

METALS EXPLORATION PLC

OPERATIONAL UPDATE TO 28 FEBRUARY 2014

Metals Exploration plc (AIM: 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 operations update on matters relating to its Runruno gold-molybdenum project ("the Project") and exploration activities in the Philippines.

AIM Code : MTL

At:25 February 2014

Shares in Issue: 1,374,972,024

Options in Issue: 7,275,000

Warrants in Issue: 2,500,000

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Highlights

- Construction phase of the Runruno gold project 46% complete (as at 31 January 2014).
- Project is on track and on budget to support the objective of commencing operations in Q4 2014.
- Banking due diligence workflows for US\$70m debt facility, progressing satisfactorily and nearing completion. Finalisation of the debt component will conclude Runruno financing requirements.
- Forecast operating costs updated to reflect current cost base. Operating cost now estimated to average US\$474/oz gold over the first five years of production.
- Mining activity continues to ramp up with over 1.6 million tonnes of material mined from within the pit outline.
- Mineralisation where intersected in the pit is showing a positive correlation to the ore reserve block model.
- On-site infrastructure now fully operational in support of processing plant and residual storage construction activities.
- Engineering of the processing plant 75% complete (as at 31 January). Procurement of long lead items and major mechanical packages completed during the quarter.
- Construction work on stage 2 of the 69kV overhead power line from Bayambong to Maddiangat has commenced and is currently 75% complete.
- Tree cutting permit issued clearing the way to commence construction of the Residual Storage Impoundment.
- Safety at site remains a key priority and no loss time accidents were recorded in the quarter.
- Resource extension continued with two additional holes completed in the period confirming continuity of mineralisation to the south and east of the ore body.

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: 92,700ozs Au ave.

Capital Cost¹: US\$182.8 m

Operating Cost²: 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 Reserves³: 15mt @ 1.85g/t Au and 603 ppm Mo.

Mineral Resource³:
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.

Ian Holzberger, Executive Chairman, commented:

“Metals Exploration continues to make good progress on the construction of the Runruno gold project. As at 31 January, the Project was 46% complete and importantly remains on track and within budget to support the objective of commencing commissioning Q4 2014.

A key component in this is to finalise the US\$70 million debt facility required to conclude the remaining financing requirements. I am pleased to report that banking due diligence workflows are progressing satisfactorily and nearing completion.

At site, mining activities have begun from within the pit outline and over the next nine months will fully expose the ore body in readiness for production. The on-site infrastructure is now fully operational to support the processing plant and residual storage construction activities and it is pleasing to begin taking delivery of the mechanical equipment to be used in the processing plant.”

Notes:

1. Capital Cost updated October 2011 - estimated in Q3 2011 US\$, at US\$167.8 million increased by the cost of the acquisition of the mining fleet at US\$15 million.
2. Average operating cost for the first 5 years of operation. Costs re-estimated in Q4 2013 US\$ based on actual and known costs and hard quotations.
3. Refer to the Company website, www.metalsexploration.com for the complete Mining Reserve and Mineral Statement.

Runruno Gold Project

The construction phase of the Runruno gold project is proceeding on plan and within budget and at 31 January the construction is estimated to be 46% complete. The construction project is being self-managed by the Company through a team of directly hired experienced Filipino and expatriate personnel and specialist technical consultants and contractors.

The Company's focus is to complete the construction project at the earliest opportunity without compromising safety and quality, with the objective of commencing commissioning in Q4 2014. To the end of January US\$76.2 million had been expended on the project from a budget of US\$182.8 million. In addition commitments totalling US\$20.2 million had been made against work in progress and plant and equipment in manufacture.

Limited Step out drilling activities to further test the potential of the Runruno Financial or Technical Assistance Agreement ("FTAA") for gold and copper mineralisation continued to return promising results.

