

# METALS EXPLORATION PLC

## QUARTERLY UPDATE TO 31 MARCH 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 the quarter of 2.93Mt with total ore mined of 573Kt.
- 14,892 oz of gold poured during the quarter.
- Key maintenance programmes have yet to commence due to working capital constraints, however, orders have been placed to begin mobile equipment rebuilds in Q2 2019.
- Average mine gold grade was 1.54 grams/tonne against a budget of 1.70 grams/tonne, reflecting the historical dilution rate of approximately 25% against a scheduled dilution of 15%.

### ***Processing Operations***

- Overall plant availability and gold recoveries remain a critical issue, with both measures well below the original feasibility studies.
- Gold recoveries averaged 66% in Q1, against the feasibility forecast of 90%. As a result total poured ounces of gold were below budget at 14,892.
- In addition to low gold recoveries highlighted above, maintenance issues were the key influence on production throughputs with more than two weeks lost due to ruptures in the tailings pipeline and low water availability.
- The gravity circuit has been recalibrated with 37% gold recoveries being achieved during the quarter.
- BIOX operated at 65% of design capacity during the quarter.
- Oxidation rates are still below design for the quarter, at 78%

### ***Finance and corporate***

- 15,293 ounces of gold were sold during the quarter at an average realised gold price of US\$1,309 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 2 May 2019.
- Cash at bank at 31 March 2019 was US\$3.34 million.
- Darren Bowden appointed as the CEO and Executive Director on the 3 January 2019.
- Guy Walker appointed as an interim Chairman and Mike Langoulant as interim CFO.
- Restructure of Processing Plant Management and appointment of Xiaofeng Zheng as General Manager - Technical.
- Andrew Crawford appointed as Plant Manager.
- Ian Holzberger and Eduard Simovici resigned as directors, while Andrew Rogers stepped down as CFO.

## Production and Finance Summary

Runruno Project Report		Quarter Actual Q1 2019	YTD Actual 3 Months
March YTD (\$USD)	Units		
<b>PHYSICALS</b>			
<b>Mining</b>			
Ore Mined	tonnes	573,300	573,300
Waste Mined	tonnes	2,358,474	2,358,474
Total Mined	tonnes	2,931,775	2,931,775
Au Grade Mined	g/tonne	1.54	1.54
Strip Ratio		4.11	4.11
<b>Processing</b>			
Ore Milled	tonnes	413,606	413,606
Au Grade	g/tonne	1.70	1.70
S2 Grade	%	1.12	1.12
Au Milled	ounces	22,585	22,585
Recovery	%	66.66	66.66
Au Recovered	ounces	15,637	15,637
Au Poured	ounces	14,892	14,892
<b>Sales</b>			
Au Sold	ounces	15,293	15,293
Au Price	\$US/oz	1,309	1,309
<b>FINANCIALS</b>			
<b>Revenue</b>			
Gold Sales	(000's)	19,996	19,996
<b>Operating Costs - Summary</b>			
Mining	(000's)	5,986	5,986
Processing	(000's)	6,041	6,041
G&A	(000's)	1,955	1,955
<b>Total Operating Costs</b>		13,982	13,982
Excise Duty	(000's)	800	800
Other Philippine costs	(000's)	952	952
<b>Total Direct Production Costs</b>	(000's)	15,734	15,734
<b>Net Income</b>	(000's)	4,263	4,263
<b>Total Capital Costs</b>	(000's)	753	753
<b>Total non-cash costs</b>	(000's)	8,036	8,036
<b>Free Cashflow</b>	(\$'000)	<b>3,510</b>	<b>3,510</b>
<b>Cash Cost / oz Sold - C1</b>	US\$/oz	<b>961</b>	<b>961</b>
<b>Cash Cost / oz Sold - AISC at Philippine level</b>	US\$/oz	<b>1,125</b>	<b>1,125</b>

### Mining Operations

Although mining performed better throughout the quarter, achieving production of 2.93Mt, actual mine dilution rates continue to be significantly higher than forecast. The average mine gold grade was 1.54 grams/tonne against a budget of 1.70 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.

