CONTENTS

DIRECTORS AND ADVISERS

Directors	I R Holzberger	(Executive Chairman)
	J P B Beardsworth	(Non-Executive Director)
	T J Dean	(Non-Executive Director)
	E Parsons	(Non-Executive Director)
	G R Walker	(Non-Executive Director)
	R S Williams	(Non-Executive Director)

Company Secretary	L A Ruddy
Registered office	200 Strand London WC2R 1DJ
Bankers	HSBC Bank plc 70 Pall Mall London SW1Y 5EZ
Auditors	Nexia Smith & Williamson Chartered Accountants 25 Moorgate London EC2R 6AY
Nominated Advisor	Westhouse Securities Limited One Angel Court London EC2R 7HJ
Broker	Fairfax I.S. PLC 46 Berkeley Square Mayfair London W1J 5AT
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Registrars	Capita Registrars Limited 34 Beckenham Road Beckenham Kent BR3 4TU
Company's registered number	05098945

CHAIRMAN'S STATEMENT

I am pleased to present the audited results and Annual Report for the financial year ended 31 December 2011, and to share with our investors the positive developments experienced by the Group over the past year and our ongoing activities in the period subsequent to the financial year end date.

The highlight of 2011 was achieved when the Secretary of the Department of Environment and Natural Resources ('DENR') approved the Runruno Declaration of Mining Project Feasibility ('DMPF') allowing FCF Minerals Corporation ('FCF') to finally move into the design, development and construction phase of the Runruno project (the 'Project'). As required under the Financial or Technical Assistance Agreement ('FTAA') FCF, our Philippine operating subsidiary, submitted written notice to the Mines and Geosciences Bureau ('MGB') a department of the DENR outlining the technical and commercial feasibility of mining and processing to produce gold from the Runruno area. This was filed during the feasibility period and supported by the Mining Project Feasibility Study. It was with great satisfaction that approval of the DMPF was received on 20 October 2011 following which the Board of Directors approved commencement of a program of early construction works at the Project site from 1 December 2011.

The early construction works are ongoing and are designed to establish the infrastructure necessary to support the full construction activities, which are planned to commence once debt and equity funding sufficient to complete the Project development is available to FCF. The works include development of the processing plant pad, erection of the construction infrastructure, the construction of the camp and a program of detailed engineering to advance the processing plant design to a construction ready stage. Contracts for the site works were awarded to local Philippine contractors with ground work proceeding satisfactorily. The cost of this work is captured within the overall capital development cost and is being funded by FCF from group equity funds.

FCF issued a Letter of Intent ('LoI') to Leighton Contractors (Asia) Limited ('Leighton') to enter into an Engineering and Construct contract and a Procurement Agency Agreement contract ("EC&P") to design and construct the Runruno processing plant subject to availability of debt funding, final construction approval from the Board of Directors and full contract documentation. The LoI was issued against Leighton's Guaranteed Maximum Price ('GMP') offer to FCF of US$95.1 million to construct the Runruno processing plant. Leighton's offer is subject to revalidation at the time of execution of the construction contract.

The Runruno Feasibility Study capital cost was revised and updated during the year, with the capital cost of development now estimated at US$167.8m. The original capital cost was estimated in Quarter 4, 2010 after converting prices and the prevailing supply currencies using the estimating currency (US$) exchange rates. This has been revised into Quarter 3, 2011 US$ after considering:

- The Leighton GMP-EC&P offer,
- Prevailing exchange rates,
- Philippine based cost inflation, and
- Re-estimation of costs based on tenders in some areas.

The work resulted in an estimated increase of US$18.5 million from US$149.3 million estimated in the 2010 Feasibility Study to US$167.8 million, a 12.4% increase. The increase in the headline cost is largely attributed to the significant weakening of the US$ against the supply currencies since the Feasibility Study was estimated, with the US$ weakening by 14.2% on average against the major supply currencies.

Chairman's Statement (continued)

Contemporaneously with the site based work, several financial lending institutions have been approached for the provision of debt funding and Metals Exploration plc (the 'Company') has been working closely with one of these institutions since December 2011. There have been extensive negotiations and a technical and legal due-diligence exercise undertaken. It is hopeful the Company will make an announcement in the coming weeks on a debt funding package to support the construction of the process plant. The current outlook is to commence construction in late Quarter 2 or early Quarter 3 of 2012 with gold production commencing in early Quarter 4 2013.

Exploration activities for both gold and copper were recommenced within the Runruno FTAA area during the year with two diamond drilling rigs dedicated to the task. In addition to the drill testing of identified targets, a suite of additional geophysical and geological techniques have been applied to the area to identify prospective target areas.

Work completed to date has been promising with the identification of a significant zone of flatly dipping gold and molybdenum mineralisation measuring between 8-12m thick and grading between 2-3 g/t Au and occurring at depth extending south of the Runruno pit, in excess of 600m to the Tulingan prospect area and perhaps further south. The potential width of the mineralisation has not been established but it has been intersected over 200m in an east west direction. It appears from the data available that the mineralisation is truncated towards the east by the Malilbeg Fault, a possible mineralising structure, but remains open in both a westerly and southerly direction. One diamond drill rig is currently dedicated to establishing the potential of this zone.

At Magnetite Creek in the south of the FTAA a number of diamond drill holes have been bored to test the potential of the area for porphyry copper styled mineralisation. Strongly anomalous gold and copper mineralisation has been intersected over broad zones in a number of the holes with significant copper and gold results being returned over a number of narrower intervals. This work has confirmed the potential of the area for significant copper and gold mineralisation. Drill testing of the area will be continued to test the potential both along strike and at depth below the completed work.

The execution of a Subscription and Shareholders' Agreement ('SSA') between the Company, Solomon Capital Limited ('Solomon'), and certain of the Company's independent shareholders in March 2011, finally brought closure to the long running attempted takeover of the Company by Solomon. Solomon is a private equity vehicle based in the Channel Islands and owned by Christian Candy. As a result of the SSA the Company raised an incremental £47,474,378 (after costs) after all related party debt was retired and all of the contemplated transactions were completed in August 2011. The Agreement was unanimously ratified by those shareholders who voted at a General Meeting on 4 April 2011.

The SSA also provided for minority protections to be incorporated into the revised Articles of Association of the Company, including restrictions on the manner in which the Board operates, with material decisions requiring the majority consent of the Board including the Runruno Holdings Limited ('RHL') director. These provisions remain in force subject to a number of tests including;

- RHL's and Solomon's (inclusive of their associates) absolute and relative (to each other) holdings in the Company;
- a change in control of RHL, Solomon or their associates;
- the combined share holding interest of RHL and Solomon and their associates falling below 50% of the Company, and
- a share price test.

Chairman's Statement (continued)

The SSA set the strategic direction of the Company, being the "development of a mine at Runruno" and provided that the Company will review whether to apply for the cancellation of its admission to trading on the UK Alternative Investment Market (AIM) and re-register as a private limited company within three months from completion, or 5 July 2011. In July 2011 the Board agreed that for the time being the Company would maintain its trading status on AIM.

The SSA also commits the major shareholders to "use all reasonable endeavours to procure that the Company raises such additional funds (debt or equity financing) on arm's length terms (without their being any legal obligation on any of them to provide such funds themselves or to guarantee any debt of the Company) as are necessary to ensure that the mine at the Runruno Project can be constructed". It is expected the total capital forecast for the pre-construction works, process plant and ancillary buildings will total \$167.8m and will require a level of debt finance from a reputable lending company. As of 31 December 2011 management has committed the group to the pre-construction earthworks package (\$1.6m) and advance engineering works (\$2.7m), and several smaller works packages. The commitment to spend the balance of the anticipated capital cost will be made after the Company has confirmed the ability to draw down from a secured debt facility.

The strategy set by the shareholders in the SSA dated 8 March 2011 and unanimously agreed in a general meeting of the shareholders on 4 April 2011 has been executed by management and will continue to be progressed with the intention of creating increased shareholder value.

I direct shareholders to a series of regulatory news service announcements copied on the Company's website http://www.metalsexploration.com/company-news.html dated 8 March, 4 April, 20 April, 8 July, 12 July and 16 August 2011 for a more complete summary of the SSA and the issue of shares and options and transactions in relation to those options.