Funding Package and cash position

The Company through its wholly owned operating subsidiary FCF Minerals Corporation is working with a mandated International Resource Bank to provide a US\$70m debt financing facility sufficient to complete construction and commissioning of the process plant at Runruno. Banking due diligence workflows have progressed satisfactorily and are now near completion. Documentation of the proposed facility is underway.

At the end of January 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:

Capital expenditure incurred to date	US \$77.9m
Capital expenditure commitments outstanding	US \$20.2m
Capital expenditure yet to be committed (inclusive of contingency)	US \$84.7m
Total forecast expenditure	US \$182.8m

At the end of January the group had the equivalent of US \$50.2m at bank.

Forecast Operating Costs Re-estimate

The forecast operating costs for the Runruno project have been re-estimated to better reflect the prevailing fiscal and cost parameters and to take account of the outcomes of detailed design. The previous forecast was prepared during the definitive feasibility study completed in 2010 and was estimated in Q4 2009 US\$. The average cash operating cost for the first five years of operations is now estimated at US\$ 474 / ounce of gold against the 2010 estimate of US\$ 442 / ounce of gold on a like for like basis reflecting the capital acquisition of the mining fleet. A breakdown of the estimated costs is shown in following table.

Operational Area	Ave Cash Operating Cost estimate US\$m/yr		Cash Operating Cost estimate US\$/t of Ore		Ave Cash Operating Cost US\$/oz Gold	
	Estimate Date		Estimate Date		Estimate Date	
	Q4 2013	Q4 2009	Q4 2013	Q4 2009	Q4 2013	Q4 2009
Mine	15.2	14.1	8.69	8.05	148	137
Process Plant	24.8	24.5	14.15	14.07	243	239
Admin & Infrastructure	8.4	6.4	4.79	3.70	82	66
Total Av. Annual Cost	48.4	45.0	27.63	25.82	474	442

Table 1. Forecast Average Cash Operating Cost Comparison (Averaged over first 5 years of production)

The updated costs were estimated by preparing a detailed cost model which was built-up from first principals. Input cost data was derived using the Company's actual cost database or from vendor quotations where no history was available. Consumptions were estimated on the basis of vendor data and or from the Project detailed design work.

Construction Update

Infrastructure Works

The program of on-site infrastructure works is now largely complete and has been commissioned in support of the gold processing plant and residual storage impoundment construction activities. Key components recently completed include a heavy vehicle workshop, mine office complex, aggregate crushing plant and general warehouse.



Image 1. Site panorama showing process plant pad (centre rear), heavy vehicle workshop and mine office (front right) and main office complex (right centre)



Image 2. Heavy vehicle workshop



Image 3. Mine Office Complex



Image 4. Aggregate crushing plant

The site is now fully operational in support of the intensive construction efforts in the processing plant and residual storage impoundment areas.

Mining

Access into the mine area is now fully developed with production quality haul roads established.



Image 5: Mine Development Activity

Mining activity is being ramped up with in excess of 1.6 million tonnes of material mined from within the pit outline to date. A further 5.0 million tonnes will be mined over the next 9 month period in advance of the commencement of production. This early mining activity will fully expose the ore body

in readiness for production activities and provide rock fill material for the establishment of the residual storage impoundment. The mining work is being undertaken using the Company's Komatsu mining fleet which is now fully commissioned with a panel of trained and qualified operators recruited from the immediate area.



Image 6: Fully established mine haul road

Several blocks of gold mineralisation have been exposed by the mining activities some of which are interpreted to be in addition to the estimated ore reserves. Assessment of the exposures has shown that the mineralisation correlates positively with predicted ore blocks in the area. All mined ore is being stockpiled to be used in the future commissioning of the processing plant.

Process Plant Construction

The processing plant is being constructed under a “self-manage” strategy using an owner's construction team to manage the activities and by appointing specialist contractors and sub-contractors to execute the works.

Engineering including detailed engineering is being undertaken by Contromation Energy Services (CES), a specialist design engineer based in Jakarta. Some specialised areas of the design have been outsourced by CES to engineering firms with the experience and expertise to provide the design standard required by the Company. The engineering continues to advance satisfactorily and stood at around 75% complete at the end of January.

