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Metals Exploration* - Runruno Enters Financing and Construction Stage: Speculative Buy at 10.5p with 36p Target Price

The release of Runruno's Feasibility Study on the 4th of May 2010 marked both an end and a beginning as the positive report ended the process of confirming Runruno's viability and began an intensive development phase as Metals Exploration makes the transition to production. Having seen its share price punished in November 2009 after Runruno's overall resource estimate was reduced in size despite being upgraded in confidence, the Feasibility Study should go some way to allaying concerns as to future production. While many hurdles remain on the path to production, GECR believes there is an opportunity for investors to take advantage of the current market price ahead of an anticipated rerating as production approaches. **Speculative buy** with 36p target price.

During its five years as Runruno's major owner, Metals Exploration has worked hard to establish close relations with both the local community and all levels of government in the Philippines; defined an economic resource and developed a robust mining plan; avoided debt prior to capital funding and performed a fatal flaw analysis to develop responses to every conceivable set back from earthquake assessments to limestone availability (needed to neutralise the acidic tailings) and mine scheduling. The project resource now comprises 1.42 million ounces of gold and 25.6 million pounds of molybdenum and with the prospect not fully drilled out we believe that the resource will increase over time.

Key Data	
EPIC	MTL
Share Price	10.5p
Spread	10.25p - 10.75p
Total no of Shares	269.7 million
Market Cap	£28.3 million
Net Cash	£2 million (est)
12 Month Range	10.25p - 24.25p
Market	AIM
Website	www.metalsexploration.co.uk
Sector	Mining
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Runruno is 85% owned by Metals Exploration, which holds a perpetual option on the remaining 15%. The company will handle the project's gold content itself, but what it does with the associated molybdenum remains unclear at this stage. The default position is to process the molybdenum and sell it on the open market, while a more desirable option would see an off-take agreement established in exchange for an upfront capital contribution, an ongoing per pound fee or a combination of the two. Able to withstand extreme temperatures, resistant to corrosion and conducive to welding, molybdenum is predominantly used in alloy steel and iron. Having spent the Chinese development fuelled period from late 2004 to mid-2008 above \$20 per pound, the molybdenum price tumbled to below \$10/lb in early 2009. However, with the global economy now starting to show signs of recovery, prices have recovered to in excess of \$15 / lb and while Runruno is a gold project, the marginal cost of producing molybdenum is \$1-2 / lb and thus its future production will greatly enhance project economics.

Of the company's 5 other Philippine projects, Dupax and Sulong have secured Exploration Permits and, given their proximity to Runruno, are expected to receive the bulk of attention once Runruno is operational. Puray, Worldwide and Capaz have potential promise but, at this stage, are embryonic and peripheral to any assessment of the value of the group as a whole.

With Runruno the Company's focus, our valuation of Metals Exploration is essentially a valuation of Runruno and to this degree our assumptions are based on the detail from the Feasibility Study (FS) and the Financial or Technical Assistance Agreement (FTAA) signed with the Philippine Government on October 29th 2009, adjusted for the subsequently reduced resource. Despite the reduction in resource we still believe that the project is economic even at gold prices materially below today's level.

Year to 31st Dec	Sales (£ Million)	Pre-tax Profit (£ Million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2008A#	0	(3.3)	(1.24)	NA	0	0.0
2008A^	0	(0.5)	(0.44)	NA	0	0.0
2009A	0	(4.3)	(1.87)	NA	0	0.0
2010E	0	(5.0)	(1.9)	NA	0	0.0
2011E	0	(6.0)	(2.2)	NA	0	0.0

12 months to 30th September

^ 3 months

**Shares in this company are held in the t1ps SF smaller companies growth and gold funds managed by Tips Investment Management (TIM) which is owned by RSH, the ultimate owner of GE&CR.*

Background

Formed in April 2004 by experienced drilling operator Peter Draper and geologist Gary Powell, Metals Exploration was established as a vehicle through which the partners could commercialise their knowledge of Philippine mineralisation. The company raised £75,000 in a pre-IPO capital funding before £54,000 was raised in October 2004 as the company listed on AIM at 3p per share. The second capital raising allowed the company to acquire a 70% stake in Masapelid in December 2004 and up to an 85% stake in Runruno in February 2005.