At the end of August 2011 and following the completion of the issue of shares pertaining to the SSA and permitted transactions in relation to those shares, the shareholding of those companies and individuals involved is presented below.

Shareholder name	Number of Metals Exploration plc shares	Percentage of the issued share capital of the Company
Solomon Capital Limited	222,864,781	32.1
Shelfco724 Limited	100,000,000	14.4
Baker Steel Fund Managers	149,190,731	21.5
Runruno Holdings Limited	106,039,427	15.3
Mr. Graham Edwards	19,001,919	2.7
Total	**597,096,858**	**86.0**

During the year and pursuant to the SSA the composition of the Board was changed with the addition of Mr. Richard Williams and Mr. Edward Parsons nominated by Solomon and Mr. Guy Walker nominated by RHL.

The Group was awarded three prestigious awards at the 2011 National Mine Safety and Environment Awards, which is fitting recognition of our personnel who are committed to responsible mining, environmental protection and safety in the workplace. FCF was recognised as an outstanding achiever, winning the following three awards

- The 2011 Presidential Mineral Industry Environment Award (Exploration Category).
- Safest large scale exploration project.
- Runner-up in the Best Mining Forest award (Exploration Category).

Chairman's Statement (continued)

I applaud the efforts of everyone involved and their continued commitment in achieving such high standards for the company and towards our social and environment programs.

In November 2011 the Company acquired the remaining FCF shares not in its control and has now secured a 100% shareholding of its main operating subsidiary. A total of 8,999,999 shares were acquired for a $6m consideration as agreed through a contract dated 1 February 2005 and amended as of 14 November 2005. In economic terms this transaction acquired the shares at a price equivalent to $44.94 per reserve ounce and represents excellent added value for investors.

This has been a year of achievements and we move into a period of transition during which and after which further shareholder value will be realised. I am excited at the prospect of constructing the mining process plant and providing you with further news and information as we progress towards our ultimate goal of gold production. I would like to take this opportunity to thank you our shareholders, our personnel and employees for your continued support and I am confident 2012 will be as successful as 2011.

I R Holzberger
Executive Chairman

16 May 2012

CORPORATE GOVERNANCE STATEMENT

In September 2010, the Quoted Companies Alliance published updated Corporate Governance Guidelines for Smaller Quoted Companies. The Company's Board of Directors has complied with these guidelines during the year, except where stated below.

Directors
The Board of Directors is responsible for the overall control of the Company and Group.

For most of the year ended 31 December 2011 the Board consisted of one executive Director and five non-executive Directors. The executive Director in office throughout the whole of the year was Mr. I. R. Holzberger. The non-executive Directors in office throughout the whole of the year were Mr. J. P. B. Beardsworth and Mr. T. J. Dean who represents the interests of the major shareholder, Solomon Capital Limited.

On 4 April 2011, pursuant to the Subscription & Shareholders Agreement of 8 March 2011, agreed in a general meeting, two non-executive Directors were appointed; Mr. R. S. Williams and Mr. E. Parsons each of whom represent the interests of the major shareholder, Solomon Capital Limited.

On 9 May 2011 and pursuant to the Subscription & Shareholders agreement of 8 March 2011, a further non-executive director was appointed, Mr. G. R. Walker who represents the interests of a major shareholder, Runruno Holdings Limited.

The Board meets regularly, usually on a six-weekly term basis, to discuss a range of significant matters specifically reserved for its decision making including strategy, fund-raising and financial performance. The executive Directors also give an appraisal of the current status and short term plans for operational activities. The latest management and financial information is circulated to the Directors in advance of meetings.

All Directors are subject to the re-election provisions of the Articles of Association, which requires one third of the Board to retire by rotation at every annual general meeting and for each Director to offer himself for re-election at least once every three years.

The Directors have delegated some of their responsibilities to various Committees, which operate within specific terms of reference. In the event of a proposal to appoint a new Director, this would be discussed at a Board meeting, with each Director being given the opportunity to meet the candidate prior to any formal decision being taken. Due to the small size of the Group in 2011, no Nomination Committee had been established.

Audit and Remuneration Committees
During the year ended 31 December 2011, the Audit Committee consisted of two Directors, Mr. E. Parsons and Mr. G. R. Walker. There is no independent Director on the Board of the Audit Committee. Mr. E. Parsons and Mr. G. R. Walker have relevant financial experience. The Audit Committee is responsible for the relationship with the Company's external auditors, the in-depth review of the Group's financial statements and the review of the Group's internal financial controls. The Committee meets at least twice a year, prior to the issue of the annual and interim financial statements and should it be necessary, will convene at other times.

During the year ended 31 December 2011, the Remuneration Committee mainly consisted of two Directors, Mr. I. R. Holzberger, and Mr. T. J. Dean, pending the appointment of at least one independent non-executive Director. The Remuneration Committee is responsible for remuneration policy and setting remuneration for Directors. Directors' remuneration consists of a package of basic salary and share options and warrants linked to corporate and individual performance achievements. The Committee meets when necessary.

METALS EXPLORATION PLC

Corporate Governance Statement (continued)

Communication with shareholders
The annual general meeting, annual report and accounts, the interim financial statements at each half-year, and quarterly operational updates are the primary vehicles for communication with shareholders. The Company also issues announcements to the public on significant transactions and events within the Group, through the Regulatory News Service.

Under Aim Rule 26, AIM companies must maintain a website on which certain information is to be made available to the public free of charge. This information is currently available on the Company's website; www.metalsexploration.com.

Shareholders who have any queries relating to their shareholdings or to the general affairs of the Company, are invited to contact the Company by post or email.

Internal controls
The Group operates an appropriate system of internal financial, operational and compliance controls, which are designed to ensure that the possibilities of misstatement or loss are kept to a minimum. The Board receives regular management and financial reports to enable it to assess potential risks and take any necessary action.

Incorporation
The Company was incorporated in the UK as a public limited company on 8 April 2004 under the Companies Act 1985. On 22 October 2004 the Company was admitted to the Alternative Investment Market in the UK for the trading of its ordinary shares.

Going concern
Based on the Group's cash flow projections, the Directors are satisfied that the business is a going concern. The Board has a reasonable expectation that the Group has adequate cash resources to continue in existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

Approved by the Board of Directors and signed on behalf of the Board

I R Holzberger
Executive Chairman

16 May 2012

OPERATIONS REVIEW

Activities undertaken throughout the year have been directed to satisfying the Company's objective of the construction of the mine at Runruno with limited stepout drilling and to test the potential of the FTAA for additional mineral resources.

Runruno Gold Project Activities

About Runruno
The Runruno Gold project which is 100% beneficially owned by the Company is located in the Province of Nueva Vizcaya on the Island of Luzon in the Philippines. It is 320km north by road from Manila, the capital city of the Philippines. Based on a feasibility study completed in May 2010 and updated during the year, a mining operation producing around 1.0 million ounces of payable gold over a mine life of 10.3 years is planned to be constructed at Runruno.

The mining operation will be a conventional truck and shovel open pit operation mining 1.75 million tonnes of ore per annum at an operational strip ration of 5.2:1 (waste to ore). Gold will be recovered from the partially refractory ore using a combined gravity, BIOX® carbon in leach process.

Early development works commenced in December 2011 and are currently proceeding in parallel with debt funding activities to support the full development. The project capital cost is estimated at US$167.8 million.

The potential to recover a by-product molybdenum salt from the mineral processing is recognised and work is proceeding to define a process which may, if proven to be commercially viable, be added during the operating life of the mine.

The Project is held under a Financial or Technical Assistance Agreement which permits 100% foreign ownership. Under the 1995 Philippine Mining Act the FTAA system provides a stable investment regime for the future development of the Project.

Mineral Resource Update and Mining Reserve Update
Both the Mineral Resource and the Mining Reserve were updated by Mining Associates in March 2011 to include 13,400 metres of infill drilling completed post-feasibility study, comprising 807 drill holes. The current combined estimates of the 'Measured and Indicated' resources, of 1,050,000 ounces of gold now represents 75% of the contained gold. The Mineral Resource and Mining Reserve estimates are presented below in tables 1 & 2 and the attached notes.

