants
Registered Auditors

25 Moorgate
London
EC2R 6AY

29 March 2007

METALS EXPLORATION PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 30 SEPTEMBER 2006

	<i>Notes</i>	<i>2006</i> £	<i>2005</i> £
Turnover	1	–	–
Administrative expenses		<u>(1,155,611)</u>	<u>(187,378)</u>
Operating loss		<u>(1,155,611)</u>	<u>(187,378)</u>
Interest receivable		30,875	10,819
Interest payable	4	<u>(478)</u>	<u>(355)</u>
Loss on ordinary activities before taxation	5	<u>(1,125,214)</u>	<u>(176,914)</u>
Tax on profit on ordinary activities	6	–	–
Loss after tax	14	<u>(1,125,214)</u>	<u>(176,914)</u>
Minority interest		3,564	–
Loss for the year		<u><u>(1,121,650)</u></u>	<u><u>(176,914)</u></u>
Basic and diluted loss per share	7	<u><u>(2.20p)</u></u>	<u><u>(0.67p)</u></u>

All of the group's operations are classed as continuing. There were no gains or losses in the period other than those included in the above profit and loss account.

The company has taken advantage of Section 230 of the Companies Act 1985 not to publish its own profit and loss account.

CONSOLIDATED BALANCE SHEET as at 30 SEPTEMBER 2006

	<i>Notes</i>	<i>2006</i> £	<i>2005</i> £
Fixed assets			
Intangible assets	8	2,011,023	1,587,992
Tangible assets	9	95,524	–
		<u>2,106,547</u>	<u>1,587,992</u>
Current assets			
Debtors	11	107,776	11,204
Cash at bank		371,501	1,178,687
		<u>479,277</u>	<u>1,189,891</u>
Creditors: amounts falling due within one year	12	<u>(234,554)</u>	<u>(193,021)</u>
Net current assets		<u>244,723</u>	<u>996,870</u>
Net assets		<u>2,351,270</u>	<u>2,584,862</u>
Shareholders' equity			
Called up share capital	13	556,953	471,683
Share premium amount	14	2,696,623	1,694,271
Shares to be issued	15	92,000	288,000
Profit and loss account	14	(1,298,564)	(176,914)
		<u>2,047,012</u>	<u>2,277,040</u>
Minority interests – equity		<u>304,258</u>	<u>307,822</u>
		<u>2,351,270</u>	<u>2,584,862</u>

The accounts were approved by the Board of Directors on 29 March 2007 and were signed on its behalf by:



S M Smith
Director

METALS EXPLORATION PLC

COMPANY BALANCE SHEET as at 30 SEPTEMBER 2006

	<i>Notes</i>	<i>2006</i> £	<i>2005</i> £
Fixed assets			
Intangible assets	8	692,572	561,919
Investments	10	549,132	718,251
		<u>1,241,704</u>	<u>1,280,170</u>
Current assets			
Debtors	11	1,074,359	11,204
Cash at bank		337,259	1,178,687
		<u>1,411,618</u>	<u>1,189,891</u>
Creditors: amounts falling due within one year	12	(158,823)	(193,021)
Net current assets		<u>1,252,795</u>	<u>996,870</u>
Net assets		<u>2,494,499</u>	<u>2,277,040</u>
Shareholders' equity			
Called up share capital	13	556,953	471,683
Share premium amount	14	2,696,623	1,694,271
Shares to be issued	15	92,000	288,000
Profit and loss account	14	(851,077)	(176,914)
		<u>2,494,499</u>	<u>2,277,040</u>

The accounts were approved by the Board of Directors on 29 March 2007 and were signed on its behalf by:



S M Smith
Director

CONSOLIDATED CASH FLOW STATEMENT for the year ended 30 SEPTEMBER 2006

	<i>Notes</i>	<i>2006</i> £	<i>2005</i> £
Net cash outflow from operating activities	17	(865,963)	(35,131)
Returns on investments and servicing of finance			
Interest received		30,875	10,819
Interest paid		(478)	(355)
Net cash inflow from returns on investments and servicing of finance		<u>30,397</u>	<u>10,464</u>
Capital expenditure			
Payments to acquire intangible fixed assets		(752,364)	(858,956)
Payments to acquire tangible fixed assets		(110,878)	–
Net cash outflow from capital expenditure		<u>(863,242)</u>	<u>(858,956)</u>
Acquisitions			
Payments to acquire subsidiary undertakings		–	(53,763)
Financing			
Issue of ordinary share capital (net of expenses)		<u>891,622</u>	<u>2,116,073</u>
(Decrease)/Increase in cash in the year	18	<u>(807,186)</u>	<u>1,178,687</u>

METALS EXPLORATION PLC

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

1. Accounting policies

The accounts have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice. A summary of the more important accounting policies adopted are described below.

Basis of accounting

The accounts have been prepared under the historical cost convention.

Basis of consolidation

The group accounts consolidate those of the company and its subsidiary undertakings using the acquisition method of accounting.

Exploration and development costs

Costs relating to the acquisition, exploration and development of mineral properties are capitalised until such time as an economic reserve is defined and mining commences or the mining property is abandoned.

Once mining commences the asset is amortised on a depletion percentage basis. Provision is made for impairments to the extent that the asset's carrying value exceeds its net recoverable amount.

Tangible fixed assets

Depreciation is provided to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Leasehold improvements	–	5 years
Motor vehicles	–	5 years
Fixtures, fittings & equipment	–	3 years

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Deferred taxation

Deferred tax is provided for on a full provision basis on all timing differences which have arisen but not reversed at the balance sheet date. No timing differences are recognised in respect of (i) property revaluation surpluses where there is no commitment to sell the asset; (ii) gains on sale of assets where those assets have been rolled over into replacement assets; and (iii) additional tax which would arise if profits of overseas subsidiaries are distributed except where otherwise required by accounting standards. A deferred tax asset is not recognised to the extent that the transfer of economic benefit in future is uncertain. Any assets and liabilities recognised have not been discounted.

Foreign currencies

Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the profit and loss account. Exchange differences arising from the translation of the net investment in a subsidiary company at the rate of exchange ruling at the balance sheet date and that subsidiary's profit and loss account at an average rate for the year, are recorded as movements on reserves.

Turnover

Turnover, excluding value added tax, represents net invoiced sales of the Company's share of revenues in the period. Turnover is recognised as sales as invoiced throughout the period.

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

1. Accounting policies (continued)**Segmental reporting**

The group's operating loss is derived from the company's principal activities based in the Philippines, with a Head Office function based in the UK

Operating loss by geographical location

	2006	2005
	£	£
United Kingdom	499,108	187,378
Philippines	656,503	–
Operating loss	<u>1,155,611</u>	<u>187,378</u>

Net assets by geographical location

	2006	2005
	£	£
United Kingdom	947,199	1,208,943
Philippines	1,404,071	1,375,919
Net assets	<u>2,351,270</u>	<u>2,584,862</u>

2. Directors' emoluments

	2006	2005
	£	£
S M Smith	60,000	16,000
P C Barnett* (resigned 25 April 2006)	18,000	12,000
K D Mahoney* (resigned 6 November 2006)	8,000	12,000
G Powell	56,790	13,228
J Beardsworth (appointed 4 September 2006)	8,000	–
	<u>150,790</u>	<u>53,228</u>

* – Non-executive directors

No directors accrued retirement benefits under a money purchase pension scheme.

