



**Metals Exploration PLC** - MTL Quarterly Update To 31 March 2017  
Released 10:15 24-Apr-2017

RNS Number : 1136D  
Metals Exploration PLC  
24 April 2017

## METALS EXPLORATION PLC

### QUARTERLY UPDATE TO 31 MARCH 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, is pleased to provide a quarterly update on matters relating to the construction and development of its Runruno gold-molybdenum project (the "Project") in the Philippines.

**AIM Code: MTL**

At: 20 April 2017

Shares in Issue: 2,071,334,586

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#### Summary

The Runruno Gold Project remains in the "test running and debugging" phase pursuant to its Financial or Technical Assistance Agreement ("FTAA") having achieved this status midway through 2016. The current status permits the Project to fully commission all of its operations including the mine, processing plant and residual storage impoundment ("RSI"), and to debug and ramp-up the operation towards design parameters. After achieving its first gold sale in November 2016, the Project has been able to routinely obtain the permits required to export for sale the doré bullion produced during this phase of the operations. Since commencing ore commissioning 16,552 troy ounces ("ozs") contained in gold doré bullion has been produced of which 8,366 ozs were produced during Q1 of 2017.

In an extremely challenging time for the whole of the Philippine mining industry, the Project has made steady progress albeit at a slower rate than what had been planned, having been negatively influenced initially by technical issues then by certain external factors and cash flow constraints.

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Currently the project is operating soundly as it continues ramp-up to design throughput and gold production with various unit-operations having achieved design throughput while others continue to ramp-up. Gold recoveries of 56% were achieved in the quarter. Ramp-up will continue into Q2 2017.

Three doré bullion shipments containing 7,557 ozs of gold were sold during Q1 generating US \$9.2 million ("m") in gross revenue.

A waiver has been provided by the Lenders deferring the March 2017 capital payment and the Project experiences cash constraints but monitors its working capital very closely.

### ***Mining Operations***

Mining operations and mining equipment have performed satisfactorily. However, the requirement to continue "enhancement works" within the RSI and a prolonged four month period of continuous rain limited the efficient operation of the mine, hampering waste stripping to expose sulphide ore in the mine. To maintain production and lower stripping ratios during this period, inferior near surface ore was mined which resulted in lower grade ores being delivered and poorer recoveries in the processing plant.

A long term application to the Department of Environment and Natural Resources ("DENR") for a tree cutting permit has not been forthcoming at this time. This has prevented the establishment of a planned alternate waste dump for the disposal of wet and overflow waste materials limiting the mine's ability to produce waste during the recent wet season. The combined effect of not having the required permit and the planned alternate waste dump available has inhibited mining progress in the ramp up stage.

Since the end of the wet season in March 2017, the mining operation has been re-established and is moving towards the design criteria. The mine has been rescheduled to accelerate the availability of significant volumes of sulphide ore to the processing plant. A number of additional permits have also been applied for, which once issued, will facilitate the further acceleration of mining operations.

### ***Process Plant***

The process plant re-commenced commissioning, "test running and debugging" operations and ramp-up in June 2016, following the conditional lifting of the RSI suspension order and the commissioning of the RSI and slurry and return water pipelines.

Prior to the impact of the RSI suspension order on operations, the process plant had been dry commissioned. Wet commissioning and snagging was undertaken during the suspension period following the issue of operating permits for the processing equipment. However, ore commissioning could not commence until the suspension order works were completed, the order conditionally lifted and the RSI commissioned.

Consequently, the process plant sat in an almost idle state for a number of months before ore commissioning began. A number of mechanical and electrical failures which followed can be attributed to natural deterioration during this period while other failures are attributed to construction and design related issues. The more significant mechanical issues included the failure of the feed end trunnion bearing on the SAG mill and the deterioration of the rollers on the

limestone mill. The plant has now been made mechanically sound and has been operating routinely since November 2016.

Generally the process plant is operating soundly with a number of the unit operations at or around design criteria:

- The crushing and grinding circuit is operating reliably at or above design throughput;
- The gravity circuit is operating at design recoveries of 30%;
- Flotation is operating soundly with performance around design when fed with sulphidic ores. Oxide ore feed compromises the flotation recovery;
- The carbon in leach circuit is operating at or above design recovery when fed with BIOX<sup>®</sup> derived product; and
- The ancillary systems including counter current decantation, neutralisation, reagents, cyanide destruction and residue disposal circuits are all operating to design.