March 2011 Mineral Resources for the Runruno Gold Project					
Resource Category	**Ore**	**Gold**		**Molybdenum**	
	Mt	**g/t**	**M Oz**	**ppm**	**M lbs**
Measured	11.2	1.88	0.68	604	14.9
Indicated	7.0	1.64	0.37	425	6.5
Inferred	7.5	1.44	0.35	253	4.2
Total	**25.7**	**1.69**	**1.39**	**470**	**25.6**

Table 1: *March 2011 Mineral Resources schedule*

Operations review (continued)

Notes to accompany the resource estimate:

1. The tenement holder is FCF Minerals Corporation (“FCF”).
2. Metals Exploration plc currently holds 100% of FCF, and the current net attributable resource to Metals Exploration plc is 100%.
3. Resource estimate is based on all drill holes completed and assays returned by 31 December 2010. The resource was estimated on the basis of 807 drill holes (110,427 metres) consisting of 485 diamond drill holes (65,517 metres) and 322 RC drill holes (45,911metres).
4. All analyses were undertaken by Intertek, an internationally accredited independent laboratory.
5. Gold analysis is by classical 1kg screen fire assay analysis.
6. Molybdenum analysis is by mixed acid digest and ICP-OES.
7. Block model block sizes selection of XYZ 20x20x5m is based on Kriging Neighbourhood Analysis as reported in November 2009. Sub-blocking for volumes only to 5x5x1.25m. Screened for topography by sub-block.
8. Geological resource constrained by sub-block with 86 wireframes in 13 domains based on lithology, structure, alteration, artisanal surface workings and a minimum sample grade of 0.3 g/t Au, includes minor internal dilution. Each sub-block can only belong to one domain.
9. Drill intercepts within each domain are flagged in a database table and composited to 2m down hole giving 6,439 informing samples from 687 drill holes.
10. A gold grade cap was applied to informing composites to remove minor outliers Of the 20 composites capped to 12 g/t Au the maximum uncapped grade was 39.14 g/t Au. No grade cap was applied to molybdenum grades.
11. Routine bulk density measurements show little variation within rock types. An average bulk density based on rock type and oxidation state was assigned to the resource model based on interpreted geological units and oxidation state.
12. Grade interpolated into a constrained block model by domain using Ordinary Krige estimation in 4 passes with parameters based on variography by domain. Estimates validated against informing samples and with nearest neighbour and inverse distance squared block estimation.
13. Resources have been classified in compliance with the JORC Code as Measured, Indicated and Inferred. Categories allocated by block by domain, based on drill spacing and type, number of informing samples, fill pass and Krige estimate confidence.
14. Lower cut off grade of 0.3g/t gold applied to blocks in reporting the resource estimates.
15. Molybdenum grades are reported along with the gold grades by resource categories but a consistent laboratory bias low in molybdenum assay standards of about 20% is recognised by FCF Minerals Corporation but has as yet not been addressed.

The Mineral Resource block model was interrogated using Whittle Optimization and FCF Mineral Corporation estimated costs and using a gold price of US$1,000/oz to produce a set of pit shells and hence detailed mine design and production schedule as shown in the table and notes below. A small portion of the Inferred Mineral Resource is contained within this final pit shell and included in the production schedule and is also reported here with allowance for mining loss and dilution. The Inferred Mineral Resources estimates stated here are additional to the Ore Reserves but have not been aggregated with them as this is not allowed under the JORC code.

Operations review (continued)

March 2011 Mining Reserve Schedule for the Runruno Gold Project					
Reserve Category	Ore	Gold		Molybdenum	
	Mt	g/t	M Oz	ppm	M lbs
Proven	10.2	1.90	0.62	616	13.9
Probable	4.8	1.77	0.27	415	4.4
2P Reserves	**15.0**	**1.85**	**0.90**	**603**	**18.3**
Additional Inferred Resource in-pit	2.9	1.73	0.16	258	1.7

Table 2: *March 2011 Mining Reserve schedule*

Notes to accompany ore reserve statement:

1. Stated Inferred Resource is not included in reserves and is in addition to reserves within the defined pit limits and is included in the planned production schedule with a 5% mining loss applied.
2. The tenement holder is FCF Minerals Corp ("FCF"). Metals Exploration plc currently holds 100% of FCF, and the current net attributable reserve to Metals Exploration plc at the time of writing is 100%.
3. Reserve estimate are derived from the March 2011 Mining Associates Resource Estimate by application of Modifying Factors.
4. Cut-off grade of 0.3 g/t Au.
5. Optimisation for final pit selection using Whittle Global Optimiser and following parameters.
    a. Maximum material movement of 13Mtpa
    b. Target of 1.75Mtpa delivered to mill
    c. Mining Ore loss of 5%, Mining Dilution included in the resource estimates.
    d. Mining costs varied by region from US$1.11 to US$1.22/tonne
    e. Processing Costs of US$14.45/tonne milled
    f. Period Costs (including mining period costs) of US$2.25/t milled
    g. Gold recovery of 90.4%
    h. Gold Price used of US$1,000/ounce
    i. No value or process costs attributed to the Molybdenum
    j. A discount rate of 10% pa for DCF and NPV
6. Scheduling of production using Gemcom Minesched within final Pit Shell.

The information in this report that relates to Mineral Resources and Ore Reserves is based on information compiled by Mr Andrew Vigar, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Vigar is an employee of Mining Associates Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Vigar consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.

Mine Pit Optimisation

The Runruno mine pit and production schedule were optimised by Gemcom Professional Services using the updated March 2011 Mining Reserves and Mineral Resource and the Whittle 4D optimisation studies undertaken by Whittle Consulting during the feasibility study. This resulted in a significant improvement in the total strip ratio and the operating strip ratio (the strip ratio after netting off the material to be mined to construct the tailing storage facility starter embankment during construction), both being reduced by around 0.7 tonnes of waste per tonne of ore, or 12%. This is expected to positively impact the economics of the Project.

Operations review (continued)

The key pit parameters are shown in table 3 below

Description	Pit dynamic
Total material to be removed	119.5 Mt
Ore	17.9 Mt
Waste	101.6 Mt
Operational strip ratio	5.2:1
Total strip ratio	5.7:1
TSF starter embankment	8.2 Mt
Average mining rate	10.9 Mtpa
Scheduled mine life	10.3 years

Table 3: *Estimated pit dynamics*

Metallurgical Testwork

Limited metallurgical testwork to optimise the flotation performance of the Runruno ores and to test the likely variability of the ores expected to be mined during the first four years of production, was completed during the year. This data was used to simplify the design of the flotation section of the overall processing plant and to provide early operating criteria for the early years of operations.

Testwork to identify a molybdenum recovery circuit was undertaken at Electrometals Laboratory in Queensland. The test-work resulted in the identification of a potential circuit comprising a two stage process using electrowinning to reduce the iron in solution, followed by recovery of the molybdenum onto resin. The total molybdenum recovery (from run of mine ore) achieved at bench scale using synthetic solutions is estimated to be within the Company's previous guidance of 45-50% of the contained molybdenum.

Before any commitment to use such a processing route can be considered, further work is required to establish the practical feasibility of this new process, test its application on Runruno solutions and to determine the capital and operating cost parameters. This work remains to be completed.

Project Execution Plan

The Project execution plan was revised and updated to enable the Company to commence early construction while the project funding is finalised. The project is now being executed in two parts:

- Early / pre-sanction works.
  These works commenced in December 2011 and are ongoing at the time of this report. These works are being undertaken by Filipino contractors under the management of the Company's owners team and will include site establishment, road development, plant site preparation, construction camp construction, office and workshop construction, establishment of supporting infrastructure and process plant detailed engineering; and
- The construction phase.
  During which the major works including the processing plant, tailings storage facility, mine preparation and final infrastructure will be completed.

The planned early works will significantly advance the Project in readiness for the full construction phase with the site being prepared for occupation by the major contractor and available for the commencement of construction of the process plant immediate on full project funding being available. This early access is expected to reduce the full construction phase by two or three months to about eighteen months duration.