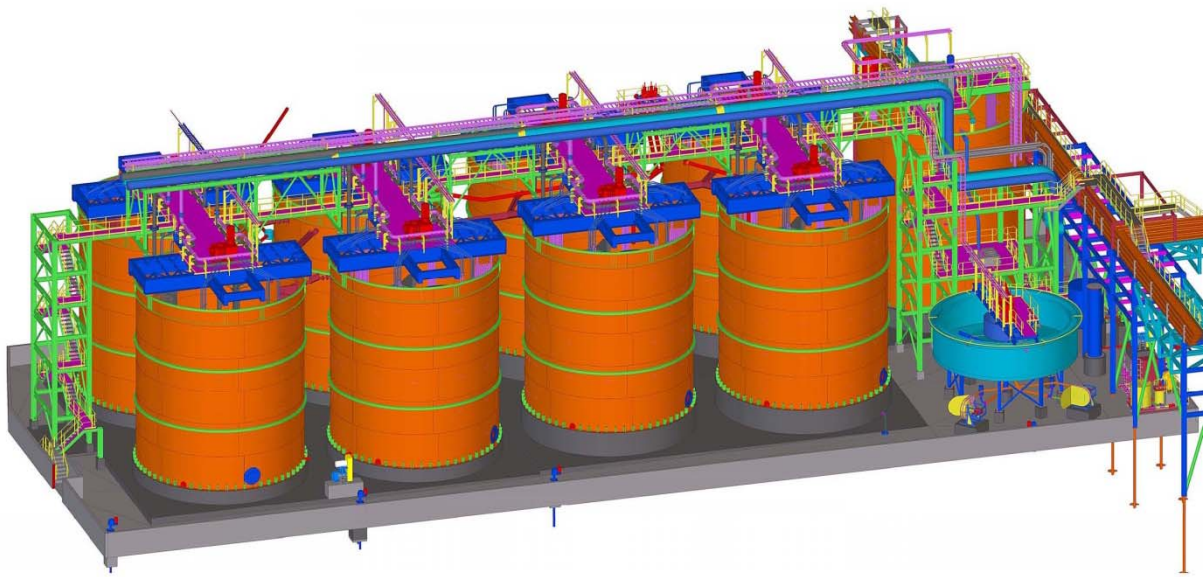


Image 7: Design model of the CCD area of the processing plant

Procurement of the long lead time items and the major mechanical packages is complete with all the major equipment packages awarded and in an advanced stage of construction. Mechanical equipment is now arriving at site with the CCD package having been delivered and the agitator, first SAG mill shipment, stainless steel and gravity packages currently enroute from South Africa, China, Japan and Australia respectively.

Civil, tank and structural, mechanical and piping packages have been tendered and awarded. The civil and one of the tank contractors have mobilised to site and commenced construction activities.



Image 8: Process Plant construction activities showing return water tank and workshop building



Image 9: Civil works, showing neutralisation pad (foreground), CCD pad (centre right) and preparations for the BIOX pad (background)

The establishment of the processing plant switch yard and backup power generation facilities has also commenced.



Image 10: Processing Plant switch yard and back –up power construction activities

Residual Storage Impoundment

The approved construction drawings for the Residual Storage Impoundment (RSI) are 90% complete. This work is being undertaken by Resource Development Consultants Ltd in New Zealand (RDCL) and Dam Watch. A number of enhancements have been made to the design including moving the embankment wall further down the Big Malilibeg Creek which will minimize the volume of fill required and provide a better design for the spillways to be developed in the north abutment.

A tree cutting permit has now been issued for the RSI construction allowing full development activities to be initiated. Road access to support the use of the Company's Komatsu fleet in the construction of the RSI wall activities are in progress and tree cutting and clearing activities are underway.



