

METALS EXPLORATION PLC

QUARTERLY UPDATE TO 30 JUNE 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.

Mining Operations

- Mining for Q2 2019 of 2.76Mt of ore and waste with total ore mined of only 449Kt, being below budget.
- Key fleet maintenance programmes continued to be deferred due to working capital constraints; however, mobile equipment rebuilds have begun in Q3 2019.
- Costs in excess of budget due to hire of extra trucks due to poor condition of Group owned fleet and ongoing mine plan studies.
- Average mine gold grade was 1.47 grams/tonne, which is consistent with the historical dilution rate.
- Expenses and on-ground activities in relation to resettlement of illegal miners away from mine plan Stages 3 & 4 to commence in Q3 2019.

Processing Operations

- 15,884 ounces of gold poured during Q2 2019.
- Increased throughput for Q2 2019 exceeded budget by 52kt.
- Costs in excess of budget, due to increased consumables/power, associated with increased throughput and additional expert staff employed as part of efforts to improve gold recovery.
- Gold recovery averaged 67.1% in Q2 2019, which is well below the original feasibility studies.
- Overall plant availability improved during Q2 2019 as maintenance programmes were undertaken.
- The gravity circuit achieved 35.4% gold recovery.
- BIOX[®] oxidation rates are still below design and for Q2 2019 were 74%.

Finance and corporate

- 15,577 ounces of gold were sold during Q2 2019 at an average realised gold price of US\$1,303 per ounce.
- Discussions with the Group’s lenders are ongoing to restructure the Group’s overall debt position.
- A standstill from making principal and interest payments is currently in place until further notice; the Company is seeking a formal extensions and further announcements will be made in due course.
- Cash at bank as at 30 June 2019 was US\$3.39 million.

Production and Finance Summary

Runruno Project Report June YTD (\$USD)		Quarter	YTD
PHYSICALS	Units	Actual	Actual
		Q2 2019	6 Months
Mining			
Ore Mined	tonnes	448,848	1,022,148
Waste Mined	tonnes	2,309,112	4,667,586
Total Mined	tonnes	2,757,960	5,689,735
Au Grade Mined	g/tonne	1.47	1.51
Strip Ratio		5.14	4.57
Processing			
Ore Milled	tonnes	504,248	922,478
Au Grade	g/tonne	1.46	1.57
S ₂ Grade	%	0.79	0.88
Au Milled (contained)	ounces	23,667	46,574
Recovery	%	67.1	66.1
Au Poured	ounces	15,884	30,774
Sales			
Au Sold	ounces	15,577	30,870
Au Price	\$US/oz	1,303	1,305
FINANCIALS			
Revenue			
Gold Sales	(000's)	20,295	40,292
Operating Costs – Summary			
Mining	(000's)	5,810	11,796
Processing	(000's)	6,816	12,857
G&A	(000's)	2,211	4,165
Total Operating Costs		14,837	28,819
Excise Duty	(000's)	817	1,616
UK/Philippine G&A	(000's)	2,160	4,515
Total Direct Production Costs	(000's)	17,814	34,950
Net Cash Income	(000's)	2,481	5,341
Total Capital Costs	(000's)	1,137	1,890
Total non-cash costs	(000's)	1,418	3,922
Free Cashflow	(\$'000)	1,344	3,451
Cash Cost / oz Sold - C1	US\$/oz	933	928
Cash Cost / oz Sold – AISC	US\$/oz	1,197	1,187

Mining Operations

Mining was affected throughout the quarter, by reduced equipment availability and poor ore to model recoveries, resulting in production of 2.76Mt being achieved. Actual mine dilution rates continue to be significantly higher than forecast, with recovery against model falling to 85%, due to mining in low confidence areas. The average mine gold grade was 1.47 grams/tonne against a budget of 1.58 grams/tonne. The higher average dilution is reflective of the historical mining results and is expected to continue. These increased mine dilution rates of 25% have been adopted in the Company's new internal forecasts, so that the plant feed

grades and forward production can be more accurately budgeted. Efforts to improve resource confidence are required, which is discussed below.

Critical maintenance has been deferred due to working capital constraints. However, parts have been ordered and they started to arrive on-site in July. The first truck rebuild commenced in July. These critical maintenance activities will continue throughout Q3 & Q4 2019, reducing equipment availability over this period. Additional trucking capacity has been hired to maintain capacity and additional mining costs will continue as a result.

Reconciliation of the overall resource grade versus actual production has improved in Q2 2019 to approximately 90% of ounces recovered, although at a higher than previously planned dilution rate as noted above. However, during H1 2019, there has been an overall reducing trend in resource recovery in Stage 2 of the mine plan with an overall resource recovery of 80%. This lower recovery has remained consistent over the last 6 months. To improve grade control, a programme of infill resource and mine plan drilling has commenced, aimed at improving the short-term model confidence in mine plan Stages 1, 1.5 and 2.

Process Plant

The commissioning of the variable speed drive on the SAG mill was undertaken during Q2 2019, however, given the time that the components had been left unused, several key components failed and have had to be reordered. The recommissioning of the variable speed drive on the SAG mill will now be re-attempted in November 2019 after the failed components have been replaced.

