

# METALS EXPLORATION PLC

## QUARTERLY UPDATE TO 31 DECEMBER 2019

Metals Exploration plc (AIM: MTL) (“Metals Exploration”, the “Company” or the “Group”), the natural resources exploration and development company with assets in the Pacific Rim region, today provides a quarterly update on matters relating to the operations of its Runruno gold project (“Runruno” or the “Project”) in the Philippines.

### **Summary**

- **Gold production of 18,941 ounces achieved in Q4 2019, being the most gold produced in a quarter since production commenced.**
- **Gold sales of US\$27.0 million achieved in Q4 2019, being the highest quarterly gold sales achieved since production commenced.**
- **Annual gold production and sales for FY 2019 significantly exceeded previous year:**
  - **Gold production of 68,983 ounces, up 43.5% from FY 2018;**
  - **Overall gold recoveries of 70.8%, up 22.2% from FY 2018;**
  - **Gold sales of 67,356 ounces, up 45.3% from FY 2018; and**
  - **Gold receipts of US\$94.3 million, up 53.5% from FY 2018.**
- **Positive net cash income of US\$18.4 million and positive net cash flow of US\$7.3 million recorded for FY 2019.**
- **Post-quarter end the US\$68.5 million senior bank debt facility was acquired by companies associated with the mezzanine debt lenders (who are also the Company’s two largest shareholders).**
- **Total interest bearing debt liabilities as at 31 December 2019 were, in aggregate, US\$125.8 million.**
- **Discussions with lenders on the terms of an ongoing standstill and the restructuring of the Group’s overall debt position continue. Any restructuring is expected to include a debt:equity swap as the current debt structure is not sustainable.**

### **Finance and corporate**

- 18,247 ounces of gold were sold during Q4 2019 at an average realised gold price of US\$1,481 per ounce.
- US\$27.0 million in gold receipts received in Q4 2019.
- Proceeds from gold sales for FY 2019 were US\$94.3 million, a 53.5% increase over FY 2018.
- Post quarter end the Company’s two mezzanine lending groups (which also comprise the Company’s two major shareholders) acquired the Group’s US\$68.5 million senior debt facility.
- Discussions with these lenders on the terms of an ongoing standstill and the restructuring of the Group’s overall debt position continue. Any restructuring is expected to include a debt:equity swap.
- Total interest bearing liabilities as at 31 December 2019 were, in aggregate, US\$125.8 million (US\$68.5 million in senior debt and US\$56.7 million in mezzanine debt).
- Cash at bank as at 31 December 2019 was US\$5.4 million.

### **Mining Operations**

- Mining for Q4 2019 of 3.32Mt of ore and waste with total ore mined of 572kt, exceeding budgeted ore mined by 88kt.
- Mining for FY 2019 of 11.78Mt of ore and waste with total ore mined of 1.82Mt, exceeding ore mined in 2018 by 435kt, representing an increase of 26.8% over FY 2018.
- Key mobile fleet equipment rebuilds that commenced in Q3 2019 are progressing into Q1 2020, although there have been delays in sourcing certain replacement parts. Cost reductions resulting from less reliance on rental equipment are expected from Q1 2020 onwards.

- On-ground activities in relation to access development to mine plan Stages 3 & 4, and resettlement of illegal miners away from mine plan Stages 3 & 4 continued in Q4 2019. Further actions in relation to the access development and resettlement activities will be made in the forthcoming quarters.

### ***Processing Operations***

- 18,941 ounces of gold poured during Q4 2019.
- Throughput for Q4 2019 exceeded budget by 51kt.
- Notwithstanding significant maintenance issues experienced during FY 2019 (predominately tails line related as reported in previous FY 2019 quarterly updates) total throughput of 1.78Mt was an increase of 17.7% over FY 2018.
- Gold recovery for FY 2019 was 70.8%, a 22.2% improvement on FY 2018.
- Solutions to historical frothing issues in BIOX<sup>®</sup> and CIL have been determined and gold production levels are expected to be sustained during FY 2020. Studies into additional improvements are continuing.
- The gravity circuit achieved 27.4% gold recovery in Q4 2019.
- Flotation improvement has benefited overall recovery by 11% moving from 76.6% in FY 2018 to 88% in FY 2019.
- BIOX<sup>®</sup> oxidation rates are still below design with an average oxidation rate for FY 2019 of 68%. System air capacity has been identified as a major issue to rectify, however, capital upgrades, funded by cashflow, are only expected to be in place by the end of Q4 2020. Management expects to see an improvement in the oxidation rates once further system upgrades are completed.
- CIL recovery improved to average 84% for FY 2019 against 70% for FY 2018, although still being affected by BIOX oxidation rates.