Operations review (continued)

EPC - GMP Contract
The Company engaged Leighton Contractors Asia Limited ("Leighton") to develop an open book estimate of the cost to develop the processing plant component of the Runruno Gold project on a Guaranteed Maximum Price ("GMP"). There are two contracts included, an 'Engineering and Construct' contract and a 'Procurement Agency Agreement' ("EC&P"). Leighton and the Company worked together on cost build which resulted in the definition of a comprehensive scope of work and the optimisation of the planned works. The outcome was Leighton's offer to the Company of US$95.1 million to construct the Runruno process plant under EC&P contracts. The Company is now satisfied that the scope of work has been comprehensively defined and the works optimised.

Leighton's offer was made on the basis of tender packages, pricing and currency exchange rates current at the end of Quarter 1 2011 and will be subject to revalidation at the time of execution of the construction contract. Preparation of the contract documents is well advanced and is expected to be completed in Quarter 2 2012.

The GMP pricing mechanism will facilitate the sharing of any cost under-runs between the Company and Leighton. Any cost over-runs will be to Leighton's sole account, with the exception of variations required by the Company or caused by defined events.

Pending a final review and Board approval of the offer the Company entered into a "Letter of Intent" with Leighton confirming that it will proceed with the contract subject to full Project funding being made available and the Board sanctioning full development.

The construction contract is being prepared in a way which will allow certain 'pre-sanction' works to be undertaken but captured within the GMP-EC&P mechanism including some detailed engineering. These works will significantly advance the Project ahead of commencement of the formal contract offering potential time and cost saving under the main contract.

The Company will have responsibility at the contract commencement date of delivering to Leighton the process plant pad, prepared to levels and parameters provided by Leighton. This work will be undertaken during the early works phase operated by the Company.

Capital and Operating Costs
The Runruno Feasibility Study capital cost was initially estimated in Quarter 4, 2010 after converting prices and the prevailing supply currencies using the estimating currency (US$) exchange rates. This cost has been revised into Quarter 3, 2011 US$ after considering:

- The Leighton GMP-EPC offer;
- Prevailing exchange rates;
- Philippine based cost inflation; and
- Re-estimation of costs based on tenders in some areas.

The work demonstrated an estimated increase of US$18.5 million from US$149.3 million estimated in the 2010 Feasibility Study to US$167.8 million, a 12.4% increase. The increase in the headline cost is largely attributed to the significant weakening of the US$ against the supply currencies since the Feasibility Study was estimated, with the US$ weakening by -14.2% on average against the major supply currencies.

Operations review (continued)

The estimated capital costs are presented more completely below:

Area	Capital estimate US$million	% of total Capital
Mine	5.6	3.3
Process plant - Leighton's GMP-EC&P contract estimate	95.1	56.7
Tailing storage facility	11.1	6.6
On-site infrastructure	14.7	8.9
Off-site infrastructure	6.6	3.9
Indirect costs - not including Leighton GMP-EPC contract	8.7	5.2
Owners costs	20.9	12.4
Contingency - not including Leighton GMP-EPC contract	5.1	3.0
Total	167.8	100

Table 4: *Estimated capital costs to build the mining process plant*

Declaration of Mining Project Feasibility

The Secretary of the Department of Environment and Natural Resources ("DENR") approved the Runruno Declaration of Mining Project Feasibility ("DMPF") in September. The DMPF was subsequently issued to the Company's operating subsidiary, FCF Minerals Corporation ("FCF") on 20 October 2011. The DMPF was the final permit required to authorise the Company to proceed into the Construction and Operating Periods of the Runruno FTAA and to permit on ground construction activities to commence.

The DMPF was issued following comprehensive review of all aspects of the Runruno project including the Feasibility Study, socio-economic and environmental programmes, mandated approvals and agreements and various plans and procedures relating to the construction and operation of the Project.

Funding

The Company has been engaged in detailed discussions with a number of resource banks and alternative funding sources to finalise a debt funding package on a "Project Finance Basis", aiming to support the construction of the Runruno project. The Company has progressed through detailed due diligence with one of these potential funders and is currently engaged in documenting a proposed facility.

Early Works

Various early works packages and preconstruction works have been identified which FCF has competitively tendered amongst local and national Philippines contractors and service suppliers. The preconstruction works and certain other works packages commenced in December 2011 and will continue for a period of five or six months in advance of Leighton commencing construction of the process plant.

Operations review (continued)

The program consists of eight key activities:

- Site earthworks;
- Processing plant pad earthworks;
- Construction camp;
- Construction power;
- Potable water system;
- Erection of a concrete batching plant;
- Acquisition of selected units of the mobile fleet; and
- Detailed engineering in relation to the processing plant being undertaken by Leighton.

***Picture 1**: Processing plant site earthworks – looking north (Jan 2012)*

***Picture 2**: Processing plant site earthworks – looking west from the top of the proposed pit (20 Jan 2012)*

Operations review (continued)

Environment & Community Relations
The Company follows the World Bank Guidelines and the Equator Principles in all aspects of its environmental and community related work.

The Group supports and makes donations to the Runruno Livelihood Foundation, a non-profit organisation with a well staffed community relations group which works closely with the local communities to instigate sustainable health, life and business development programmes to the benefit of these communities. The proposed development at Runruno is supported by all impacted local communities.

The Metals Exploration Group of Companies received a number of awards across the year for its environment, social, community and occupational health and safety programs. The highlight of the year was the Company's Philippine operating subsidiary, FCF being recognised as an outstanding achiever at the 2011 Presidential Minerals Industry Environmental Awards at the conclusion of the National Mine Safety and Environment Conference. FCF received three awards, demonstrating its commitment to responsible mining, the environment and a zero harm culture:

- The 2011 Presidential Mineral Industry Environment Award (Exploration Category);
- Safest large scale Exploration project; and
- Runner-up in the Best Mining Forests Award - Exploration Category.

The awards were determined following a rigorous review of the Company's “on the ground” activities, policies and procedures by the nominations and assessment committee.

Exploration- Runruno

Exploration within the Runruno FTAA recommenced during the second quarter of the year. A program of ground mapping, geochemistry, surface sampling, airborne and ground geophysics and diamond drilling was commenced to test the area for further gold mineralisation of the Runruno style, and to assess for the potential of porphyry copper mineralisation. This program has continued into the 2012 year.

The work completed in 2011 successfully identified a number of areas justifying drill testing. Drilling activities commenced in the second quarter and continued across the year with 2 diamond drill rigs active. Drilling activities have continued into 2012. A total of 33 holes were drilled in 2011 within the Runruno FTAA defined region which covered 7,737 metres of assays.

Drill Holes Completed	RUNRUNO Resource Extension	RUNRUNO FTAA Regional Exploration	TOTAL
Q1	-	-	-
Q2	8	5	13
Q3	3	9	12
Q4	5	3	8
2011 Total	**16**	**17**	**33**

Table 5: *Diamond -drill holes completed during 2011 assessing the existing Runruno resource area and the wider Runruno FTAA boundary.*

Operations review (continued)

Metres drilled	RUNRUNO Resource Extension	RUNRUNO FTAA Regional Exploration	TOTAL
Q1	-	-	-
Q2	1,539	1,367	2,906
Q3	423	2,478	2,901
Q4	957	873	1,830
2011 Total	**2,919**	**4,718**	**7,737**

Table 6: *Metres diamond-drilled during 2011 in the existing Runruno resource area and the wider Runruno FTAA boundary.*

Malilibeg South

Drill testing for extensions to the Runruno resource area to the south of the planned pit extended the potential for significant mineralisation further to the south. A summary of significant results is shown in the table below.