Some process issues have been experienced with the ramp-up of the BIOX<sup>®</sup> circuit which are attributed to the supply of "inferior" low sulphide oxide ore produced from the mine during the extended rain season (as reported above, in Mining Operations). Prior to feeding predominantly oxide ore to the plant the BIOX<sup>®</sup> process had been performing well with throughput having been built up to around 70% of design. Once supplies of available sulphidic ore were exhausted, and oxide ores were the only available alternative the performance of the BIOX<sup>®</sup> circuit progressively deteriorated until it effectively passivated. Following the establishment of reliable sulphide feed to the process plant the bacteria are being re-activated with positive effect. It is expected that the circuit will take up to a further month to establish full activity in all of the processing tanks. An earlier short term interruption occurred during October 2016 which was fully resolved at the time and was attributed to commissioning and "housekeeping" issues.

#### ***Residual Storage Impoundment***

Following the conditional lifting of the suspension order affecting the construction of the RSI, it was commissioned. Process plant residual product was first deposited into the facility in July 2016. Since commissioning the facility has operated well with a good deposition performance of the residual product.

The RSI project was thereafter required to install a new and completely re-designed spillway as well as undertaking additional enhancement works as a condition of the lifting of the suspension order. These works are complete and functioning well. The wall of the dam is being lifted continuously to ultimate design using waste rock won from the mining operation.

The water balance into and out of the facility is managed carefully to ensure discharge criteria are satisfied or bettered.

#### ***Support infrastructure***

The Project support infrastructure including the high voltage electrical connection to the national distribution grid is complete and functioning soundly. The Project benefits from a reliable supply of electricity.

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

The Project maintains a very high environmental performance with a number of unique aspects included to ensure this level of performance.

Continuous rehabilitation of decommissioned areas is practiced using endemic and specialised species of seeds, grasses and trees. This results in a "green" operation, improved erosion performance and superior surface stabilisation. The process plant has been uniquely designed to incorporate three distinct neutralisation processes to treat process waste and to destroy residual cyanide. These three processes which are complemented by a large settlement pond within the process plant perimeter, combine to produce a tailing product comprising stabilised waste solids and chemically compliant liquor prior to disposal into the RSI. Water from the RSI is returned to the process plant for use as process water.

The company operates a number of tree planting programs in mitigation of its impacts within its area of operation and to rehabilitate disturbed areas on completion of activities. To date the various tree planting programs are responsible for almost 1.75 million new trees being established in the Project area and other parts of the Philippines; this significantly exceeds the Project's obligations.

The Company's operations maintain high compliance and reporting standards. The operations are regularly audited or verified by a number of accountable Government Agencies, generally on a quarterly basis.

#### **Regulatory Environment**

In the period since July 2016 the Philippines mining industry has been subject to increased audit and review activity by regulatory agencies including:

- Commencing July 2016 the Philippines Department of Energy and Natural Resources ("DENR") undertook an audit of all operating mines, suspended mines or mines under care and maintenance. The Company's operations have been routinely audited for compliance and the regulatory performance verified on a quarterly basis by the Government Agencies accountable for the regulation of the mining industry. The Runruno Project's operations were not included in the DENR Audit because they were in the development or the pre-operating phase at the time of the audit;
- In February 2017, the Secretary of the DENR announced that a number of mining projects were to be issued with suspension or closure notices for alleged environmental breaches identified by the audit; and
- In February 2017, the Secretary of the DENR also announced the cancellation of a total of seventy five (75) mining projects considered to be located in watershed areas. Show cause orders were issued to the concerned mining companies, which were given seven days to respond to the orders.

In addition, some mining projects in the Philippines have announced the full or partial suspension of mining and processing operations due to delays in receiving, extending or amending approvals, licences or permits. The Company has in excess of 520 approvals, licences and permits to conduct mining, processing and related activities at its Runruno Gold Project and is routinely required to obtain new permits and Regulatory Approvals or to amend, renew or extend its existing permits and Regulatory Approvals.

As at the date of this report neither the Company nor its mining project is subject to any suspension or closure order.

The Company works cooperatively with its primary regulator, the Mines and Geosciences Bureau, a bureau under the DENR, to measure its compliance performance and to implement improvement programs across all aspects of the Project to underwrite its performance as a "Responsible Miner".

#### **Production Summary**

<b>Key metric</b>	<b>Unit of measure</b>	<b>Quarter ended 31 March 2017</b>	<b>Year to date 2017</b>	<b>Period to 31 December 2016</b>	<b>Project to Date</b>
<b>Mining activities</b>					
Ore Mined	tonnes	545,734	<b>545,734</b>	490,558	<b>1,036,292</b>
Waste Mined	tonnes	2,162,074	<b>2,162,074</b>	7,920,205	<b>10,082,279</b>
<b>Total material movements</b>	<b>tonnes</b>	<b>2,707,808</b>	<b>2,707,808</b>	<b>8,410,763</b>	<b>11,118,571</b>
Strip ratio	waste / ore	3.96	<b>3.96</b>	16.15	<b>9.73</b>
Au grade mined	grams / tonne	1.56	<b>1.56</b>	1.42	<b>1.49</b>
Contained ounces gold mined	ounces	27,320	<b>27,320</b>	22,396	<b>49,767</b>