METALS EXPLORATION PLC

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

3. Employee information

The average number of persons employed by the Group was as follows:

	2006 <i>Number</i>	2005 <i>Number</i>
Head office (including directors)	19	3
Exploration	117	–
	<u>136</u>	<u>3</u>

Warrants to directors

The warrants held by directors are as follows:

<i>Warrant holder</i>	<i>Date</i>	<i>Exercise price</i>	<i>Exercise period (from date of grant)</i>	<i>Number of shares under warrant</i>
G Powell	3 November 2005	12p	Up to 7 years	1,000,000
	3 November 2005	40p	Up to 7 years	500,000
Reef Securities Limited *	30 September 2004	3.25p	Up to 7 years	1,000,000
	3 November 2005	20p	Up to 7 years	1,000,000
	3 November 2005	40p	Up to 7 years	500,000
P Barnett	30 September 2004	3.25p	Up to 7 years	1,000,000
	3 November 2005	20p	Up to 7 years	500,000
	3 November 2005	40p	Up to 7 years	500,000

* Reef Securities Limited is a company controlled by SM Smith

Directors warrants and share option commitments

The Company has committed to grant Jonathan Beardsworth 1,000,000 warrants at 26.25 pence exercisable one year from the grant date, 1,000,000 warrants at 39.275 pence exercisable two years from the grant date and 500,000 warrants at 52.5 pence exercisable three years from the grant date.

In addition to the warrants disclosed above, the Company has committed to grant Jonathan Beardsworth 2,000,000 unapproved share options at a price of 26.25p per share, exercisable any time 3 years after the date of grant.

4. Interest payable

	2006 <i>£</i>	2005 <i>£</i>
Bank loans and overdrafts	478	355
	<u>478</u>	<u>355</u>

5. Loss on ordinary activities before taxation is stated after charging:

	2006 <i>£</i>	2005 <i>£</i>
Impairment of fixed asset investment	332,897	–
Depreciation	15,354	–
Auditors' remuneration		
– audit services	30,000	8,000
– all other services	19,238	–
	<u>387,489</u>	<u>8,000</u>

The audit services fee includes £30,000 (2005: £8,000) in respect of the Company.

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

6. Tax on profit on ordinary activities

	2006	2005
	£	£
(a) <i>UK corporation tax at 30 per cent.</i>	—	—
(b) <i>Factors affecting tax charge for period</i>		
	£	£
Loss on ordinary activities before tax	(1,121,650)	(176,914)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK 30 per cent.	(336,495)	(53,074)
Effects of:		
Income not taxable	(96,957)	—
Expenses not deductible for tax purposes	—	120
Tax losses carried forward	433,452	52,954
Current tax charge for year	—	—

A deferred tax asset of £486,046 (2005: £52,954) due to on-going tax losses has not been recognised due to uncertainty over its future reversal.

7. Loss per share

Basic loss per share has been calculated on the basis of loss after taxation of £1,121,650 (2005: Loss £176,914) divided by the weighted average number of shares in the year of 50,970,424 (2005: 26,313,414).

The diluted loss per share calculation is identical to that used for basic loss per share as the exercise of warrants and share options would have the effect of reducing the loss per share and therefore is not dilutive under the terms of Financial Reporting Standard 22: "Earnings per Share".

8. Intangible fixed assets – Group

	<i>Costs of Exploration</i>
	£
Cost	
At 30 September 2005	1,587,992
Additions	1,025,124
Disposal	(602,093)
At 30 September 2006	<u>2,011,023</u>

Intangible fixed assets – Company

	<i>Costs of Exploration</i>
	£
Cost	
At 30 September 2005	561,919
Additions	130,653
At 30 September 2006	<u>692,572</u>

METALS EXPLORATION PLC

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

9. Tangible fixed assets – Group

	<i>Leasehold improvements</i>	<i>Motor vehicles</i>	<i>Fixtures, fittings & equipment</i>	<i>Total</i>
	£	£	£	£
Cost				
1 October 2005	–	–	–	–
Additions	20,106	25,768	65,004	110,878
30 September 2006	20,106	25,768	65,004	110,878
Depreciation				
1 October 2005	–	–	–	–
Charge for the year	1,745	4,877	8,732	15,354
30 September 2006	1,745	4,877	8,732	15,354
Net book value				
30 September 2006	18,361	20,891	56,272	95,524
30 September 2005	–	–	–	–