Hole ID	From (m)	To (m)	Width (m)	Au g/t	Mo ppm
MXD831	114	131	17.0	1.59	1,319
MXD832	123	125.1	2.1	0.26	1,493
	130	131	1.0	0.88	707
	132	134	2.0	1.07	867
	142	148	6.0	0.73	420
	153	157.3	4.3	1.18	837
MXD833	135	136	1.0	2.14	319
	147	150	3.0	1.08	1,327
	151	152	1.0	0.80	157
	154	158	4.0	1.00	474
	164	166.4	2.4	1.09	2,583
	183	186.95	3.95	3.48	4,212
MXD834	179	182	3.0	0.92	1,715
	183	184	1.0	0.65	1,233
	189	197	8.0	0.92	810
MXD835	63	65	2.0	2.52	1,854
	84	85	1.0	1.33	2,141
	168	170	2.0	2.05	397
	172	173	1.0	0.88	620
	175	176	1.0	1.21	37
	94	101	7.0	1.97	4,768
MXD837	83	88	5.0	2.21	3,405
MXD838	48	50	2.0	1.47	149
	153	157.3	4.3	1.18	837
MXD839	98	110	12.0	2.12	-
MXD842	102	110	8.0	3.46	454
	112	113	1.0	1.83	138
MXD845	191	204	13.0	2.28	2,951
MXD846	117	129	12.0	0.90	1,164
	144	146	2.0	1.07	1,232
	153	157.5	4.5	1.37	1,360

Table 7: *Diamond-drill hole assay results for those holes assessing the extension to the Runruno orebody resource area.*

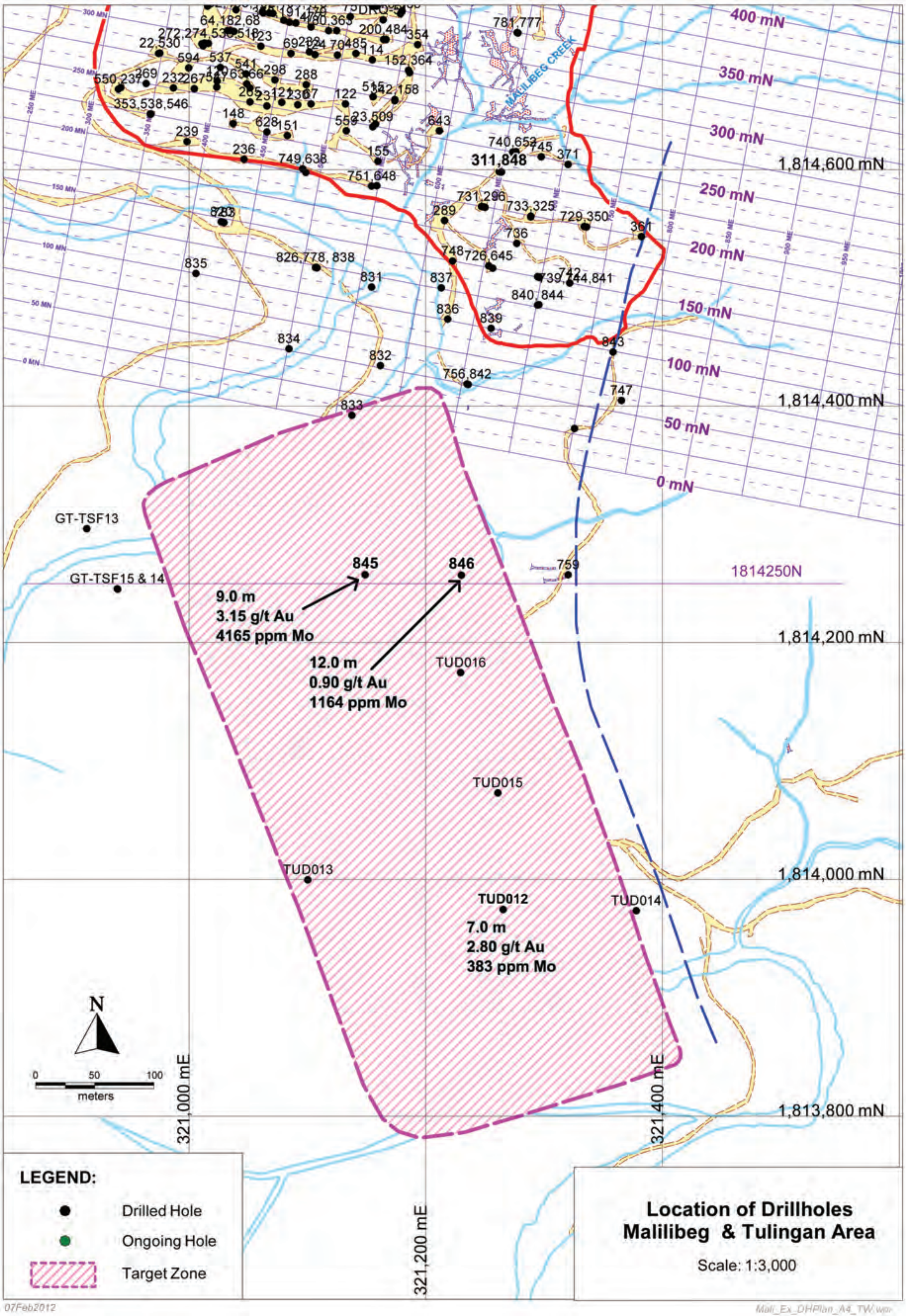
Operations review (continued)

With the information available from the holes drilled during the year it appears possible to interpret a significant zone of flatly dipping gold and molybdenum mineralisation measuring between 8-12m thick and grading between 2- 3 g/t Au and occurring at depth extending south of the Runruno pit for 600m plus to the Tulingan prospect area and perhaps further shown pictorially in the plan view and in cross section below. The potential width of the mineralisation has not been established but it has been intersected over 200m in an east west direction. It appears from the data available that the mineralisation is truncated towards the east by the Malilbeg Fault, a possible mineralising structure, but remains open in both a westerly and southerly direction. Of significant interest is that though the mineralisation is broadly analogous to and may be projected back into the main Runruno mineralisation through a zone of disturbance marking the southern end of the Runruno mineral resource, the character of the mineralisation is unique. The mineralisation appears to exhibit slightly higher gold grades, displays much higher molybdenum grades and contains low but significant levels of copper unlike the Runruno mineralisation.

While the gold molybdenum mineralisation has been intersected at depths of between 75-180m below the surface the indicated widths and grades make it a target for underground mining.

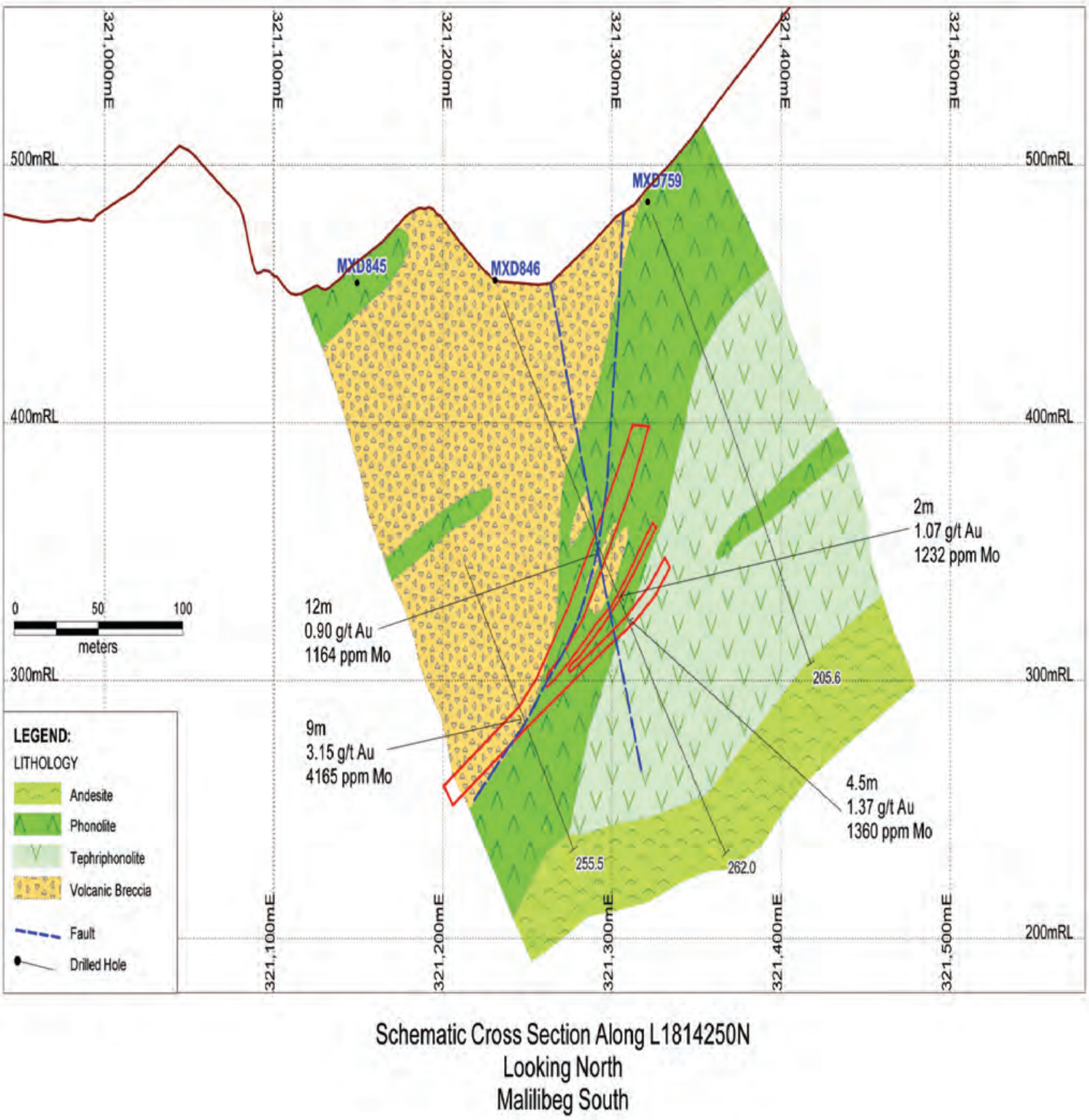
Drilling to more fully test the potential of the zone is ongoing.