Image 11: Haul road development into the Residual Storage Impoundment site

Off-site Infrastructure

Solano-Runruno Access Road

The Solano-Runruno access road has been upgraded and is being maintained in very good condition. Of the 27km length only 7km remains as a gravel all-weather surface. The road is more than satisfactory for the Project's requirements.

Power Supply – Off Site

Construction work on Stage 2 of the 69kV Overhead Power-line connecting the Project to the Philippine Power Grid has commenced and is now about 75% 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. Progress has been excellent.

Safety

Safety remains a key priority of the Company. No loss time accidents were recorded during the quarter. The Company continues to be focused on strengthening its safety performance and culture.

Environment and Permitting

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 12: Rehabilitation and stabilisation of a stacked surface

Permitting

The Tree Cutting Permit for the RSI and Stage 1 of the mining operation was approved and issued to the Project.

Government

The Company continues to work with the Government to resolve the contents of the Philippines Bureau of Internal Revenue (BIR), Revenue Memorandum Circular No 17-2013 (RMC17) which casts doubt upon the Company's ability to avail any fiscal exemptions expressly provided for 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 March 31). No resolution has been reached to date.

Second Writ of Kalikasan

On 3 March the Company advised the market that the application for Writ of Kalikasan brought against its wholly owned subsidiary FCF Minerals Corporation, The Presiding Judge of RTC-Branch 28, Bayombong, Nueva Vizcaya, and The Department of Environment and Natural Resources in October 2013 was dismissed by the Court. The Supreme Court of the Philippines through the Court of Appeals found that “Upon careful scrutiny of the petition before Us, the Court is convinced that there exists no legal basis to issue the writ being prayed for” with the result that the petition for the issuance a Writ of Kalikasan against the defendants was dismissed.

Exploration

Exploration work for the period was designed to continuously and systematically assess the FTAA for additional Runruno style gold mineralisation and also for porphyry copper-gold mineralisation. Due to access difficulties in the south of the FTAA as a consequence of the wet season diamond drilling activities were reduced during the quarter. Diamond drilling activities were carried out to the south of the pit area targeting resource extension connected to the main Runruno deposit.

Runruno Mineral Resource Extension

Resource extension drilling continued to extend the limits of the known mineralisation both south and east from the current Malilibeg South Mineral Resource Estimate (March 2013). Two additional drill holes were completed which continue to confirmed the continuity of the mineralisation within the previously outline mineralised zone.

Six diamond drill holes were also drilled to define a near surface mineralised zone close to the south-eastern limit of the Runruno pit which was not previously accessible for drilling purposes. The drill-holes targeted an area of inferred resource which is schedule to be mined early in the operation and were drilled with the objective of upgrading confidence in the reserve block model in this location and elevating the mineralisation from a scheduled resource to probable ore reserve category. Strong results were returned from the drilling shown in the table below.

HOLE ID	FROM	TO	WIDTH	Au (g/t)	Mo (ppm)
MXD861	25	26	1	0.61	148
MXD862	2	7	5	2.45	709
	20	21	1	5.66	68
MXD863	3	6	3	3.02	356
	8	9	1	0.42	70
	22	28	6	3.34	655
	33	39	6	5.04	930
	55	56	1	1.18	2,676
	63	64	1	1.00	209
	74	80	6	2.19	386
MXD864	3	6	3	0.55	112
	9	23	14	3.26	2,912
	24	27	1	2.33	150
MXD865	33	18	2	1.14	155
	12	28	4	3.79	2,790
	18	38	5	1.48	658
MXD866	12	16	4	3.08	2,934

Table 2: Assay Results – Reserve Drilling

Approval

Mr Ian Holzberger, a director of the Company, who has been involved in the mining industry for more than 40 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.