10. Investments

	£
Cost	
At 30 September 2005	718,251
Additions	163,778
At 30 September 2006	882,029
	£
Provision for impairment	
At 30 September 2005	–
Charge for the year	332,897
At 30 September 2006	332,897
Net book value	
30 September 2006	549,132
30 September 2005	718,251

The above investments are unlisted, as follows:

<i>Company</i>	<i>Country of registration</i>	<i>% holding</i>	<i>Nature of business</i>
San Manuel Mining Corporation	Philippines	16%	Holder of mining rights
FCF Mining Corporation	Philippines	70%	Holder of mining rights
MTL Philippines	Philippines	100%	Trading Mining Operation

On 23 December 2004, the company concluded an agreement which resulted in the purchase of 70 per cent. of the subscribed share capital in San Manuel Mining Corporation (“SMMC”).

On 25 January 2005 the company signed a joint venture agreement (JVA) with Medusa Mining Limited and Philsaga Mining Corporation in respect of the Company’s interest in San Manuel Mining Corporation. This agreement superseded the agreement signed on 23 December 2004.

The principal terms of the JVA are that the company will retain a 16 per cent. share of the interest or alternatively retain a 10 per cent. net profit interest, in return for a reduced payment schedule.

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

10. Investments (continued)

The agreement allows Metals Exploration plc to earn 16 per cent. of the economic interest in the Masapelid project on completion of the following payment schedule:

		<i>Cash (US\$)</i>	<i>Shares in the Company</i>
January 2005	On completion	25,000	250,000
March 2006	One year after completion	25,000	40,000
January 2007	Two years after completion	25,000	40,000
January 2008	Three years after completion	30,000	80,000

On 31 January 2007, the Company announced that Medusa Mining Limited had given notice of its withdrawal from the JVA. Having reviewed the results of the exploration programme and the Company's focus on Runruno, the Company has withdrawn from its agreement and the investment has been impaired.

On 1 February 2005, Metals Exploration plc signed an agreement which resulted in the purchase of 70 per cent. of the share capital in FCF Mining Corporation.

The agreement allows Metals Exploration plc to earn 70 per cent. of the economic interest in the Runruno project on completion of the following payment schedule:

		<i>Cash (US\$)</i>	<i>Shares in the Company</i>
February 2005	On completion	100,000	400,000
February 2006	One year after completion	30,000	400,000
February 2007	Two years after completion	40,000	400,000
February 2008	Three years after completion	40,000	400,000

In November 2005, the company signed an option agreement with Christian Mining Inc to acquire an additional 15 per cent. shareholding in FCF Mining Corp., the holder of the Runruno permit, which if exercised would give the company an 85 per cent. interest. The company shall pay a \$65,000 per annum option fee until the option is either exercised or withdrawn, although the company has sole discretion to terminate the option. The exercise price of the option is \$400,000 for each additional 1 per cent. per shareholding, subject to a maximum fee of \$6 million. The exercise period of the option is indefinite.

In March 2006, the company issued 40,000 new 1p ordinary shares to satisfy a payment obligation of the company pursuant to an agreement with Medusa Mining Limited and Philsaga Mining Corporation.

In December 2005 the company set up MTL Philippines Inc, a mining operating company located in the Philippines with the payment of £122,789 for the share capital of the company.

11. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	£	£	£	£
Other debtors	7,874	6,337	–	6,337
Amounts due from group undertakings	–	–	993,166	–
Taxation	18,336	–	–	–
Prepayments	81,566	4,867	81,193	4,867
	<u>107,776</u>	<u>11,204</u>	<u>1,074,359</u>	<u>11,204</u>

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

12. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	£	£	£	£
Other creditors	10,848	–	–	–
Accruals	223,706	193,021	158,823	193,021
	<u>234,554</u>	<u>193,021</u>	<u>158,823</u>	<u>193,021</u>

13. Called up share capital

	£	£
Authorised		
150,000,000 (2005:100,000,000) ordinary shares of 1p each	<u>1,500,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
55,695,248 (2005: 47,168,332) ordinary shares of 1p each	<u>556,953</u>	<u>471,683</u>

On 6 October 2005 the Company increased the authorised share capital to 150,000,000 ordinary shares of 1p each.