Operations review (continued)



Picture 3: *Plan View of the Location of drill holes at Malilibeg and Tulingan area*

Operations review (continued)



***Picture 4**: Schematic cross section looking north – Malilibeg south.*

Operations review (continued)

Magnetite Creek
This area is within the Runruno FTAA boundary but is 2km south of the Runruno orebody and it is considered potential for porphyry copper styled mineralisation. Drilling activities have confirmed this potential with significant copper and gold zones identified in the drilling. This work clearly demonstrates the potential of the area.

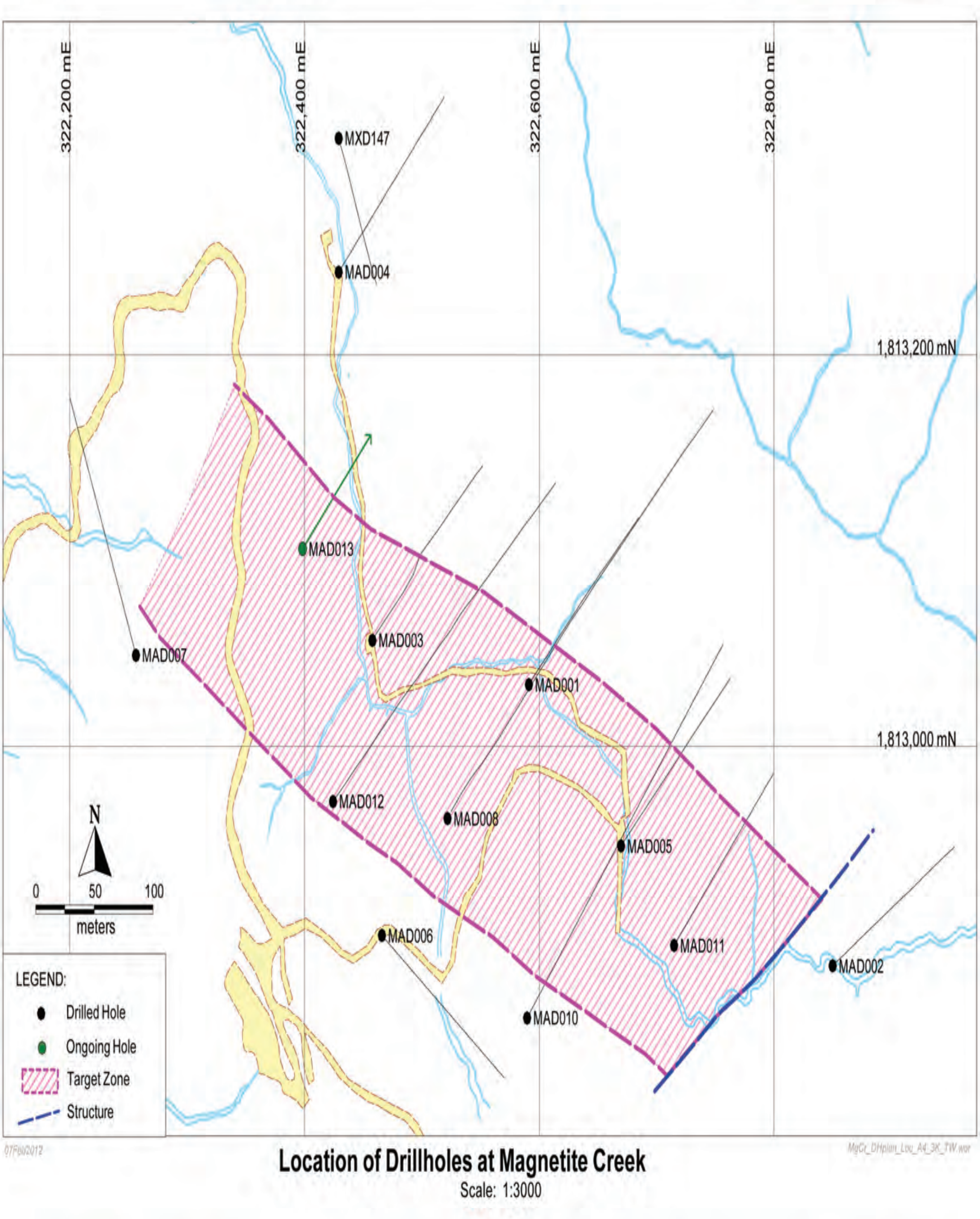
The summary of significant results from holes drilled in 2011 are outlined below.

Hole ID	From (m)	To (m)	Width (m)	Au g/t	Cu %
MAD001	27	40.15	13.15	0.75	0.23
	48	55	7	1.16	0.57
	69	75	6	0.06	0.27
	80	83	3	0.32	1.56
	89	96	7	0.06	0.25
	188	190	2	0.04	0.34
MAD002	No significant intersections				
MAD003	6.5	7.5	1	0.08	0.25
	11.5	13.5	2	0.08	0.49
	120	122	2	1.57	0.01
	195	198	3	0.24	0.07
MAD004	48	51	3	-	0.15
	176	181	5	0.01	0.12
MAD005	51	78	28	0.53	0.34
	incl 52	58	6	0.18	0.33
	and 67	78	11	1.14	0.54
	236	240	4	0.04	0.23
MAD006	42	43	1	0.03	0.11
	45	46	1	0.12	0.1
	48	48.75	0.75	0.03	0.12
	172.5	174.15	1.65	0.01	0.21
	194.5	196.5	2	0.07	0.22
	228.2	229	0.8	-	0.2
MAD007	No significant intersections				
MAD008	109	126	17	0.08	0.14
	140	145	5	0.75	0.07
	154	163	9	0.08	0.23
	175	185	10	0.08	0.13
	203	210	7	0.09	0.22
MAD009	No significant intersections				
MAD010	153	155	2	0.73	0.01
	192	194	2	0.42	0.59
	227	258	31	0.35	0.85
	339	342	3	0.45	0.75
	357	369	12	0.34	0.4
	379	389	10	0.02	0.18
	429	444	15	0.02	0.44

Table 8: *Diamond-drill hole assay results for those holes assessing the Magnetite Creek area within the Runruno FTAA*

