METALS EXPLORATION PLC

OPERATIONAL UPDATE TO 31 AUGUST 2014

Metals Exploration plc (AM: MTL) (“Metals Exploration” or “the Company”), the natural resources exploration and development company with assets in the Pacific Rim region, is pleased to provide an update on matters relating to the construction and development of its Runruno gold-molybdenum project (“the Project”) in the Philippines.

AIM Code : MTL
At: 15 September 2014
Shares in Issue: 1,374,972,024
Options in Issue: 7,275,000

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Highlights
- Project build programme progressing well.
- Construction of the gold recovery process plant within budget
- Planned commissioning of the processing plant now expected in Q2 2015 due to late delivery of final engineering drawings.
- Management is confident the Group has sufficient financial resources to absorb any additional cost due to the delay.
- Drawing down of debt facility has commenced.
- 90,000 ounces of gold delivery hedge orders have been placed.
- The construction team and complimentary technical consultants are successfully executing the self-managed project build.
- All high value and long lead equipment packages have been awarded with most components successfully delivered to site.
- The quality of materials and construction of the processing plant is to a very high standard.
- Production readiness planning and preparations have commenced.
- Exploratory drilling suspended while the Company’s resources are focused on Project construction.

Ian Holzberger, Executive Chairman, commented:

“For the period being reported upon the rate of change experienced in the company and at the Runrano project site has been quite remarkable and it is pleasing to report the infrastructure components which were established in advance of the main build have proven capable of supporting the demands of a fast moving construction project like ours.

The advanced procurement of the high value and long lead time plant components, most of which are now on site or in storage close by, supports an orderly approach to the erection of the processing plant minimising construction risk.
About Runruno Gold Project,

**Location:** Central Luzon, Philippines, 320km north of Manila.

**Status:** Development ready, Feasibility study completed May 2010.

**Mine life:** 10.3 years.

**Payable Au:** 1 million ozs.

**Annual Production:**
- Year 1-5: 101,800 ozs Au ave.
- Years 6-10: 92,700 ozs Au ave.

**Capital Cost**: US$182.8 m

**Operating Cost**: US$474/oz Au

**Mining:** Open pit, truck and shovel operation.

**Operational Strip Ratio**: 5.2:1 waste to ore.

**Processing:** gravity, BIOX® oxidation and CIL to recover gold as doré bullion.

**2P Reserves**: 15mt @ 1.85g/t Au

**Mineral Resource**:
- Runruno Main – 26mt @ 1.69 g/t Au and 453ppm Mo, including reserves.
- Malilibeg South – 7.55mt @ 1.4 g/t Au and 1,200 ppm Mo

**Upside:** by-product molybdenum, mine life extension, highly prospective mineralised system.

**Project Finance Debt Facility**:
- Senior debt facility – US $70m
- Capitalised interest & fees facility – US $5m
- Overrun facility – US $8m

On the ground the process plant construction works are being executed to a pleasingly high standard and likewise, the construction works on establishing the Residual Storage Impoundment are being undertaken to the same standard.

A number of additional highly qualified and experienced personnel have been recruited to the Project including a General Manager Mining and a Processing Plant Manager. The skills and experience brought to the project by these employees will complement the committed and dedicated team already in place as the Project is preparing for commencement of production.

Securing the debt funding package from two of the leading project finance institutions lending to mining companies, is viewed as a major milestone for the Company. Their support and involvement in the project is very welcome and the financing facility they provide together with the shareholders’ equity contributions sees the Company sufficiently well-funded to bring Runruno into commercial production.

Although our exploration drilling activities have been temporarily suspended while the Company’s resources are focused on delivering the Project, they will resume at the earliest opportunity to further test the highly potential Runruno FTAA for additional gold deposits and for the discovery of new copper mineralisation.

Unfortunately the late finalisation of detailed design by contracted design engineers will push back the commencement of the commissioning of the processing plant to the second quarter 2015. However this slight setback is offset by the construction continuing to track within budget.”

**Runruno Gold Project**

Construction of the Runruno gold project is proceeding satisfactorily and currently is on plan and within budget. However, looking forward it is now forecast that the commissioning of the processing plant is now expected to begin in Q2 2015. The forecast delay results from the late finalisation of the processing plant detailed design by the design engineering consultants. The construction cost is forecast to remain within the budgeted cost of US $182.8 million.

At 31 August 2014 US $118.2 million has been expended on the Project of a construction budget of US $182.8 million. In addition, capital commitments of US $23.2 million have been made against work in progress and plant and equipment acquisition.