Critical maintenance has been deferred due to working capital constraints. However, these activities will commence in Q2 2019, with a programme of major component rebuilds for mobile equipment. This will reduce equipment availability in the short term.

Reconciliation of the overall resource grade versus actual production remains at 96% of ounces recovered although at a higher than previously planned dilution rate as noted above. However, during Q1 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% in Stage 2. It is unclear if this is a reflection of the current mining position in the mine plan sequence or the confidence associated with drill spacing. A programme of infill resource and mine plan drilling has been designed and budget allocated to seek to improve the short-term model confidence in mine plan Stages 1, 1.5 and 2.

### ***Process Plant***

Process plant operations have focused on the recovery shortfalls in both the flotation and carbon in leach (CIL) circuits. Technical surveys have been conducted in milling, flotation and CIL which have provided a better understanding of the shortfalls and design issues associated with each of the circuits. It is clear that the flotation circuit is under-designed for the current throughput, with a design ore retention time of 35 minutes against the currently estimated retention requirement of approximately 2 hours. The milling circuit operations will be enhanced by the commissioning of the variable speed drive on the SAG mill during Q2. The CIL circuit has good kinetics and the directors believe that the design capacity is sufficient to meet throughput needs, however, oxidation rates in BIOX<sup>®</sup> need to reach design if the circuit is to ever achieve the targeted 96% recovery.

There remains an unaccounted discrepancy between calculated metallurgical recovery and gold poured of between 15% and 20%, which the Company is working diligently to understand. This requires a better understanding of the metallurgical balance, more robust sampling practices and better integrated metering and measuring systems throughout the plant.

The BIOX<sup>®</sup> circuit remained relatively stable during the quarter, operating at 65% of design. Throughput rates of over 80% of contained sulphur units in the BIOX<sup>®</sup> ore feed against sulphur design units were consistently achieved during Q1 2019 and a steady state of 80% of design was achieved for a two-week period.

The key processing issue affecting the process plant during the first quarter 2019, was foaming in BIOX<sup>®</sup>, which also then affected all downstream processes and recoveries. As throughput rates of contained sulphur introduced into BIOX<sup>®</sup> were increased the foaming worsened. The directors believe that the incremental energy in the BIOX<sup>®</sup> reactors causes the increased foam and operations are being adjusted to address this issue. This energy-related reaction is being adjusted and technical experts from the BIOX<sup>®</sup> licencing company will be onsite in Q2 2019 to assist with this issue.

Plant availability was seriously impacted over the period by a number of failures in the tailings pipeline, which led to approximately 300 hours of plant downtime. These failures have been repaired but detailed inspections are being urgently carried out across the pipeline and a number of critical areas have been identified for immediate repair or rotation. Notwithstanding, downtime due to tailings pipeline failures has continued into Q2 2019. Also a lack of suitable water to feed into the processing unit was also a contributing factor to lost plant availability. Although this issue remains, access to alternative suitable process water sources are being implemented.

### ***Review of Processing, New Business Plan and Management Changes***

In conjunction with the appointment of Darren Bowden as CEO, the Company has begun a restructuring of the Processing Plant Management Team as part of a wider 'Business Plan Review' for Runruno. The initial phase of the review is expected to be completed in June 2019.

Xiaofeng Zheng has joined the Company recently as VP Technical. Xiaofeng has a PhD degree in flotation from Julius Kruttschnitt Mineral Research Centre (JKMRC), University of Queensland, Australia, and has published over 20 papers in conference proceedings and international journals. In addition, Andrew Crawford has been appointed the Plant Manager at Runruno. Andrew has 27 years mineral processing experience and holds a Bachelor of Engineering (Honours) and Metallurgical Engineering from the Royal Melbourne Institute of Technology. The new team also includes a BIOX® specialist Nicolas Holder who holds a degree in Microbiology and previously worked for BioMin, the developer of the BIOX® technology, and a new Operations Manager, Craig Jacobson.

