

METALS EXPLORATION PLC

QUARTERLY UPDATE TO 30 JUNE 2017

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

As described in our results statement the Company’s mining operations continue to perform broadly satisfactorily. Overall gold production levels remain hampered by the ongoing suboptimal performance of the processing facilities. The BIOX circuit in particular has been a frustrating mix of progress and setbacks as we continue to seek stability and a sustained production ramp up. The Company is seeking to finalise in the near term a \$20m mezzanine funding facility to be used for its immediate working capital requirements and to repay recent short term loans.

AIM Code: MTL

At: 19 July 2017

Shares in Issue: 2,071,334,586

Directors:

Ian Holzberger, Executive Chairman
Timothy Dean
Guy Walker
Julian Wilson
Eduard Simovici

Management:

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Liam Ruddy, Company Secretary
Stephen Kelly, CFO
Peter Storey, GM Operations
Ian Moller, GM Runruno Project
Roland Taganas, Legal Counsel
Tommy Alfonso, Financial Controller

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Summary:

Mining Operations

- Mining operations performed satisfactorily across the quarter and are now operating at design forecast levels.
- The ore mined during the Quarter was largely sulphidic with only minor tonnages of oxide ore mined.
- Permits have been secured allowing “drive in drive out” blasting operations to be undertaken pending the issue of the site magazine permits.
- The long-term application to the DENR for a third tree cutting permit remains outstanding.

Processing Operations

- 7,319 ounces of gold were recovered during the quarter vs 8,366 in Q1
- At times when operations were stable and sulfidic ore was being made available to the plant, the processing performance exceeded that observed in Q1, but several interruptions caused by power outages and operator errors dropped the overall average performance.
- The BIOX[®] circuit achieved 30% of design throughput at the end of the quarter increasing to 55% in July before an operator error delayed the BIOX[®] ramp up.
- Operational team continuing to seek improvement and a more stable ramp up.

Finance

- Company requires near term working capital financing and is continuing to advance discussions to put in place a funding facility of up to \$20 million.

- 8,342 ounces of gold were sold during the quarter at an average realised gold price of US \$1,255.46 per ounce.
- Poured gold inventories at 30 June 2017 totalled 1,233 ounces.
- Cash at bank at 30 June 2017 was US \$1.8 million.
- Total interest-bearing liabilities as at 30 June 2017 were US \$87.28 million.

Production Summary

Key metric	Unit of measure	Quarter ended 30 June 2017	Quarter ended 31 Mar 2017	Year to date 2017	Period to 31 Dec 2016	Project to date
<u>Mining activities</u>						
Ore mined	tonnes	399,024	545,734	944,758	490,558	1,435,316
waste mined	tonnes	2,178,921	2,162,074	4,340,995	7,920,205	12,261,200
Total material movements	tonnes	2,577,945	2,707,808	5,285,753	8,410,763	13,696,516
Strip ratio	waste / ore	4.46	2.96	3.59	15.15	7.54
Au grade mined	grams / tonne	1.35	1.56	1.47	1.42	1.45
Ctd. ounces gold mined	ounces	17,319	27,371	44,690	22,396	67,086
S Grade	%	0.78	0.80	0.79	0.29	0.62
<u>Processing activities</u>						
Tonnes milled	tonnes	425,303	389,724	815,027	468,170	1,283,197
S Feed grade	%	0.74	0.34	0.55	0.53	0.54
Au feed grade	grams / tonne	1.33	1.29	1.31	1.29	1.30
Gold recovery	%	48%	56%	52%	51%	52%
Change in GIC	ounces	1,410	466	1,876	1,737	3,613
Gold in feed	ounces	18,186	16,199	34,385	19,417	53,802
Gold in tails	ounces	(9,457)	(7,169)	(16,626)	(9,514)	(26,140)
Gold recovered	ounces	7,319	8,366	15,685	8,166	23,851

Mining Operations

Mining operations performed satisfactorily across the quarter and are now operating at design forecast levels. Mining movements during the quarter totalled 2.58 million tonnes (ore and waste) with the waste to ore strip ratio averaging 4.5:1 which is in line with the Q2 forecast. The ore mined during the Quarter was largely sulphidic with only minor tonnages of oxide ore mined.

To optimise mining rates and improve productivity selective blasting operations have commenced. Permits have been secured allowing "drive in drive out" blasting operations to be undertaken pending the issue of the site magazine permits.

The long-term application to the DENR for a third tree cutting permit remains outstanding. The permit is required for the establishment a planned alternate waste dump for the disposal of overflow waste materials and materials not suitable for use as engineered fill in the construction of the Residual Storage Impoundment

wall. The lack of the waste dump impacts on the efficiency of the mining operation. The Company is continuing to work with the DENR for the release of the permit which has been through the assessment and verification stages and it is understood is recommended for issue.

Process Plant

The process plant remained in the commissioning, “test running and debugging” phase of operations during the Quarter.