The company acquired 100% control of Puray in June 2005, ahead of its initial drilling of Runruno in November 2005. A 100% interest was secured in the Worldwide prospect in March 2006 before a JORC compliant Inferred Resource of 1.7 million ounces (Moz) of gold and 34 million pounds (Mlb) of molybdenum was defined at Runruno in May 2006. The company had increased Runruno's Inferred Resource to 2Moz by the end of 2006, while three new licence applications were lodged at Dupax, Sulong and Capaz in March 2007. During 2007, Metals Exploration continued drilling Runruno, with its exploration licence renewed for a further 2 years and its stake increased to 85% after the acquisition of a 15% operating interest from Filminera Resources Corporation for A\$9.1 million. Various properties on Waigeo Island were acquired for US\$100,000 in August 2007, while by March 2008 the company was able to classify 775,000oz of gold and 18Mlb of molybdenum in the Indicated category.

On the 3rd of November 2008 Metals Exploration published Runruno's Scoping Study which confirmed that a gold only project appeared economic at an annual production rate of 183,000 ounces of gold, even before the associated molybdenum content is included. This positive outcome prompted the initiation of a Definitive Feasibility Study (DFS) which included 65,000 metres of predominantly infill drilling. This provided the basis for securing further finance and in May 2009 Metals raised £12 million at 11.5p per share with Solomon Capital, backed by Christian Candy, putting up £8 million. The property entrepreneur now has a 44.1% stake in Metals Exploration and his financial backing should be viewed as a source of additional comfort for investors.

The receipt of the Runruno FTAA (Financial or Technical Assistance Agreement) from the Philippine government on the 29th of October 2009 effectively secured the Company's tenure over the project for 25 years (with a further 25 year option) and formalised the resolution of any disputes by way of the Singapore International Arbitration Centre (SIAC). With the recent national elections taking place, albeit relatively smoothly, this document provides additional security for Runruno's continued development.

On the 19th of November 2009, a revised resource statement was released on Runruno with the total resource reduced from 2Moz of gold (at 2.0 g/t) and 34.4Mlb of molybdenum (at 500 ppm) to 1.5Moz of gold (at 1.91 g/t) and 25.4Mlb of molybdenum (at 470 ppm). The company's chief geologist resigned immediately and understandably the market reacted negatively to the reduction in the total resource estimate (although Measured ounces actually doubled to 560,000) – marking the shares down by a third in 10 days.

Finally, on the 4th of May 2010, Metals Exploration released Runruno's Feasibility Study which confirmed the viability of an operation producing 101,800 ounces of gold each year for the first 5 years and then 92,700 ounces for years 6-10. The project's capital cost was estimated at \$149.3 million, while molybdenum credits were not included in the average operating cost of \$477 per ounce of gold. Test work continues on the molybdenum circuit, but assuming production of 900,000 pounds per annum and a price of \$15/lb, net operating costs would fall to below \$400/oz gold. The likely molybdenum recovery circuit would be a modular add on and not require any major reconfiguration of the gold circuit.

Operations

Runruno

Runruno is a gold and molybdenum project located on the Philippine island of Luzon, 200 kilometres north of the capital Manila. Metals Exploration operates Runruno through the 85% owned subsidiary FCF Minerals Corporation which owns 100% of the Runruno project. Metals Exploration owns a perpetual option over the remaining 15% in FCF held by Christian Mining Inc (CMI) and can acquire this share for \$6 million at any time.