## Production and Finance Summary

Q4 2019	Q4 2018	2019	2018
<b>Production</b>			
Ore Mined		572,361	2,058,395
Waste Mined		2,749,298	9,720,994
Total Mined		3,321,659	11,779,389
Au Grade Mined		1.52	1.48
Strip Ratio		4.80	4.72
<b>Processing</b>			
Ore Milled		501,388	1,948,025
Au Grade		1.65	1.55
S <sub>2</sub> Grade		0.97	0.94
Au Milled (contained)		26,529	97,386
Recovery		71.4	70.8
Au Poured		18,941	68,983
Au Sold		18,247	67,356
Au Price		1,481	1,400
<b>Financials</b>			
Gold Sales		27,021	94,280
Cost of Sales		7,465	25,619
Processing		8,130	29,110
G&A		2,861	9,318
Excise Duty		1,086	3,789
UK/Philippine G&A		1,913	8,057
Other		21,455	75,894
Operating Profit		5,566	18,387
Finance Costs		5,142	11,038
Other Income		808	7,749
Profit Before Tax			
Tax			
Profit After Tax			

Note: AISC includes all UK Corporate costs (Q4 2019: US\$203K and FY 2019 total US\$2,471K) and the US\$1,800k, Q4 2019, purchase of three dump trucks. Comparatives for 2018 have not been included as directly comparable financial numbers are not available, due to a change in reporting format.

### ***Review of Operations (Unaudited)***

In Q4 2019 the Company recorded its second consecutive best ever quarterly rate of gold production. Gold production in Q4 2019 maintained the >70% recovery level that was first achieved for Q3 2019. On an annual basis the improvement in gold recoveries and gold produced was significant. Overall the annual gold recovery rate improved by 22.5% to 70.4%, while annual gold production improved by 42.7% to 68,563 ounces.

During 2019 the Company determined effective new plant operating parameters and as these new processes are adopted and the overall process is stabilised, the Company is hopeful that these levels of gold production will continue into 2020.

Q4 2019 resulted in gold sales of US\$27.0 million bringing total gold sales for FY 2019 to US\$94.3 million.

### ***Finance (Unaudited)***

Subsequent to the quarter end Runruno Holdings Ltd and MTL (Guernsey) Ltd, (an associated company of MTL Luxembourg SARL), the Company's two major shareholders and mezzanine lenders, completed a sale agreement with HSBC and BNP Paribas to purchase of all the rights and obligations under the US\$68.5 million (including US\$5.2 million of accrued interest) Runruno Facility Agreement (the "Senior Facility"). This purchase was completed on 30 January 2020. The Senior Facility was acquired 70.6% by MTL Guernsey Ltd and 29.4% by Runruno Holdings Ltd.

Whilst there can be no guarantee an agreement can be reached, discussions and negotiations with the Company's lenders in relation to the terms of an ongoing standstill and the restructuring of the Group's overall debt position continue. Although the Company is hopeful that a final debt restructuring outcome can be completed during Q1 2020, it is expected that the outcome is likely to require shareholder approval, as the restructuring is expected to include a debt:equity swap component.

In the meantime all relevant interest and fees continue to be accrued. On this basis the total interest-bearing liabilities as at 31 December 2019 were, in aggregate US\$125.8 million.

Gold sold during Q4 2019 was 18,247 ounces, at an average realised gold price of US\$1,481 per ounce. During FY 2019 the Company sold 67,356 ounces, which is a 45.3% improvement on FY 2018 sales. Total gold receipts for FY 2019 were US\$94.3 million, which is a 53.5% improvement on FY 2018.

Group cash at bank as at 31 December 2019 was US\$5.4 million.

### ***Mining Operations***

Mining production of ore and waste was 3.3Mt for Q4 2019 and the total ore mined for Q4 2019, of 572kt, was in excess of budget. Annual mining production was 11.8Mt, a 21.6% improvement on FY 2018; with total ore mined for the year being 2Mt, representing a 26.8% improvement on FY 2018.

The long over-due critical fleet maintenance programme that commenced in Q3 2019 remains ongoing; however the Company has experienced some delays in sourcing replacement parts. During this rebuild process additional trucking capacity has been hired to maintain capacity and, as a result, additional mining costs will continue for the short term. A reduction in mining costs is expected as this programme approaches completion, which is still expected to be by the end of Q1 2020.

The programme of infill resource and mine plan drilling that commenced in Q3 2019 has not advanced as quickly as hoped. Unfortunately, the Company's Schramm drill rig has not performed adequately and a contract driller has been engaged to complete this programme. It is now expected that this programme will not complete until the end of Q2 2020 at an estimated extra cost of US\$200,000.