The Company's Mine Operations team has commenced a mine design consultation with Xenith Consulting to complete a review of the mine geotechnical, mine design, backfill strategy, mine plan and equipment requirements. The update to the mine design will incorporate a review of the current east wall design and the overall pit void optimisation. The objective of this work is to provide Mine Operations with a better designed and sequenced mine plan, integrated with an optimised backfill strategy.

The key focus of the plant upgrade and design requirements revolve around ore variability and flotation capacity. The plant was designed for a highly refractory gold ore, which is considered to only make up around 40% of the ore body. The other 60% of the ore body is highly variable, with less of an association between gold and refractory sulphide. This means that the current flotation capacity, designed for 35 minutes of ore flotation retention is inadequate. This issue can be dealt with in two ways, either to upgrade the flotation line, to include more retention capacity, or extract a higher gold component in the milling circuit. Both options, flotation and flash flotation, are currently being studied alongside the associated capital expenditure.

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

The RDL (Residue Line) experience major disruptions during the latter part of the quarter and had a significant effect on production as noted above.

RWL (Return Water Line) functioned well, despite a shortage of water, due to the start of the hot summer season, with low water levels in the upstream creek. As a result, the Company has been working on a means of supplementing the upstream water source supply. Accordingly, during the quarter, the Company has installed the RWL to enable the RSI water to be returned back into the process plant.

Construction of the next raise of the RSI continues and the upper embankment was raised up to the level that allows for the installation of a bituminous liner in Q2 2019.

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

Runruno accumulated a total of 795,531 safe man hours and as of March 2019, the overall man hours is 7,237,505 without Lost Time Incident (LTI).

There was a continuous drop in incidence rate for the period covered, with the average incidence rate for Q1 2019 being 4.36 per month. System failures were the leading cause of incidents, which accounted for 25% of incidents, leading to first aid (21% of incidents) and near miss/property damaged (19% of incidents).

### ***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. Resettlement activities are expected to commence in Q3 of 2019.

## **Director Changes**

Mr Darren Bowden accepted the position of Director and Chief Executive Officer of the Company on 3 January 2019. On 24 January 2019, the Company announced that Mr Ian Holzberger had stepped down from Chairman of the board of directors and was replaced temporarily by Mr Guy Walker. Andrew Stancliffe was appointed as a non-executive director on 5 February 2019, replacing Eduard Simovici. Further, Mike Langoulant replaced Andrew Rogers as CFO on 28 February 2019, and Ian Farrelly replaced Liam Ruddy as Company Secretary on 15 February 2019.

## **Finance (Unaudited)**

- 15,293 ounces of gold was sold during the quarter, at an average realised gold price of US\$1,309 per ounce;
- Interest payments of US\$969,500 were made to the senior lenders in the quarter;
- A capital payment of US\$500,000 was made to the senior lenders in the quarter;
- A standstill agreement has been entered into with both the Group's Senior and Mezzanine Lenders. Under this standstill agreement, the Group is not required to make interest or principal payments to either the Senior or Mezzanine Lenders until 2 May 2019. The aim of this standstill is to provide time for all parties to consider debt restructuring options;
- Total interest-bearing liabilities as at 31 March 2019 were US\$114.1 million; and
- Cash at bank at 31 March was US\$3.34 million.

- END -

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.

## **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](http://www.metalsexploration.com)

Darren Bowden (**Chief Executive Officer**)

+57 310 230 1620

Michael Langoulant (**Interim Chief Financial Officer**)

+44 (0) 7899 249990

**Nominated & Financial Adviser and Broker:**

**STRAND HANSON LIMITED**

James Spinney, James Dance, Eric Allan

+44 (0) 207 409 3494

**Public Relations:**

**TAVISTOCK**

Barnaby Hayvard, Jos Simson

+44 (0)207 920 3150