The construction project is being self-managed by the Company through a team of directly hired experienced Filipino and expatriate personnel, specialist technical consultants and contractors.
Exploration drilling within the FTAA area outside of the known mineral resource and reserve area has been suspended temporarily while the Company focuses its resources on completing the construction project without compromise to safety and quality.

**Funding Package and cash position**

The Company announced on 28 May 2014 it had completed on a debt facility agreement for US $83m with Hongkong and Shanghai Banking Corporation Limited (“HSBC”) and BNP Paribas (“BNP”); two of the world’s foremost mining project financing institutions. It is our pleasure to be associated with these prominent banks and is a testimony to the Company and its achievements that HSBC and BNP have chosen to partner with FCF’s Runruno Gold Project. The agreement comprises a US $70m senior facility, US $5m capitalised interest during construction and bank fees facility, and a US $8m overrun facility. This has been the culmination of an intense effort over several months but wherein the Philippine operating company, FCF Minerals Corporation (“FCF”) has been examined for a period of several weeks undergoing a rigorous diligence exercise. FCF completed this exercise without any material flaws being found or reported; a remarkable result but one which management was confident of achieving.

The facility is summarised as follows: “Initially the Company will guarantee the Debt Facility, which guarantee will fall away on achieving Project Completion. The Company’s guarantee will be supported by limited recourse security over the Company’s shares owned in FCF Minerals Corporation, together with certain other limited recourse security over its Philippine assets. The Debt Facility is for a 55 month duration maturing on 31 December 2018 and will bear a competitive commercial rate of interest consistent for a project financing of this nature. First drawdown from the facility was achieved on 27 June 2014.

Additionally, FCF Minerals Corporation is hedging approximately 40% of the interest rate exposure under the Debt Facility and, subject to the gold price achieved, will enter into a gold forward sales program representing a maximum of 35% of the annual forecast gold production over the term of the Debt Facility. It is currently envisaged that a program of approximately 90,000 – 105,000 ounces (or approximately 30% of gold production over the term of the Debt Facility) will be entered into by way of forward sales”.

FCF has now entered into forward sales gold contracts totalling 90,000 ounces of gold to be delivered over 33 months with the first delivery due in early October 2015.

At the end of June 2014 the forecast capital expenditure program for the Runruno project remains US $182.8m, inclusive of contingency. The current status of the program is summarised as follows:

<table>
<thead>
<tr>
<th>Capital expenditure incurred to date</th>
<th>US $118.2m</th>
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</thead>
<tbody>
<tr>
<td>Capital expenditure commitments outstanding</td>
<td>US $ 23.2m</td>
</tr>
<tr>
<td>Capital expenditure yet to be committed (inclusive of contingency)</td>
<td>US $ 41.4m</td>
</tr>
<tr>
<td><strong>Total forecast expenditure</strong></td>
<td><strong>US $182.8m</strong></td>
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At the end of August 2014 the Group had equivalent cash funds of US $29.0m in the bank including debt drawn to the end of August, but excluding the debt funds remaining to be drawn.
Process Plant Construction

The processing plant construction is being executed under a “self-manage” strategy using the owner’s team and appointed technical consultants to manage contractors and sub-contractors undertaking the construction and erection activities. The construction is being undertaken to a high standard to the Company’s satisfaction. At the end of August 2014 the process plant construction area which represents about 42.0% of the total Project build was estimated at 25.4% complete.

Engineering Design

Detailed engineering for the processing plant is being undertaken by Contromation Energy Services (CES), a design engineer based in Jakarta with some areas being outsourced to specialised design engineers to satisfy the standard of design required by the Company. Currently detailed design stands at 91.6% and is forecast to be complete by the end of October 2014. This delivery has been considerably delayed from the target delivery schedule and has now impacted the overall process plant construction schedule with a 3 month delay forecast.

Procurement and Contracts – Civils and Plant & Equipment

All large value and long lead time packages have been awarded and the procurement and contracts team are currently engaged with the logistics and delivery of these items to site. The majority of this equipment has now been delivered to site or into the Company’s secure transit facility nearby.

There are several small value packages currently being tendered which, once awarded, will largely complete the equipment purchases. The procurement team have performed extremely well during the early stages of the project and have supported the construction team and engineers throughout. They are motivated to continue this support through the logistics and timely delivery of the major equipment to the work site.

Construction

Construction activities are proceeding well. Four major construction packages have been awarded to experienced Philippine contractors:

- Civil and concrete to Witco Construction and Development Corporation (Witco);
- Stainless steel tank package to EEI Corporation (EEI);
- Structural, mechanical and piping to Aboitiz Construction Group Inc. (Aboitiz); and
- Electrical and Instrumentation to Industrial Solutions and Technical Solutions Corporation (ISTS).