Metals Exploration's position in FCF was built up in 4 stages beginning with an initial 40% stake purchased for \$210,000 in cash and 1.6 million Metals Exploration shares from Filminera Resources Corporation (FRC, 20%) and CMI (20%). The agreement with FRC and CMI included an option to acquire a further 30% (15% from each) upon completion of a BFS (Bankable Feasibility Study). FRC subsequently waived its requirement for the BFS completion and handed over its 15% stake, while the BFS requirement for CMI's 15% has since been renegotiated and acquired by Metals Exploration. An additional 15% was then acquired from FRC for A\$9.1 million (£3.87 million), of which A\$6.5 million was for the settlement of a debt owed by FCF to FRC. This took Metals Explorations stake to the current 85% with the acquisition of the remaining stake viewed as a formality.

Ownership in FCF Minerals Corporation				
	Original stake	Initial transaction	Exercise of option	FRC sale
FRC	50%	30%	15%	0%
CMI	50%	30%	15%	15%
MTL	0%	40%	70%	85%

While Runruno has previously been extensively explored, legal disputes, perceived metallurgical problems, depressed gold prices and a sub-optimal geological model meant the project has never been brought into production. However, with the FTAA in place, a positive Feasibility Study completed, impressive gold prices and local community support, Metals Exploration appears to have all but overcome these historical hurdles.

During the 1970's, a local mining company Fil-Am, calculated a total contained resource of 607,500oz of gold, using a 7,300 metre drill programme spread over 69 diamond drill holes. In 1978 Kurimoto Ironworks Ltd and Nissho Iwai Co. Ltd conducted a feasibility study which resulted in an estimated resource of approximately 450,000oz of gold. Since then, a number of companies have explored the Runruno property, with the previous licence holder estimating that a 2Moz gold resource was achievable. Runruno's proximity to the 1.1Moz gold and 130,000 tonne copper Proven and Probable resource of Didipio owned by Climax Mining Ltd was a further attraction.

During its time as part/effective owner of Runruno, Metals Exploration has conducted in excess of 104,000 metres of drilling. Combining the information gained from this drilling with historical exploration activity has enabled the definition of a total JORC-compliant resource of 25.4 million tonnes at 1.74 g/t Gold and 457ppm Molybdenum for a contained 1.42Moz of gold and 25.6Mlb of molybdenum. The table below shows the breakdown of this resource which is incorporated in the FS.

Reserves	Ore (Mt)	Gold (g/t)	Gold (M oz)	Moly (ppm)	Moly (M lb)
Proven	8.7	1.94	0.54	657	12.6
Probable	3.9	1.89	0.24	406	3.5
2P Reserves	12.6	1.93	0.78	579	16.1
Additional in-pit resource	5.5	1.81	0.32	338	4.1

Resources	Ore (Mt)	Gold (g/t)	Gold (M oz)	Moly (ppm)	Moly (M lb)
Measured	9.9	1.89	0.60	626	13.7
Indicated	5.4	1.74	0.30	387	4.6
Measured + Indicated	15.3	1.84	0.90	566	18.3
Inferred	10.0	1.59	0.51	327	7.2
TOTAL	25.4	1.91	1.42	457	25.6

The current resource is located on the side of an ancient volcanic dome, close to the surface, and controlled by the Malilibeg fault. Upside to this resource is believed achievable through the delineation of a portion of the mineralization open to the north of the current resource, the replication of geological formations around the other sides of the dome and a possible copper-gold porphyry underneath the dome. Having terminated the contract for its previous contracted driller, Metals Exploration has conducted the necessary DFS drilling itself using five drill rigs – a single reverse circulation rig capable of drilling both RC and diamond drill holes, and four diamond drill rigs.