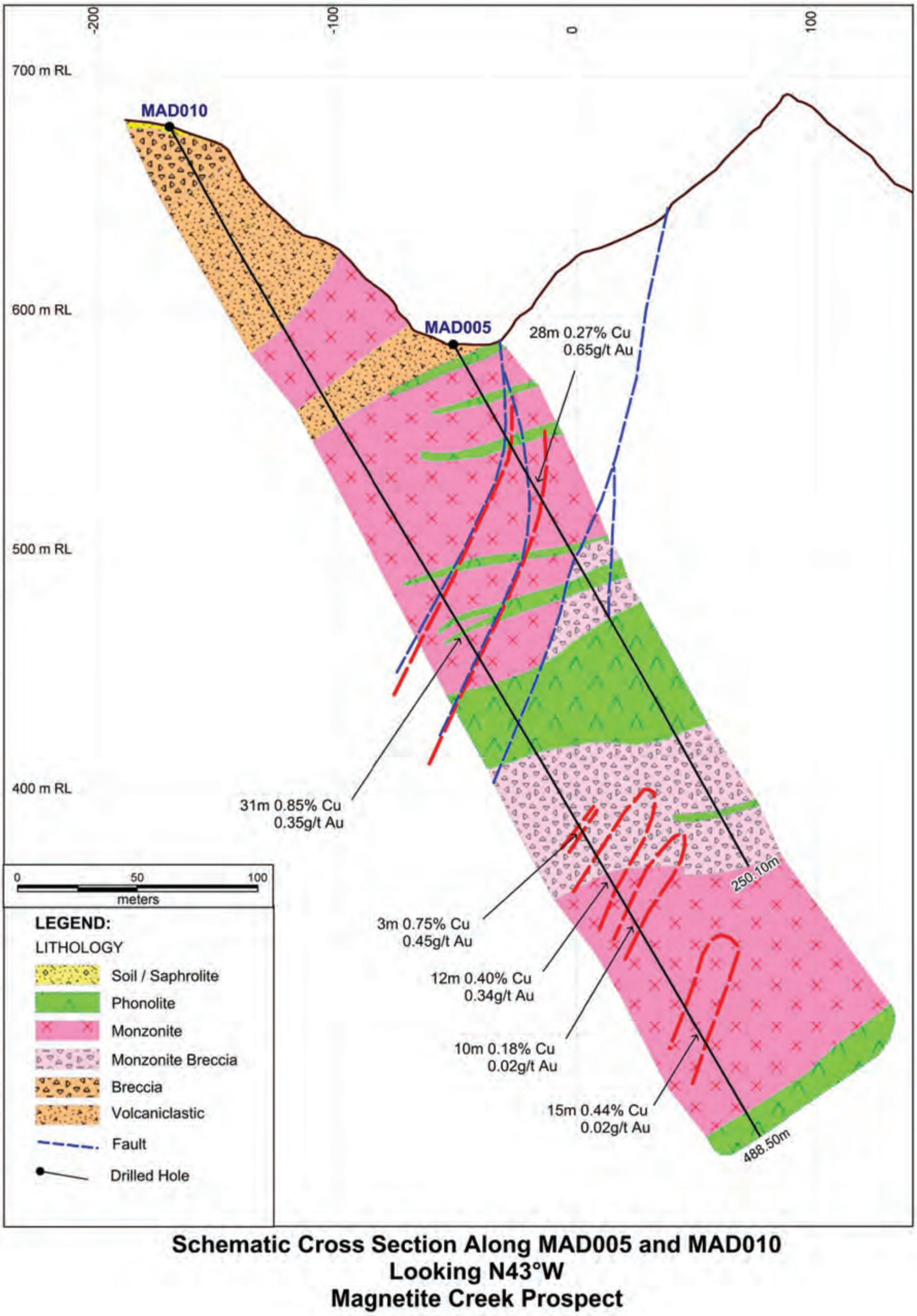
The relative location of the drill holes are shown pictorially in the plan and the typical orientation of the intersected copper zones are shown a cross section below.

Operations review (continued)



Picture 5: *Location of drill holes at Magnetite Creek*

Operations review (continued)



***Picture 6**: Schematic cross section looking N43 W – Magnetite Creek Prospect*

Operations review (continued)

Bocboc

Bocboc is located is in the North East quadrant of the Runruno FTAA. A gold in soil anomaly was identified in this area along with local outcrops of argillicaly-altered alkaline igneous lithologies. These rock types are considered to be prospective for mineralisation similar in nature to that at the Runruno resource area.

Two diamond drill holes have been completed which outline a number of zones of gold and copper anomalism. The results are shown in the table below. Further assessment will be undertaken.

Hole_ID	From	To	Width	Au g/t	Cu %
BBD001	91.0	92.0	1.0	0.01	0.30
	141.0	143.0	2.0	0.11	-
	158.8	162.0	3.2	-	0.11
	165.1	167.6	2.5	0.01	0.13
BBD002	7.0	8.0	1.0	0.11	0.03
	14.0	15.0	1.0	0.20	-
	44.0	50.0	6.0	0.02	0.15
	90.0	100.0	10.0	0.01	0.11
	115.0	134.0	19.0	0.01	0.13

Table 9: *Diamond-drill hole assay results for those holes assessing the Bocboc area at Safir Creek within the Runruno FTAA*

Other Exploration Projects

Dupax

The Dupax project is covered by EXP-000016II encompassing two blocks totalling 8,856 hectares in area; Dupax (5,042 hectares) and Solano (3,814 hectares). The Dupax block contains a previously identified and partially mined open pit zinc-copper-gold massive sulphide deposit. Surface mapping and geochemical and rock chip sampling by the Company has returned grades up to 45.7% zinc, 3.89% copper, and approximately 4 g/t gold from outcrop.

The mineralisation occurs as a massive sulphide body in agglomerate and disseminated sulphide in silicified sediments, predominantly underlain by marine clastics intercalated with pillow basalts and pyroclastics. This package is intruded by dykes and sills of intermediate to basic composition.

Drill targets have been defined on this project. No drilling has been undertaken to date.

Sulong

The Sulong project is covered by EXP-000017II, encompassing an area of 6,963 hectares to the east of Solano in Nueva Viscaya province. Since the 1970s the area has been mined for manganese, which is interpreted as being the near surface oxidised portion of an extensive vein-fault system.

The area is considered prospective for gold associated with a large gold-bearing vein-fault system and porphyry copper and gold mineralisation. The Company has undertaken surface mapping and geochemical sampling with some areas anomalous for gold being outlined.

Operations review (continued)

Other Exploration Permit Applications
The Company also has an Exploration Permit Application ("EPA") covering the Worldwide project. Applications that the Company had made over the Capaz, Puray areas were refused by the MGB as part of its current programme to "cleanse" its register of 2,000 dormant applications out of a current 2,700 applications. The MGB has in place a 12 month moratorium on the application for new Exploration Permits. There is no financial impact to the Company arising from the refusal to grant the EPAs.

DIRECTORS' REPORT

The Directors present their Annual Report together with the audited financial statements of Metals Exploration plc and its subsidiary undertakings (the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activity of the Group is to identify, acquire and develop mining companies, businesses, opportunities or projects with particular emphasis on precious and base metals mining opportunities in the Western Pacific Rim region.

The Company was incorporated on 8 April, 2004 under the Companies Act 1985 and is registered in England and Wales with registered number 05098945.
The principal activity of the Company is that of a holding Company for its subsidiary undertakings, which is set out in Note 13 of the financial statements.

Since the Company's admission to AIM in October 2004, the Group has focused efforts on the acquisition and development of exploration properties in South East Asia.

RESULTS AND DIVIDENDS

For the year ended 31 December, 2011 the loss on ordinary activities of the Group was £2,350,980 (2010: loss of £4,526,872).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010: £nil).

BUSINESS REVIEW

A review of the current and future development of the Group's business is given in the Chairman's Statement and the Operations Review on pages 3 to 25.

RISKS AND UNCERTAINTIES

The Board of Directors reviews the principal risks and uncertainties facing the Group on an ongoing basis. Assessments are made as to how to manage these and mitigate as much risk as possible through various controls. The principal risks and uncertainties facing the Group are as follows:

Requirement for Additional Funding

The Group requires additional funds from time to time for the purpose of business development. Such funds may not be available to the Company or may not be available to the Company on terms satisfactory to the Company or its shareholders. If sufficient funds are not available, the Group may be required to limit or postpone its operations.