During the year the Company issued the following ordinary 1p shares:

2,500,000 ordinary shares at a price of 3.25p per share, realising £81,250.

40,000 ordinary shares at a price of 7.5p to Manuel Arteficio as part consideration for his stake in that company.

996,708 ordinary shares at a price of 8p per share, realising £79,737.

400,000 ordinary shares at a price of 11.5p per share in consideration for receipt of a 70 per cent. stake in FCF Mining Corporation.

4,590,210 ordinary shares at a price of 20p per share, realising £918,042.

Share options

On 29 March 2006 the Company issued 1,200,000 unapproved share options to certain employees at a price of 12p per share, which can be exercised from 12 months from grant date.

The Company has committed to grant Jonathan Beardsworth 2,000,000 unapproved share options at a price of 26.25p per share, exercisable any time 3 years after the time of grant.

Warrants

On 3 November 2005 the Company issued 1,300,000 warrants at a price of 12p, 2,500,000 warrants at a price of 20p and 2,000,000 warrants at a price of 40p.

On 1 December 2005 the Company issued a further 1,404,231 warrants at a price of 20p.

The Company has committed to grant Jonathan Beardsworth 1,000,000 warrants at 26.25 pence exercisable one year from the grant date, 1,000,000 warrants at 39.275 pence exercisable two years from the grant date and 500,000 warrants at 52.5 pence exercisable three years from the grant date.

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

14. Reserves – Group

	<i>Shares to be issued</i>	<i>Share Premium</i>	<i>Profit & Loss Account</i>	<i>Total</i>
	£	£	£	£
At 30 September 2005	288,000	1,694,271	(176,914)	1,805,357
Loss for the year	–	–	(1,121,650)	(1,121,650)
Share Issue	(49,000)	44,600	–	(4,400)
Cancellation of share to be issued	(147,000)	–	–	(147,000)
Premium on other share issues	–	998,159	–	998,159
Issue expenses	–	(40,407)	–	(40,407)
At 30 September 2006	<u>92,000</u>	<u>2,696,623</u>	<u>(1,298,564)</u>	<u>1,490,059</u>

Company

	<i>Shares to be issued</i>	<i>Share Premium</i>	<i>Profit & Loss Account</i>	<i>Total</i>
	£	£	£	£
At 30 September 2005	288,000	1,694,271	(176,914)	1,805,357
Loss for the year	–	–	(674,163)	(674,163)
Share Issue	(49,000)	44,600	–	(4,400)
Cancellation of share to be issued	(147,000)	–	–	(147,000)
Premium on other share issues	–	998,159	–	998,159
Issue expenses	–	(40,407)	–	(40,407)
At 30 September 2006	<u>92,000</u>	<u>2,696,623</u>	<u>(851,077)</u>	<u>1,937,546</u>

15. Shares to be issued

Under the arrangements of the deferred consideration on the purchase of certain mining rights set out in note 10, an additional 800,000 ordinary 1p shares are to be issued to the vendors, to be issued at various points in the next 2 years. For valuation purposes these shares have been valued at 11.5p, the price on completion of the transactions.

16. Reconciliation of movements in Shareholders' funds – Group

	<i>2006</i>	<i>2005</i>
	£	£
Loss for the year	(1,121,650)	(176,914)
Issue of share capital	1,038,622	2,165,954
Shares to be issued	–	288,000
Cancellation of shares to be issued	(147,000)	–
Net change in the year	<u>(230,028)</u>	<u>2,277,040</u>
Opening shareholders' funds	2,277,040	–
Closing shareholders' funds	<u>2,047,012</u>	<u>2,277,040</u>