Feasibility Study

Released on the 4th of April 2010, the Runruno Feasibility Study specified a 12.2 million tonne per annum open pit operation (average 5.9:1 strip ratio) producing an average of 96,700 ounces of gold (101,800 ounces in years 1-5, 92,700 ounces in years 6-10) and a targeted 900,000 pounds of molybdenum for 10 years. A molybdenum exclusive total capital cost of \$149.3 million was also defined with an average cash operating cost of below \$400 per ounce of gold based on molybdenum credits of \$15 per pound, or \$477 per ounce excluding the molybdenum credits. At this stage Company management estimate the capex for the molybdenum recovery circuit to be \$5-10M, and as testwork continues, a final process route will allow this to be refined.

The study was based on an open pit operation and mineable reserves as defined by Mining Associates Pty, using biological leaching (BIOX®) combined with conventional carbon in leach treatment will produce doré gold bars, and molybdenum to a saleable product. While the FS concentrated on the initial establishment of a gold operation, Metals Exploration will pursue the addition of molybdenum to add to the project's economics with recoveries of approximately 45%, enough to produce the targeted 900,000 pounds per annum.

Project infrastructure is well defined, achievable and fully authorised with no rights or ownership issues and significant local support. There is a partly sealed 28 kilometre all weather access road to the site with an upgrade planned and authorised. Power will be derived from a 35 kilometre 69kV line to be constructed alongside the road from the nearby switch yard at the town of Bayombong, while a hydro-power station at the Magat Dam lies 60 kilometres to the north east of the project. Tailings storage will be located adjacent to the processing plant in the south of the site, while waste material will be back filled in behind the mining front. Senior and professional staff will be housed in the town of Solano (26 kilometres away by road), rostered operators will be housed on site and local employees bussed in daily. The project will have direct access to the national communication network at Solano, while local river water will be treated on site both as an input to, and output from, the operation.

Community relations form an integral part of Metals Exploration's Philippine operation and covers education & training, health & nutrition, skills development, infrastructure and employment generation. For example, in the local Runruno community the company has provided supplies, equipment and 21 teachers to the local school, medical services and first aid training including a fully equipped ambulance, a welding course for 30 youths which lead to employment by a Korean ship builder, the construction of a day care building and the direct employment of almost 300 individuals. These programmes have endeared Metals Exploration to the local community, in addition to being well received at all levels of government.

FTAA

The receipt of Runruno's FTAA (Financial or Technical Assistance Agreement) in October 2009 secured the Company's tenure over the project for an initial period of 25 years, with a 25 year extension available at Metals Exploration's option. The effective elimination of ownership risk is critical for the company as it will begin to seek major project funding after the completion of Runruno's DFS. The FTAA specifies that any access or ownership issues would be subject to arbitration by the Singapore International Arbitration Centre (SIAC) under United Nations Commission for International Trade Law (UNCITRAL).

While the FTAA is a comprehensive legal document covering the rights and obligations of both parties with regard to reporting, expenditure requirements, project development phases and operation, work programmes, environmental and reclamation procedures, community development, repatriation of profits and project termination, Metals Exploration has drawn particular attention to 2 important aspects. The first is covered several times over by the project's expected capital costs, with the requirement being to spend at least \$50 million on locally beneficial development. The second concerns the tax arrangements with 85% owned subsidiary FCF Minerals Corporation receiving a tax holiday for up to the initial 5 years of production as it recovers

its pre-operating expenses and investment. Once the holiday is over the company is liable to pay an effective tax rate of approximately 33%. The FTAA defines the fiscal regime whereby FCF benefits from a tax holiday for up to 5 years after commencement of production until it has recovered its pre-operating expenses and investment. Thereafter the Government will receive a 'Government Share' consisting of all direct taxes, withholding taxes, royalties, fees, and related payments (the FTAA lists 15 qualifying tax categories). If the resulting Government Share falls short of 50% of 'Net Mining Revenue', calculated after deduction of all mining, processing, administrative, environmental, community, royalty, sustaining capital and interest expenses, then the Government Share shall be increased until it represents 50% of Net Mining Revenue (the 'Additional Government Share').