The overall reliability of the process plant improved during Q2 2019, which allowed the operations team to increase throughput to offset the lower head grade, however, this impacted on flotation recovery with an overall net benefit to the operations.

The discrepancy between calculated metallurgical recovery and gold poured has been reduced to between 10% and 15%, and the Company has determined that this is due to an over-reporting of the gravity recovery circuit. This has been offset by better performance in the carbon-in-leach (CIL) and BIOX[®] circuits, however, the discrepancy still remains.

The key processing issues affecting the process plant during Q2 2019, were frothing in BIOX[®] (as seen in Q1 2019), and flotation recovery due to the higher throughput. Reduced oxidation and management of the frothing also affected all downstream processes and recoveries. As throughput rates of contained sulphur introduced into BIOX[®] were increased the foaming worsened. Working with the technical experts from the BIOX[®] licencing company, management determined that there are two key components associated with the frothing, these being (i) the fines entrained in the flotation concentrate, and (ii) the reagent in use. Once pH is reduced from neutral to pH1.2, a frothing condition can be replicated in the laboratory prior to the concentrate entering the BIOX[®] circuit. As a result of this research, the Company ordered reagents as per the BFS design work to replace the reagent currently being used and started using the replacement reagent late in July 2019. Results of this change in reagent usage, both on flotation recovery and BIOX[®] frothing, are expected to become apparent during Q3 2019.

Plant availability was improved during Q2 2019, moving from 82% to 87%, with the key components of downtime being the SAG mill re-alignment and attempted commissioning of the variable speed drive and the ongoing reliability maintenance of the tailings pipeline. The Company is focused on moving from a 'run-to-failure' repair strategy to a planned maintenance focus. Downtime in Q2 2019 was approximately 60% planned maintenance versus only 4% in Q1 2019.

Review of Operations

The Company has completed the first stage of the review of the process plant, and, an engineering and offsite testing programme has been approved and commenced. The focus of all work is on improving and increasing flotation capacity, understanding gold deportment and mineralogy and therefore overall gold recovery.

The mine planning work that was commenced in Q1 2019 has not been finalised, however draft reports of the work have now been submitted to the Company for review. The short-hole in-fill drilling programme has commenced in Stage 2 of the mine plan and the long-hole drilling programme will also commence in Stage 2 in August 2019, following an upgrade of the Schramm drill rig.

The organisational chart for the operations has now been filled with all operations and maintenance personnel on-boarded. During Q2 2019 the Company finalised the replacement of the General Manager Operations (GMO) and wishes to introduce David Baumgartel as the new GMO. David has a strong background in goldmining operations and previously worked as General Manager of several of Barrick Gold Corp's largest gold mines prior to its merger with Randgold Resources.

Residual Storage Impoundment ("RSI")

Construction of the next raise of the RSI continues and the installation of a bituminous liner to the upper embankment is expected to be completed in Q3 2019.

Occupational Health & Safety

Runruno has accumulated a total of 939 days without a reportable injury by the end of Q2 2019.

Environment and Compliance

The mine has been compliant, with no outstanding issues. Compliance matters are fully embraced by the Runruno workforce and never taken for granted.

Community & Government Relations

Productive relations with both the community and the government continue. However, the Company is in consultation with the government in relation to the impending need to remove illegal miners, their infrastructure and dwellings from those areas scheduled to be mined as part of mine plan Stages 3 and 4. Initial expenditures and actions in relation to the resettlement activities will be made in Q3 2019. The Company's mine plan requires it to have access to Stage 3 by the commencement of Q4 2019.

Finance (Unaudited)

- 15,577 ounces of gold was sold during Q2 2019, at an average realised gold price of US\$1,303 per ounce;
- A standstill agreement has been entered into with both the Group's lenders, HSBC and BNP Paribas (the "Senior Lenders") and its major shareholders, MTL Luxembourg SARL and Runruno Holdings Ltd, as holders of its mezzanine debt (the "Mezzanine Lenders"). Under this standstill agreement, the Group is not required to make interest or principal payments to either the Senior Lenders or the Mezzanine Lenders until further notice. The aim of this standstill has been to provide time for all parties to consider debt restructuring options;
- In accordance with the standstill agreements in place with the Senior Lenders and Mezzanine Lenders, no capital or interest payments have been made to either the Senior Lenders or Mezzanine Lenders in the quarter. Significant costs have been incurred however as part of securing the original standstill and each subsequent extension;
- On 1 August 2019, the Company announced that, due to Hong Kong businesses, including the Senior Lenders, shutting down in response to a Typhoon 8 warning signal, the negotiations with its Senior Lenders were interrupted and, as a result, whilst a formal executed extension to the standstill agreement had not been possible, all parties have agreed to an extension of the existing standstill agreement until further notice;

- The Company intends to seek a formal extension to the standstill agreement as soon as practicable and a further announcement will be made in due course;
- Total interest-bearing liabilities as at 30 June 2019 were US\$117.8 million; and
- Cash at bank as at 30 June 2019 was US\$3.39 million.

- END -

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

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 are forward-looking statements. 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 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 forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable at the time they are made, are inherently subject to a variety of risks and uncertainties which could cause actual events or results to differ materially from those reflected in the forward-looking statements, including, 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.

For further information please visit or contact www.metalsexploration.com

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