S Grade	%	0.8	<b>0.8</b>	0.29	<b>0.56</b>
<b>Processing activities</b>					
Tonnes milled	tonnes	389,724	<b>389,724</b>	468,170	<b>857,894</b>
S Feed grade	%	0.34	<b>0.34</b>	0.53	<b>0.44</b>
Au Feed grade	grams / tonne	1.29	<b>1.29</b>	1.29	<b>1.29</b>
Gold recovery	%	56%	<b>56%</b>	51%	<b>53%</b>
Change in GIC	ounces	664	<b>664</b>	1,737	<b>2,401</b>
Gold in feed	ounces	16,199	<b>16,199</b>	19,417	<b>35,616</b>
Gold in tails	ounces	(7,169)	<b>(7,196)</b>	(9,514)	<b>(16,683)</b>
Gold recovered	ounces	8,366	<b>8,366</b>	8,166	<b>16,532</b>

S Grade and S Feed grade refer to the sulphur grade.

As at 31 March 2017 the achieved mineral recoveries and throughput levels for all production circuits in the Runruno processing plant were not at or near expected / budgeted levels. The project was therefore considered to be in the pre-production 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 design production levels.

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

- 7,557 ounces of gold were sold during the quarter at an average realised gold price of US \$1,215 per ounce;
- Poured gold inventories at 31 March 2017 totalled 983 ounces. In addition, the Group had gold at refinery totalling 1,851 ounces;
- Cash at bank at 31 March 2017 was US \$3.8 million; and
- Total interest bearing liabilities at 31 March 2017 were US \$81 million. On 27 January 2017, the restructuring of the Group's US \$81 million financing facility became effective when all Condition Precedent as set out in the Amendment Deed dated 15 December 2016 were either satisfied or were waived.

The principal amendments incorporated in the Amendment Agreement are summarised below:

Term	Facility Agreement dated 28 May 2014	Amendment Letter effective 2 January 2017
Loan principal	Up to US \$83 million ( USD81 million outstanding as at 15 December 2016)	US \$81 million
Repayment instalments	Seven semi-annual payments commencing 31 December 2015 and finishing 31 December 2018.	12 quarterly payments commencing 31 March 2017 and finishing 31 December 2019.
Interest rate	LIBOR plus: 4.75% pre Project Completion 4.25% post Project Completion 5.75% Cost Overrun Facility	LIBOR plus: 5.75% pre Project Completion 4.75% post Project Completion

- On March 31, 2017, the Company was granted a waiver by the lenders pursuant to the Facility Agreement dated May 28, 2014 (as amended) allowing the Company to defer repayment of US \$4.24 million principal that was due on March 31, 2017. Pursuant to the waiver, the deferred principal amount is repayable as follows:
  - US \$1 million on April 28, 2017

- US \$2 million on May 31, 2017
- US \$1.24 million on June 30, 2017
- The Project has been able to meet all of its interest obligations to date and during Q1 2017 a total of US \$1,324,180 interest payments were made to the Lenders;
- Gold hedging in place as at 31 March 2017 comprised;

Hedge Settlement Date	Hedge Price of US \$1,281	Hedge Price of US \$1,287	Total
30/06/2017	3,750	3,750	7,500
30/09/2017	3,750	3,750	7,500
31/12/2017	3,750	3,750	7,500
31/03/2018	3,750	3,750	7,500
30/06/2018	3,750	3,750	7,500
<b>Total hedged ounces</b>	<b>18,750</b>	<b>18,750</b>	<b>37,500</b>

- On 4 April 2017, the Group received cash proceeds of US \$0.3 million in settlement of gold hedging totalling 7,500 ounces that matured on 31 March 2017; and
- Cash movements for the March 2017 quarter are summarised in the following table.

	Quarter ended 31 March 2017 US\$M
<b>Cash movements &amp; balances (unaudited)</b>	
Receipts from gold sales	9.45
Operating expenditure	(11.19)
Corporate costs	(0.35)
Cash flows before finance costs	<u>(2.09)</u>
Interest and financing costs paid	(1.83)
Principal repayments	-
Gold hedge and interest rate swap settlements	<u>0.36</u>
Net movement for quarter	<b>(3.56)</b>
Cash balance at start of quarter	<u>7.38</u>
Cash balance at end of quarter	<b>3.82</b>

Because of the level of the Group's current cash reserves, a heavy reliance on deliveries of gold generated revenues in ramp up and the deferred and upcoming 30 June 2017 capital payments, the Company is considering an external contingency funding facility and will keep the shareholders informed of developments.

- 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.

For further information please visit or contact [www.metalsexploration.com](http://www.metalsexploration.com)

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