Other Prospects

With Runruno justifiably occupying the Company's time, Metals Exploration has essentially put its peripheral prospects on hold. However, when mining and cashflow generation begins at Runruno, we expect there to be operational and financial capacity with which to explore and develop its project pipeline.

Comprising the Dupax (5,042 hectares) and Solano (3,814 hectares) licences, the **Dupax** EPA (Exploration Permit Applications) is located 200 kilometres north of Manila. The Dupax licence has been the site of previous mining activity with sampling of the outcrop returning peak grades of 45.7% zinc, 3.89% copper and 4g/t gold. Although previous production records are not available, open pit mining of the zinc-copper ore occurred in the 1960's and 1970's. Little is known about the Solano licence but Metals Exploration plans a structured programme of geological mapping, soil geochemistry and geophysical surveys to determine drill targets once Runruno is operational.

The **Sulong** licence lies to the East of Solano and covers 6,963 hectares. With Manganese mined in the area during the 1970s, Placer Pacific Exploration Phils Inc conducted stream sediment geochemistry and rock sampling in 1990s, returning peak gold assay results of 0.64 g/t. As for Solano, when time and funding becomes available, a programme of geological mapping, soil geochemistry and geophysical surveys to determine drill targets is planned.

20 kilometres North-East of Manila, **Puray** is located in a region rich in gold, silver, copper and zinc due to its huge sulphide deposits produced by ancient volcanic activity. The prospect covers an area of 6,075 hectares and recent surface sampling by the company has returned grades of 8.9% copper, 1.7% zinc, and 1.3 g/t gold. Metals Exploration intends to apply modern exploration techniques to define the project's size and grade potential once its EPA is granted.

Worldwide covers an area of 5,845 hectares and located 210 kilometres North of Manila and 75 kilometres West of Runruno. The EPA contains an area subject to Copper, Gold and Molybdenum exploration during the 1970s, with the company having since obtained historical data on 34 (10,407 metres) of the 44 (14,989 metres) diamond holes drilled by Worldwide Mineral and Industrial Corporation (WMIC) from 1974-1981. WMIC estimated a non-JORC resource of 150 million tonnes at 0.3% copper and 0.2 g/t gold, which Metals Exploration will look to confirm and expand upon with a drilling programme when the full exploration permit is granted.

The 3,564 hectare **Capaz** EPA is located 100 kilometres North of Manila and was the subject of an alluvial gold panning rush beginning in 1987 where 2,000 hand panners retrieved in the region of 30 kilograms of gold. West Gold Exploration Inc and BHP Engineering have both explored and drilled the area on a small scale and Metals Exploration believes the mapping of geological structures and a shallow RC drilling programme would be worthwhile once capacity becomes available.

Strategy

The company's strategy has, during the past 18 months, unashamedly been the development of Runruno. The positive FS will now see the commencement of project funding and construction and further necessitate a focus on Runruno at the expense of its other prospects. With the FS having been delayed in order to incorporate the updated Reserve and Resource estimate, construction and commissioning is expected to take 24 months and thus Metals exploration is now looking at an operational mine in the first or second quarter of 2012.

Metals Exploration has stated that its corporate plan is to deliver a world class mine and create shareholder value, while being considerate and sympathetic to the environment in which it operates. In Runruno, the company should deliver this, but just as importantly will be the maintenance and development of a strong pipeline of projects, so that at a portfolio level, there remains upside for additional value creation once Runruno is operational and generating cash.

SWOT Analysis

Strengths

Runruno resource – 1.42Moz of gold and 25.6Mlb of molybdenum JORC compliant resources makes Runruno a project which, despite initial market jitters, is still very much economically viable. Feasibility study completed – the FS confirmed the earlier scoping study's conclusion of a viable operation at Runruno. Now in the financing and constructions phase, commissioning is now expected by the middle of 2012.