The on-ground construction activities are reflected in a fast changing landscape in and around the processing plant. The batch plant and aggregate crushing facilities have performed well allowing the rapid emplacement of concrete foundations, slabs and bunds across the site with all of the major foundations and slabs now poured.
Erection work is advancing well with EEI undertaking all stainless steel tankage work and Aboitiz undertaking the carbon steel tankage works and structural works. Tankage erection work is well advanced across the site with the Counter Current Decantation (CCD) and neutralisations areas near complete; mechanical instillation has commenced in the CCD area.
The rate of mechanical instillation will increase significantly during September 2014 with work on the SAG mill and the flotation cells planned.

Construction of the process plant switchyard is nearing completion and it is expected that the project will make its direct connection to the high voltage grid supply during September 2014.
The construction team have been hands-on at site paying careful attention to health and safety and implementing the highest standard of team working possible, building a great working culture to achieve the highest quality of workmanship.

**Residual Storage Impoundment (“RSI”)**

Considerable construction works have been undertaken on the RSI with a view to having it completed and commissioned in advance of the process plant being operationally ready. The Group’s mining team is self-managing the construction of the RSI with design and quality control / quality assurance being provided through a third party specialist consultancy.

A coffer dam system established upstream to divert the water flow away from the embankment area during construction, is working satisfactorily by providing full access to the embankment footprint for the earthmoving equipment.

The Stage 1 and 2 embankment floor and abutments have been established in sound fresh rock requiring no further preparation, with excavation of the associated spillways being well advanced. At the end of August the stages 1 and 2 of the embankment foundation were 95% complete. It is expected that the RSI foundation will be signed off by third party review in mid-September, and thereafter construction of the embankment will commence.

Operations in the RSI area are now established on a 24 hour basis using the Group’s Komatsu mining fleet.
General Mining

The mining team now have unrestricted access to develop its mining works in stage one (Malilibeg) and stage two (Tayab) of the mine as a consequence of the successful removal of illegal small scale miners. The mine has now been pioneered to Stage 3 of the planned pit which will enable access to construction clay materials for the construction of the RSI embankment. In the main the Group’s Komatsu mining fleet has been used to undertake the mining work. The fleet has performed very well with good efficiency and production rates. The fleet is largely operated by locally recruited employees who have been trained onsite by the Company.

The total year to date materials moved is 1,158,558 billion cubic metres or approximately 2.9 million tonnes.

Onsite Infrastructure

The majority of onsite infrastructure works is now complete with finishing work ongoing on the assay laboratory and material recycling facilities. No further major works are planned.

Power Supply – Off Site

Construction work on Stage 2 of the 69kV Overhead Power-line connecting the Project to the Philippine Power Grid is now complete. The stage 2 works run over a distance of 15km from the current lower voltage connection at Maddiangat through Solano to the Bayombong Substation. The site now has the capacity to connect to its design 69kV supply voltage when required.
Safety

Safety remains a key priority of the Company. No loss time accidents were recorded during the period. At the end of August 2014 the Project had recorded 1,039,217 hours worked without a lost time accident.

The Company continues to be focused on strengthening its safety performance and culture and works closely with its employees and contractors to achieve a “no harm” safety culture.

Environment

The Company maintains very active environment programs, a core value being the application of continuous rehabilitation and green stabilisation practices. Wherever possible, endemic tree and grass species, together with vetiver grass are used to promptly rehabilitate disturbed surfaces and to stabilise cut and stacked surfaces. Silt traps, rip-rap, coconut matting and containment ponds are used across the site to reduce water velocity and minimise silt run-off.

Continuous monitoring is undertaken by Company employees with an external independent specialist undertaking quarterly monitoring and review.

Image 7: Active Rehabilitation on a Waste Dump Face
Government

The Company continues to work with the Government to seek a resolution of the contents of the Philippines Bureau of Internal Revenue (BIR), Revenue Memorandum Circular No 17-2013 (RMC17). RMC17 casts doubt upon the Company’s ability to avail any fiscal exemptions expressly provided in its FTAA to the extent it states FTAA Contractors are liable to pay the taxes due under the National Internal Revenue Code (reported in the Operational Update to 31 March 2014). No resolution has been reached to date.

Exploration

Exploration drilling within the FTAA area away from the known mineral resource and reserve area has been suspended temporarily while the Company focuses its resources on completing the construction project without compromise to safety and quality. Exploration will recommence to test the identified copper and gold potential once the build phase has been completed.

Approval

Mr Ian Holzberger, a director of the Company, who has been involved in the mining industry for more than 41 years, is a Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists, has compiled, read and approved the technical disclosure in this regulatory announcement.

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.
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