Technical Notes and Glossary of Technical Terms

"assay"	qualitative or quantitative analysis of a metal or ore to determine its components
"Au"	chemical symbol for gold
"block model"	a computer based representation of a deposit in which geological zones are defined and filled with blocks which are assigned estimated values of grade and other attributes. The purpose of the block model (BM) is to associate grades with the volume model. The blocks in the BM are basically cubes with the size defined according to certain parameters.
"bulk density"	the dry in-situ tonnage factor used to convert volumes to tonnage. Bulk density testwork is carried out on site and is relatively comprehensive, although samples of the more friable and broken portions of the mineralised zones are often unable to be measured with any degree of confidence, therefore caution is used when using the data. Bulk density measurements are carried out on selected representative samples of whole drill core wherever possible. The samples are dried and bulk density measured using the classical wax-coating and water immersion method. The average bulk density for the mineralisation has been estimated at 2.5 using more than 3,000 measurements on drill core.

- “cut-off grade” the lowest grade value that is included in a resource statement. Must comply with JORC requirement 19: “reasonable prospects for eventual economic extraction” the lowest grade, or quality, of mineralised material that qualifies as economically mineable and available in a given deposit. May be defined on the basis of economic evaluation, or on physical or chemical attributes that define an acceptable product specification.
- “g/t” grammes per tonne, equivalent to parts per million
- “g/t Au” grammes of gold per tonne
- “grade cap” the maximum value assigned to individual informing sample composites to reduce bias in the resource estimate. They are capped to prevent over estimation of the total resource as they exert an undue statistical weight. Capped samples may represent “outliers” or a small high-grade portion that is volumetrically too small to be separately domained.
- “JORC” or “JORC 2012”
The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 (the “JORC Code” or “the Code”). The Code sets out minimum standards, recommendations and guidelines for Public Reporting in Australasia of Exploration Results, Mineral Resources and Ore Reserves.
The definitions in the JORC Code are either identical to, or not materially different from, those similar codes, guidelines and standards published and adopted by the relevant professional bodies in Australia, Canada (NI43-101), South Africa, USA, UK, Ireland and many countries in Europe.
- “JORC Inferred Resource”
that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drillholes which may be limited or of uncertain quality and reliability.
- “JORC Indicated Resource”
that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.
- “JORC Measured Resource”
that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.
- “JORC Proven Reserve”
is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.
- “JORC Probable Reserve”
is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified.

A Probable Ore Reserve has a lower level of confidence than a Proved Ore Reserve but is of sufficient quality to serve as the basis for a decision on the development of the deposit.

“kriging neighbourhood analysis, or KNA”

The methodology for quantitatively assessing the suitability of a kriging neighbourhood involves some simple tests. It has been argued that KNA is a mandatory step in setting up any kriging estimate. Kriging is commonly described as a “minimum variance estimator” but this is only true when the block size and neighbourhood are properly defined. The objective of KNA is to determine the combination of search neighbourhood and block size that will result in conditional unbiasedness.

“Km”

Kilometres

“lb”

Avoirdupois pound (= 453.59237 grammes). Mlb = million avoirdupois pounds

“M”

Metres

“Mineral Resource”

a concentration or occurrence of material of intrinsic economic interest in or on the Earth’s crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories when reporting under JORC.

“micron (μ)”

a unit of length (= one thousandth of a millimetre or one millionth of a metre).

“Mining Reserve”

the part of a mineral resource which is economically and technically feasible to extract.

“2P Mining Reserve”

Proven and Probable Reserves.

“Mo”

chemical symbol for molybdenum

“Monzonite-monzodiorite”

A coarse grained intrusive igneous rock intermediate between syenite and diorite

“oz”

Troy ounce (= 31.103477 grammes). Moz = million troy ounces

“ROM”

Run of mine

“screen fire assay”

a method of analysing gold through separating the coarse and fine grained particles then assaying them to produce a weighted average.

“strip ratio”

the ratio of the amount of waste which needs to be extracted in order to remove 1 unit of ore.

“Syenite”

A coarse grained intrusive igneous rock belonging to the alkali series

“t”

tonne (= 1 million grammes)

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