Support of Solomon Capital – backed by Christian Candy, Solomon is wealthy enough to bankroll Metals Exploration and would be reluctant to see an £8 million investment – for a 44% - stake disappear. Solomon is likely to provide a significant portion of the equity needed for the construction of Runruno (we estimate 40% of the \$150 million capital cost will be equity) either as straight equity or as mezzanine finance which the lending banks will treat as quasi equity.

Dual commodity resource – while many companies would be happy with a 1.42Moz gold resource in isolation, the fact that Runruno has a major molybdenum resource means the project is not solely dependent upon the gold price (despite its predicted continued strength).

Community support – Metals Exploration has gone to great lengths to gain the trust and support of both the local community and relevant authorities. This has facilitated the granting of the FTAA as well as minimising the chance of social disruption once Runruno is operational.

Weaknesses

Financing risk – the FS justifies the development of Runruno. However, with the company currently capitalised at £28 million and requiring \$150 million with which to develop Runruno, there remains a question not just over whether it can be raised, but upon what terms. Mitigating this is Solomon Capital's indication that they will maintain their interest (implying they will take \$26 million of the \$60 million in equity - we believe that the project will be 60/40 debt/equity funded), the experience of the company's management team and an improving economic environment.

Lone valuable asset – while Runruno's value is undeniable, the fact that the only way a junior mining company can sustain support is through the solitary focus on a single asset means it is more vulnerable than a more diversified company.

Opportunities

Expand Runruno resource – the Runruno mineralization remains open to the North of the currently defined resource and there are multiple targets elsewhere around the volcano dome. A revised resource statement will be released ahead of the BFS completion, but with most of the drilling being infill, this is likely to upgrade rather expand the resource.

Gold price – Our valuation assumes a gold price of \$950 oz. Gold now trades in excess of \$1,200 oz. We believe that gold will at least maintain its strength over the medium term as a result of the lax fiscal and monetary policies to which the world's leading nations are committed. Using the current gold price in our model increases our target price to 65p ceteris paribus.

Runruno molybdenum deal – Metals Exploration will entertain offtake partners once the molybdenum test work is completed, but extracting the molybdenum is a marginal cost (\$1-2 / lb) for the company. While molybdenum's high melting point means it cannot be fully processed at the proposed Runruno facility, such an offtake deal would likely see the 3rd party paying an ongoing fee and/or an upfront contribution towards the capital costs.

Other prospect resources – with two other prospects close to Runruno (Sulong and Dupax), and a further three prospects North of Manila (Worldwide, Capaz and Puray), Metals Exploration not only has the opportunity for another significant mineral find, but also the potential for synergies from shared facilities. We expect that once Runruno is operational, significant progress will be made at these other prospects.

Threats

Delayed Runruno production – the revision of Runruno’s resource estimate has already caused the FS to be delayed, and even if the slippage is contained, there remain many hurdles to delivering a final gold product. Even when the company has an operational plant there will inevitably be teething issues which will conspire against planned output.

Commodity price risk – while gold has increased sharply during the past 24 months, metals remain a volatile market. The fundamentals remain positive for gold but molybdenum has been volatile and could challenge the \$15 per pound assumed in Runruno’s FS. This again is mitigated by the very low expected marginal cost (\$1-2 per pound) to produce molybdenum.

Directors

Executive Chairman - Ian Holzberger. With in excess of 35 years of mining industry experience, Holzberger has a broad ranging CV. During his time with the Kainantu gold mine in Papua New Guinea, Holzberger was responsible for its feasibility study, development, financing, construction and commissioning, while as Managing Director of Highlands Pacific Limited, he implemented the feasibility study on the Ramu nickel laterite project, and the project’s subsequent majority interest sale. Other roles have seen Holzberger implementing major project feasibility studies, raising debt and equity, maintaining investor relations, working with traditional societies, and negotiating with governments. Holzberger is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

Chief Executive Officer - Jonathan Beardsworth. During his 12 years as an investment banker with Warrior International and Standard Bank, Beardsworth focused on the mining and metals sector. During his time with Standard Bank’s London Mining and Metals team, Beardsworth oversaw the European based operation and undertook similar responsibilities in Moscow and Shanghai.

