

# METALS EXPLORATION PLC

## QUARTERLY UPDATE TO 30 SEPTEMBER 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***

- Total ore mined of 464Kt. With total ore and waste mined of 2.77Mt, slightly exceeding budgeted ore mined.
- Key mobile fleet equipment rebuilds commenced in Q3 2019, and will continue into Q1 2020.
- Average mined gold grade of 1.39 grams/tonne, which is consistent with the historical dilution rate.
- On-ground activities in relation to access development to mine plan Stages 3 & 4, and resettlement of illegal miners away from mine plan Stages 3 & 4, commenced in Q3 2019.

### ***Processing Operations***

- 18,848 ounces of gold poured during Q3 2019.
- Throughput for Q3 2019 exceeded budget by 74kt.
- Gold recovery of 77.6% in Q3 2019.
- Gravity circuit gold recovery of 30.8% achieved in Q3 2019.
- BIOX<sup>®</sup> oxidation rates are still below design however feed rates have improved to average 57.5tpd of sulphur average for the quarter and average oxidation rate for Q3 2019 of 61%.
- CIL recovery was maintained at 85%.

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

- 18,239 ounces of gold were sold during Q3 2019 at an average realised gold price of US\$1,479 per ounce.
- Discussions with the Group's lenders to restructure the Group's overall debt position continue.
- A standstill from making principal and interest payments remains in place until further notice.
- Cash at bank as at 30 September 2019 was US\$5.2 million.

## Production and Finance Summary

Runruno Project Report June YTD (\$USD)		Quarter Actual Q2 2019	YTD Actual 6 Months
PHYSICALS	Units		
<b>Mining</b>			
Ore Mined	tonnes	463,885	1,486,033
Waste Mined	tonnes	2,304,111	6,971,697
Total Mined	tonnes	2,767,996	8,457,730
Au Grade Mined	g/tonne	1.39	1.47
Strip Ratio		4.97	4.69
<b>Processing</b>			
Ore Milled	tonnes	524,158	1,446,63
Au Grade	g/tonne	1.44	1.52
S <sub>2</sub> Grade	%	1.01	0.93
Au Milled (contained)	ounces	24,282	70,857
Recovery	%	77.6	70.0
Au Poured	ounces	18,848	49,622
<b>Sales</b>			
Au Sold	ounces	18,239	49,109
Au Price	\$US/oz	1,479	1,370
<b>FINANCIALS</b>			
<b>Revenue</b>			
Gold Sales	(000's)	26,967	67,259
<b>Operating Costs – Summary</b>			
Mining	(000's)	6,358	18,154
Processing	(000's)	8,123	20,980
G&A	(000's)	2,292	6,457
<b>Total Operating Costs</b>		16,773	45,591
Excise Duty	(000's)	1,086	2,703
UK/Philippine G&A	(000's)	2,118	6,145
<b>Total Direct Production Costs</b>	(000's)	19,977	54,439
<b>Net Cash Income</b>	(000's)	6,991	12,821
<b>Total Capital Costs</b>	(000's)	4,006	5,896
<b>Total non-cash costs</b>	(000's)	3,020	6,941
<b>Free Cashflow</b>	<b>(\$'000)</b>	<b>2,985</b>	<b>6,925</b>
<b>Cash Cost / oz Sold - C1</b>	<b>US\$/oz</b>	<b>989</b>	<b>950</b>
<b>Cash Cost / oz Sold – AISC</b>	<b>US\$/oz</b>	<b>1,385</b>	<b>1,251</b>

### Review of Operations (Unaudited)

Q3 2019 resulted in gold sales of US\$27.0 million bringing total gold sales for the year to US\$67.3 million. Total net free cash flow for the year stands at US\$6.9 million, after having re-invested US\$5.9 million in capital expenditure.

The positive cash flows achieved over 2019 have allowed the Company to finally commence its long delayed fleet maintenance programmes.

A new mine plan has been submitted to the Company for adoption. This is being reviewed and upon adoption will become the basis for the 2020 mine plan and associated budgets.

## ***Mining Operations***

Notwithstanding ongoing fleet equipment availability issues, a constant level of mining production of 2.77Mt was achieved for the quarter. Total ore mined of 464kt was slightly in excess of budget.

Ore to model recoveries continue to reflect historical mining results with the average mined gold grade lower than budget at 1.39 grams/tonne (budget of 1.60 grams/tonne). The lower average mined gold grade compared to previous forecasts is expected to continue and will be adopted in future mine studies/forecasts.