The updated mine plan has been approved by the Board and an extraordinary capital purchase of three new 100t mining trucks was completed in Q4 2019 for a total outlay of US\$1.8 million. This purchase impacts on the Company's overall free cash but provides sufficient capacity to meet the near and medium term requirements of the updated mine plan. It is expected that these trucks will be available for mining operations during Q2 2020.

### ***Process Plant***

Notwithstanding a drop in plant availability in Q4 2019, from 90% to 88.6%, throughput for Q4 2019 was 501kt, which exceeded budget by 51kt. This enabled the Company to produce its second consecutive quarterly production record being 18,941 ounces in Q4 2019.

FY 2019 year saw major changes in the process plant with the introduction of new processing personnel, studies into the Company's historical gold recovery issues, on-site testing of various possible solutions and the introduction of new operating parameters which by the end of FY 2019 saw the production process achieving materially higher gold production levels.

As a result of these changes, the Company produced 68,563 ounces for FY 2019, which is a 42.7% improvement over FY 2018. The Company believes its new operating parameters will further stabilise the Group's production processes, resulting in consistent gold recoveries of >70% and gold production being maintained at current levels. Further improvements to the production process are still being considered. Overall gold recovery for FY 2019 was 70.4%, which is a 21.6% improvement on FY 2018.

Notwithstanding the record Q4 2019 gold production BIOX® performance continues to suffer from a lack of available air. Unfortunately design air levels cannot be achieved which will continue to impact BIOX® oxidation performance. A fourth blower has been ordered to improve delivery of air, but it is not expected to be brought on-line until the end of Q4 2020.

### ***Residual Storage Impoundment ("RSI")***

Construction of the next raise of the RSI continues without incident with a current dam water freeboard level of in excess of five metres. The staged RSI development is in compliance with local guidelines and the development requirements.

### ***Occupational Health & Safety***

Runruno continues to record an exceptional safety record with an accumulated 9.6 million man hours without a reportable injury as at year end.

### ***Environment and Compliance***

Compliance matters continue to be successfully monitored and the mine remains compliant, with no outstanding material issues. For the second year running the Runruno project was the mining industry overall winner of the Philippine government Best Forestry Management Program award.

### ***Community & Government Relations***

The Company adopts a positive focus on maintaining productive relations with both the community and the government. The Company continues its consultations with government agencies in relation to the impending need to remove illegal miners, including their infrastructure and dwellings, from those areas scheduled to be mined as part of mine plan Stages 3 and 4. Access development to mine plan stages 3 & 4 has continued during Q4 2019. Further actions in relation to access development and the resettlement activities will be made in the forthcoming quarters.

*This Announcement contains inside information as defined in Article 7 of the Market Abuse Regulation No. 596/2014 ("MAR"). Upon the publication of this Announcement, this inside information is now considered to be in the public domain.*

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**Competent Person's Statement**

Mr Darren Bowden, a director of the Company, a Member of the Australasian Institute of Mining and Metallurgy and who has been involved in the mining industry for more than 25 years, has compiled, read and approved the technical disclosure in this regulatory announcement in accordance with the AIM Rules - Note for Mining and Oil & Gas Companies.

**Forward Looking Statements**

*Certain statements relating to the estimated or expected future production, operating results, cash flows and costs and financial condition of Metals Explorations, planned work at the Company's projects and the expected results of such work contained herein are forward-looking statements which are based on current expectations, estimates and projections about the potential returns of the Group, industry and markets in which the Group operates in, the Directors' beliefs and assumptions made by the Directors. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by words such as the following: "expects", "plans", "anticipates", "forecasts", "believes", "intends", "estimates", "projects", "assumes", "potential" or variations of such words and similar expressions. Forward-looking statements also include reference to events or conditions that will, would, may, could or should occur. Information concerning exploration results and mineral reserve and resource estimates may also be deemed to be forward-looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed.*

*These statements are not guarantees of future performance or the ability to identify and consummate investments and involve certain risks, uncertainties and assumptions that are difficult to predict, qualify or quantify. Among the factors that could cause actual results or projections to differ materially include, without limitation: uncertainties related to raising sufficient financing to fund the planned work in a timely manner and on acceptable terms; changes in planned work resulting from logistical, technical or other factors; the possibility that results of work will not fulfil projections/expectations and realize the perceived potential of the Company's projects; uncertainties involved in the interpretation of drilling results and other tests and the estimation of gold reserves and resources; risk of accidents, equipment breakdowns and labour disputes or other unanticipated difficulties or interruptions; the possibility of environmental issues at the Company's projects; the possibility of cost overruns or unanticipated expenses in work programs; the need to obtain permits and comply with environmental laws and regulations and other government requirements; fluctuations in the price of gold and other risks and uncertainties.*

*The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.*

For further information please visit or contact [www.metalsexploration.com](http://www.metalsexploration.com)

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