Non Executive Director - Tim Dean. Director of major Metals Exploration shareholder Solomon Capital, Dean joined the board in January 2010. An Associate of the Institute of Chartered Accountants in England and Wales, he also has a Masters Degree in Engineering Science from Oxford University.

Shareholders

Of the 269,716,344 Metals Exploration shares in issue, the following shareholders each hold over 3% of the issued capital.

Name	Percentage (%)
Solomon Capital Limited	44.10
Williams de Broe	8.86
Baker Steel Capital Mngr	6.73
Allianz Cornhill Insurance	4.45

Note: the fully diluted share capital is 307,627,498.

Valuation

Our valuation of Metals Exploration is essentially a valuation of Runruno as, although we expect long term value to be derived from one or many of its other prospects, their distant proximity to cashflow generation – or even an estimate of their resource - means the risk weighted present value of any value assigned is immaterial. However, despite a lack of value contribution from these other projects, it is important to not downplay their importance to the long term viability of the company and their significance in providing a pipeline from which Metals Exploration can sustain production well beyond Runruno.

In formulating our discounted cash flow model of Runruno we have predominantly used inputs from the feasibility study and the FTAA, complemented with our own adjustments for the reduced resource. While the company is confident of finding a partner to take the molybdenum credits, either in the form of an upfront contribution towards the capital costs or an ongoing off-take agreement (or a combination of both), we have assumed Runruno to be a standalone operation with the capital costs self-funded and output sold on the open market.

As per the May 2010 FS, Metals Exploration is now targeting the annual milling of 1.75 million tonnes of ore to produce 101,800 ounces of gold and 0.9Mlb of molybdenum per annum in years 1-5 and 92,700 ounces of gold and 0.9Mlb of molybdenum per annum in years 6-10. The company believes this will lead to a mine life of at least 10 years, and is confident that future resource identification will further extend Runruno's life. We have assumed operating costs are as per the FS's \$46.2 million per annum while we have taken the company's revised \$150 million estimate of capital costs and, for simplicity, assumed it is fully debt funded at a rate of 8% per annum for 8 years beginning in the middle of 2010. Production is assumed to commence in the middle of 2012, producing 1/6th of capacity for the six months before achieving full capacity at the start of 2013. With expectations that further resources will be added in due course, our model goes through until the end of 2024, whereupon we expect this to be lengthened further as the full potential of the Runruno dome is defined. We have assumed flat gold and molybdenum prices of \$950 / oz and \$15 / lb respectively throughout the entire mine life, while we have received guidance from the company in our use of a 33% effective tax rate after a tax free holiday until 2017. Additionally, we have assumed Metals Exploration's interest in Runruno will be 100% at the time of production after it purchases the remaining 15% from CMI for \$6 million.

Using a 10% per annum discount rate, USD/GBP exchange rate of \$1.30 and dividing by the 270 million shares in issue, we derive a target share price of 36p after incorporating a 10% secondary risk weighting for such risks as funding, construction, exchange rate and country risk. The potential presence of a molybdenum partner, the increased clarity provided by a closer proximity to production, a lower resource/production estimate and of course the dilution caused by the issue of 104,347,828 shares at 11.5p per share in May 2009 are contributing reasons for the reduction in our target price (from 42p previously); but with clear upside from a greater resource base / longer mine life, higher commodity prices (on a gold price of \$1,200 oz the price target rises to 65p) and an advantageous molybdenum off-take agreement, there is reason to back Metals Exploration. Recent share price weakness should be viewed by investors as an opportunity and hence, at 10.5p, we upgrade our stance to **speculative buy**.



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