Positive free cash flow produced from operations allowed the critical fleet maintenance, long over-due because of working capital constraints, to commence in Q3 2019. These critical engine/transmission rebuilds will continue throughout Q4 2019 and into Q1 2020, reducing equipment availability over this period. Additional trucking capacity has been hired to maintain capacity and, as a result, additional mining costs will continue to be incurred in the short term.

In order to reduce these extra mining fleet rental costs, the Company will set funds aside in a capital reserve to fund the purchase of additional mine trucks. This proposed capital expenditure is expected to be made during the first half of 2020.

In Q3 2019, a programme of infill resource and mine plan drilling was commenced, aimed at improving the short-term model confidence in mine plan Stages 1, 1.5 and 2. Unfortunately the Company's Schramm drill rig has not performed adequately and the Company will consider engaging a contract driller to complete this programme during Q4 2019.

## ***Process Plant***

Since early in the year, with the introduction of new processing personnel, the Company has invested in a significant level of studies and on-site testing of various possible solutions to the Company's historic gold recovery issues.

As a result of these investigations, the Company now believes it has a better understanding of the operational processes required to stabilise and improve the operational results of the process plant. In Q3 2019, the Company's changes to various processing variables, including a change in reagents usage and adjusting pH levels, produced positive results in reducing CIL/BIOX<sup>®</sup> frothing and floatation recovery.

The overall result of these changes allowed the Company to achieve gold production of 18,848 ounces. The overall gold recovery for the quarter was 77.6%, up from 66.1% for the six months ended 30 June 2019.

In addition, engineering and offsite testing of additional potential process plant modifications is continuing with the aim of improving and increasing floatation capacity, to gain a better understanding gold deportment and mineralogy, and therefore to improve overall gold recovery. The Company expects these studies to complete in Q4 2019.

Plant reliability and availability continued to improve during Q3 2019, moving from 87% to 90%. This improvement allowed for an increase in throughput to offset the continued lower head grade. As a result the Company processed 524kt of material which was 74kt in excess of budget.

However, October 2019 has seen maintenance reliability fall owing to lost time for planned downtime (SAG mill coupling realignment and replacement) and unplanned downtime (mainly power transformer failure and ongoing tails pipe/pump issues), which has interrupted production and had a negative impact on the level of gold production.

Q3 2019 saw a higher average sulphur throughput in BIOX<sup>®</sup>. It was noted that at the higher average sulphur throughput BIOX<sup>®</sup> performance suffered due to a lack of available air. The standby blower has been brought into production to try to offset this effect. Unfortunately, due to a lack of maintenance, design air levels cannot be achieved which will impact BIOX<sup>®</sup> oxidation performance in the short term. A 4<sup>th</sup> blower has been budgeted for purchase and is expected to be brought on-line in Q1 2020.

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

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

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

Runruno has accumulated a total of 1,031 days without a reportable injury by the end of Q3 2019.

### ***Environment and Compliance***

Compliance matters are fully embraced by the Runruno workforce and the mine remains compliant, with no outstanding issues. For the second year running the Runruno project was the mining industry overall winner of the Philippine government Best Forestry Management Programme award.

### ***Community & Government Relations***

Productive relations with both the community and the government continue. The Company continues with its government agencies consultations 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. The process of identifying and acquiring land suitable for the re-location of the illegal miners commenced in Q3 2019. Initial access development to mine plan stages 3 & 4 also commenced in Q3 2019. Further actions in relation to the resettlement activities will be made in the forthcoming quarters.

### ***Finance (Unaudited)***

Gold produced during Q3 2019 was 18,848 ounces.

Gold sold during Q3 2019 was 18,239 ounces, at an average realised gold price of US\$1,479 per ounce but AISC costs rose to US\$1,386/oz for the quarter.

A standstill agreement, first put in place in March 2019, remains in place 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.

Extensive discussions and negotiations have been held with all lenders during this standstill period. Although this process has taken longer to conclude than expected, discussions are continuing, and a final outcome is expected during Q4 2019. Until a re-structure of the Group's debt is achieved all relevant interest and fees continue to be accrued. On this basis, the total interest-bearing liabilities as at 30 September 2019 were US\$121.9 million.

Group cash at bank as at 30 September 2019 was US\$5.2 million.

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

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