The overall plant performance improved across the Quarter as an increased tonnage of sulphide ore became available. This provided the basis for a step change in the recoveries being recorded in the flotation circuit to near design levels. Following two setbacks in the BIOX[®] circuit caused by a power outage, ramp-up of the circuit recommenced and achieved 30% of design throughput at the end of the quarter. The BIOX[®] ramp-up continued into July having achieved 55% before an operator error caused further delay. As the circuit is generally stronger than it has been to date it recovered more quickly and once again is being ramped up from a lower throughput base.

After a more stable period of ramp up can be established it is expected that production levels of 75% or above will be reached during Q3.

Residual Storage Impoundment

The facility is operating to design and is being continuously uplifted using waste materials produced by the mining operation.

Occupational Health & Safety

At the end of the Quarter the operation had achieved 1,681,309 man hours without lost time incident.

Training in investigative reporting, categorisation, understanding and identifying incidents and how they manifest is an ongoing initiative. This training involves in house and a third party accredited training organisation. A Health & Safety culture at work is one of the Project’s guiding principles which is reinforced continually by training and action.

Environment and Compliance

The operation remains compliant with all environment and regulatory requirements with no incidents recorded. It maintains very high environmental standard with a number of unique aspects installed to ensure these standards.

FCF Minerals Corporation participated in a regional forum with the two other mining companies in its region promoting the theme, ‘Understanding Policies that Govern Mining Operations and Best Practices in Mining that Promote Responsible Mining’ in Santiago City, Nueva Vizcaya. This forum incorporated a wide cross-section of government agencies, NGOs, residents of mining host communities, academia.

22,587 assorted seedlings were withdrawn from the Project’s nursery and planted across a number of rehabilitation and re-forestation programs supported by the Company.

Community & Government Relations

Sound community relations were maintained across the Quarter.

The Operation’s programs focus on sustainable development in education, health services, infrastructure, livelihood, and farm productivity, preservation of cultural identity and values and capacity building.

The livelihood program initiatives are currently linked with the municipal and provincial government for community based organizations accreditation. They are also acknowledged by the Department of Labor and Employment (DOLE) livelihood assistance program because of their sustainability qualities.

Regulatory Environment

The Company continues to work closely with its primary regulator the MGB a bureau under the DENR to measure its compliance performance and to implement continuous improvement programs across all aspects the Project to underwrite its continued performance as a “Responsible Miner”.

Subsequent to the end of the Quarter the Mines and Geosciences Bureau of the Department of Environment and Resources (“DENR”) approved the operation’s Declaration of Commercial Operations. As such and pursuant to the Company’s Financial or Technical Assistance Agreement (“FTAA”) the operations now pass from the “test running and debugging” phase to the “commercial operation” phase.

Finance (Unaudited)

- 8,342 ounces of gold were sold during the quarter at an average realised gold price of US \$1,255.46 per ounce;
- Poured gold inventories at 30 June 2017 totalled 1,233 ounces;
- Capital payments totalling US \$10.72m and interest payments totalled US \$1.388m were made to the Lenders during the Quarter;
- Short term loans were secured from the Company’s two major shareholders (Runruno Holdings Limited and MTL (Luxembourg) Sarl) amounting to US \$12 million, to facilitate the payments due to the senior lenders;
- On 5 July 2017, the Group received cash proceeds of US \$0.309 million in settlement of gold hedging totalling 7,500 ounces that matured on 30 June 2017;
- Remaining forward sales of gold ounces total 30,000 ounces and four quarterly contracts remain outstanding each at an average forward price of US \$1,289 per ounce of gold; and
- Total interest bearing liabilities as at 30 June 2017 were US \$87.28 million.
- As at 30 June 2017 the achieved mineral recoveries and throughput levels for all production circuits in the Runruno processing plant had not achieved expected or budgeted levels and the project remained in the pre-“commercial operations” phase. Accordingly, it is not considered appropriate to provide cash cost per ounce information in this report as those costs would not be reflective of the anticipated cash costs per ounce once the plant is achieving when at design production levels. Gross operating expenditure during the quarter, and for the project to date, are in line with forecast expenditure; on this basis it is expected that the forecast life of mine operating costs will not differ materially from previously forecasts operating costs.
- Cash at bank at 30 June 2017 was US \$1.8 million. The movement in cash balances during the quarter is summarised as follows:

	Quarter ended 30 June 2017
	US\$M
Cash movements & balances (unaudited)	
Receipts from gold sales	10.46
Operating expenditure	(12.06)
Short term loan proceeds	12.00
Corporate costs/receipts	-
Cash flows before finance costs	10.40
Interest and financing costs paid	(2.00)
Principal repayments	(10.72)

Gold hedge and interest rate swap settlements	0.30
Net movement for quarter	(2.02)
Cash balance at start of quarter	3.82
Cash balance at end of quarter	1.80

- The Group's operations remain cash constrained. Discussions to put in place a funding facility of up to US \$20 million are continuing and the Company will keep the markets informed as it progresses through a final commitment. Some of these new funds will be immediately utilised to repay the lenders of the US \$12 million short term shareholder advances that were drawn down during the quarter.

- END -

Mr Ian Holzberger, a director of the Company, who has been involved in the mining industry for more than 44 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.