

7th May 2009

Metals Exploration* - Equity Placing Replaces Debt for Bankable Feasibility Study: Buy with Increased 42p Target Price.

Metals Exploration has today announced that it has raised £12 million through an equity placing of 104,347,828 million shares at 11.5p. The money funds Metals Exploration through to the completion of Runruno's Bankable Feasibility Study (BFS) and replaces the £8 million debt facility it had negotiated with Shelfco 725 Limited in January 2009. It also provides cash for a step out drilling programme and early construction works.

On the condition that a waiver from the 30% rule (need to make a general cash offer for the remaining shares in Metals Exploration) is received from the Panel on Takeovers and Mergers, Solomon Capital Limited (the private equity vehicle of Christian Candy) will subscribe for £8 million of the £12 million and in so doing lift it's holding in Metals Exploration from 29.9% (49,370,436 shares) to 44.1% (118,935,653 shares). The waiver will need the vote of

independent shareholders at an extraordinary general meeting scheduled for the 26th of June 2009. Consequently the placement will take place in two tranches with the first raising £5.72 million from a variety of sources and the second tranche being £6.28 million exclusively from Solomon after receiving the approval of the Takeover and Merger Panel. The first placing is scheduled for 12th May 2009 and the second tranche scheduled for as soon as practicable after Panel approval. Solomon is purchasing 29.9% of the first tranche so as to maintain its stake regardless of the Panel's ruling, while the second tranche, if approved, will lift Solomon's holding to 44.1%.

The primary reason for the placement is to fund the Bankable Feasibility Study at Runruno and replace the £8 million debt facility it had negotiated with Shelfco 725 Limited in January 2009. Of the remaining £4 million, £1.5

Key Data

EPIC	MTL
Share Price	13p
Spread	12.5p – 13.5p
Total no of shares	266.7 million (after placing)
Market Cap	£34.7 million
12 Month Range	6.5p – 23.75p
Net Cash	£12 million (est)
Market	AIM
Website	www.metalsexploration.com
Sector	Mining
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million will be allocated to a step-out drilling programme outside the existing 2 million ounce Runruno gold resource and testing of a potential copper porphyry; another £1.5 million for early construction works at Runruno; and the remaining £1 million for placement fees and BFS contingencies. The BFS commenced work on the 1st of February 2009 and should report its findings in January 2010. 13,000 metres of drilling has already been completed with assay results due to be released over the coming months. The company is confident President Gloria Macapagal Arroyo will approve its FTAA application which represents the final major permitting hurdle for the project.

The replacement of a debt funded BFS with an equity funded one lowers shareholder risk through the avoidance of interest payments, but dilutes existing share holdings. However, the additional funding for site development and step-out drilling will allow the company to simultaneously develop Runruno and its surrounds, paving the way for a quicker route to production. Revising our valuation assumptions to an \$800 gold price and \$1.70 USD/GBP exchange rate, after incorporating the enlarged capital base of 269,666,344 shares, we derive a new valuation of 42p per share (up from 37p). At the current price of 13p our stance is **buy**.



Forecast Table

Year to 30th Sep	Sales (£ Million)	Pre-tax Profit (£ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2007A	0	(2.1)	(0.79)	NA	0	0.0
2008A	0	(3.3)	(1.24)	NA	0	0.0
2009E	0	(3.5)	(1.31)	NA	0	0.0
2010E	0	(4.0)	(1.50)	NA	0	0.0

*Shares in this company are held in the t1ps SF smaller companies fund managed by Tips Investment Management (TIM) which is owned by RSH, the ultimate owner of GE&CR. Metals Exploration is also a corporate client of Bishopsgate Communications which is also owned by RSH.

This research note cannot be regarded as impartial as GE&CR has been commissioned to produce it by Metals Exploration*

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