METALS EXPLORATION PLC

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006

17. Reconciliation of operating profit to net cash outflow from operating activities

	£	£
Operating loss	(1,155,611)	(187,378)
Depreciation	15,354	–
Increase in debtors	(96,572)	(11,204)
Increase in creditors	41,533	163,451
Minority interest	(3,564)	–
Impairment of fixed asset investments	332,897	–
Net cash outflow from operating activities	<u>(865,963)</u>	<u>(35,131)</u>

18. Reconciliation of net cash flow to movement in net funds

	2006 £	2005 £
(Decrease)/Increase in cash in the period	(807,186)	1,178,687
Net funds at 1 October 2005	<u>1,178,687</u>	–
Net funds at 30 September 2006	<u>371,501</u>	<u>1,178,687</u>

19. Analysis of funds

	<i>1 October</i> 2005 £	<i>Cash flow</i> £	<i>30 September</i> 2006 £
Cash in hand, at bank	<u>1,178,687</u>	<u>(807,186)</u>	<u>371,501</u>
Total	<u>1,178,687</u>	<u>(807,186)</u>	<u>371,501</u>

20. Finance lease commitments

	2006 £	2005 £
Motor vehicles – leases which expire:		
Less than one year	<u>4,792</u>	<u>–</u>

21. Related party transactions

The Group paid nil (2005: £13,304) in consultancy fees to Boonjarding Limited, a company controlled by G Powell.

The Group paid £nil (2005: £10,000) to Steven Smith in respect of accountancy services in the year and £13,055 to Amity Events Limited, a company which Steven Smith is a director.

22. Post balance sheet events

Between 17 October 2006 and 26 March 2007, the company issued a total of 20,899,419 new 1p ordinary shares at prices ranging between 12.5p and 26p per share.

The company issued 1,590,379 new 1p ordinary shares at prices ranging from 12.5p to 26p, pursuant to the exercise of existing warrants with exercise periods from 2 to 7 years from the date of grant.

On 16 October 2006, the company raised £5 million through a placing to raise funds for the company project Runruno gold molybdenum project in the Philippines. The company issued 20,000,000 new 1p ordinary shares which have been issued at a price of 25p per share.

NOTES TO THE ACCOUNTS for the year ended 30 SEPTEMBER 2006**22. Post balance sheet events (continued)**

On 5 February 2007, the company issued 400,000 new 1p ordinary shares in connection with the company's interest in the Runruno project. The shares were issued together with cash payments of US\$40,000 in respect of the company's outstanding obligations under the terms of the existing agreement entered into on 1 February 2005.

On 31 January 2007, the Company announced that Medusa Mining Limited through Phsamed Mining Corporation had given notice to the Company of its withdrawal from the Joint Venture Agreement in respect of Masapelid. Having reviewed the results of the exploration programme and given the Company's current focus on the Runruno Project, the Company has advised San Miguel Mining Corporation that it is withdrawing from its Agreement in respect of Masapelid effective 31 January 2007.

23. Financial instruments

The Company's financial instruments comprise cash at bank and various items such as other debtors and creditors that arise directly from its operations and are therefore excluded from the disclosures. The main purpose of these instruments is to provide finance for operations. The Company has not entered into derivative transactions nor does it trade financial instruments as a matter of policy.

Other than the immaterial, floating rate bank overdraft interest on the Group's Sterling bank account, the Group does not pay interest on any of its other financial liabilities; nor is it likely to in the future.

Interest rate risk profile on financial assets

The only financial assets (other than the costs of exploration and short term debtors) are cash at bank, which comprise inter bank sterling deposits with interest earned at a fixed average rate of 4.12 per cent. The Directors believe the fair value of the financial instruments is not materially different to the book value.

Currency exposure

At the year end, the Company's currency exposure is predominantly to the US dollar, with payments made for costs of exploration in this currency. The Company does not have a formal policy in place to manage this currency risk, but the directors monitor the Company's exposure on a regular basis. The remaining other assets and liabilities of Group are in Sterling.

In 2007, the company bought US\$1,963,000 at foreign exchange rate 1.963 to benefit from the favourable US Dollar to Sterling rate. The Philippine Peso is linked into the US Dollar performance.