The company actively manages and reviews its available cash to ensure it has sufficient funds to finance current operations and planned developments.

Estimation risk

The figures for potential resources are estimates and no assurance can be given that the anticipated tonnage and grades will be achieved. At this juncture only 15% of the Runruno volcanic complex has been effectively explored and presents substantial upside and downside potential. The exploration of mineral rights is speculative in nature. Therefore, the Group may not define resources that can be economically exploited.

Licenses, leases and consents

The Group's expectation for extraction and processing activities are subject to the grant and continuation of appropriate licenses, leases, permits and planning permissions.

Independent resource analysis
Drilling, surveying and analysis is performed by qualified personnel. Drill samples are sent to certified independent laboratories for analysis, and resource assessments are concluded externally. The Directors are committed to complying with and reporting under the Joint Ore Reserves Committee (JORC) Code by competent persons as defined by the JORC Code.

Market risk
The profitability of the Group's development projects is impacted by the general risks associated with the gold market. Profitability is ultimately affected by factors beyond the Group's control, such as a prolonged decline in world gold prices.

The Group regularly tracks gold prices and regularly refines its models on financial profitability in order to have available for the Board at all times, a current view on the future financial viability of its active projects.

Political and Country Risk
The Group's main operations are based in the Philippines. The Philippines is an emerging market country. Recent history has seen increasing political stability, and the current regime is supportive of the need for foreign owned mining companies to help the country to exploit its natural mineral resources. There is, however, a risk that a change of regime might result in a different attitude to the mining industry.
To mitigate this risk, the Group applied for and was granted a Financial or Technical Assistance Agreement, which is a form of agreement that provides substantial protection for foreign owned mining companies from political risk in the Philippines including independent arbitration in Singapore.

KEY PERFORMANCE INDICATORS

The Directors monitor the performance of the Group through the following key performance indicators:

- Progression of the Runruno project through permitting according to pre-determined milestones.
- The outcome of technical work undertaken on the Company's projects measured against forecasts, expectations and industry benchmarks.
- Resource measurement in compliance with JORC standards. The Group's latest resource update in March 2011 was JORC compliant.
- Project value based on dollar values of resource. Dollar values of resource have not fallen to levels at which the economic viability of the Group's projects is threatened.
- Cash flow forecast versus actual expenditure. The Group's actual expenditure has been largely consistent with forecast.

Directors' Report (continued)

SIGNIFICANT SHAREHOLDINGS

The Company has been notified or is aware of the following significant shareholder interests whereby their holding is at 3% and above of the total equity holding of the Company as at 31 December 2011.

Shareholder & Connected Persons	Number of Ordinary Shares	Percentage of issued share capital
Solomon Capital Limited & Shelfco724 Limited & Emily Crompton Candy	323,864,781	46.62%
Baker Steel Fund Managers	158,295,261	22.79%
Runruno Holdings Limited & Graham Edwards	125,041,346	18.00%
Williams De Broe	33,654,125	4.84%

DIRECTORS

The Directors of the Company during the year were:

I R Holzberger	(Executive Chairman)	
J P B Beardsworth	(Non-Executive Director)	
T J Dean	(Non-Executive Director)	
E Parsons	(Non-Executive Director)	Appointed 4 April 2011
G R Walker	(Non-Executive Director)	Appointed 9 May 2011
R S Williams	(Non-Executive Director)	Appointed 4 April 2011

EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events after the balance sheet date.

CHARITABLE DONATIONS

During the year, the Group made charitable donations to the Runruno Livelihood Foundation in the Philippines totalling £8,090 (2010: £35,275).

SUPPLIER PAYMENT POLICY

The Group's policy is to make payments to suppliers in accordance with those terms and conditions agreed between the Group and its suppliers. At the year-end, the Group's trade creditors represented 52 days of annual purchases (2010: 20 days).

FINANCIAL RISK MANAGEMENT

Details of the Group's policies with respect to financial risk management are given in Note 25 to the financial statements.

Given the size of the Group the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The Group's finance departments implement policies set by the Board of Directors.

Directors' Report (continued)

CORPORATE RESPONSIBILITY AND ENVIRONMENTAL POLICY

The Group's policy is to conduct operations in a safe and environmentally responsible manner to industry best practice standards, to respect the indigenous culture of the exploration provinces, to promote social and economic development for the traditional custodians and to offer employment opportunities to those who live in the exploration project areas.

DISCLOSURE OF INFORMATION TO THE AUDITORS

The Directors at the date of approval of this Annual Report individually confirm that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 418 of the Companies Act 2006.

A resolution to reappoint Nexia Smith & Williamson will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board

L A Ruddy
Company Secretary

16 May 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Nexia Smith & Williamson

Independent auditor's report to the members of Metals Exploration plc

We have audited the Group and Parent Company financial statements ("the financial statements") of Metals Exploration plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Total Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted in the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditor's report (continued)

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stephen Drew

Stephen Drew
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

Date 17 May 2012

The maintenance and integrity of the Metals Exploration plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME for the year ended 31 DECEMBER 2011

	Notes	2011 £	2010 £
Continuing Operations			
Revenue		–	–
Cost of sales		–	–
Gross loss		–	–
Administrative expenses		(2,153,356)	(4,270,826)
Operating loss	3	(2,153,356)	(4,270,826)
Finance income and similar items	7	13,372	37,882
Finance costs	7	(210,996)	(293,928)
Loss before taxation		(2,350,980)	(4,526,872)
Taxation	8	–	–
Loss for the period		(2,350,980)	(4,526,872)
Other comprehensive income:			
Exchange differences on translating foreign operations		211,011	820,987
Total comprehensive loss for the period		(2,139,969)	(3,705,885)
Loss for the period attributable to:			
Equity holders of the parent		(2,263,426)	(4,289,219)
Non controlling interest		(87,554)	(237,653)
		(2,350,980)	(4,526,872)
Total comprehensive loss attributable to:			
Equity holders of the parent		(2,103,872)	(3,587,145)
Non controlling interest		(36,097)	(118,740)
		(2,139,969)	(3,705,885)
Loss per share:			
Basic and diluted	9	(0.446)p	(1.59)p

The Company has taken advantage of the exemption provided under section 408 of Companies Act 2006 not to publish an income statement. The loss for the year ended 31 December 2011 dealt with in the financial statements of the Company was £1,693,064 (2010: £2,422,162). The Company made no gains or losses which would be reported in other comprehensive income in the year ended 31 December 2011 (2010: £nil) and therefore the Company has not published its statement of total comprehensive income.

METALS EXPLORATION PLC

CONSOLIDATED BALANCE SHEET as at 31 DECEMBER 2011

	Notes	*2011* £	*2010* £
Non-current assets			
Property, plant and equipment	11	27,677,577	963,596
Goodwill	10	1,010,816	1,010,816
Other intangible assets	12	5,267,991	24,871,456
Trade and other receivables	14	28,879	-
		33,985,263	26,845,868
Current assets			
Trade and other receivables	15	214,643	231,713
Cash and cash equivalents	16	36,242,408	1,192,667
		36,457,051	1,424,380
Current liabilities			
Trade and other payables	17	(1,308,889)	(823,788)
Short-term borrowings	18	-	(6,000,000)
		(1,308,889)	(6,823,788)
Net assets		69,133,425	21,446,460
Equity			
Share capital	19	6,946,736	2,697,163
Share premium account		77,832,313	28,783,007
Shares to be issued reserve		3,652,155	3,114,509
Acquisition of non controlling interest reserve		(3,785,077)	-
Translation reserve		4,019,586	3,860,032
Profit and loss account		(19,532,288)	(17,268,862)
Equity attributable to equity holders of the parent		69,133,425	21,185,849
Non controlling interest		-	260,611
		69,133,425	21,446,460

The financial statements were approved by the Board of Directors on 15 May 2012 and were signed on its behalf by:

Ian R. Holzberger
Executive chairman

16 May 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2011

	Share capital	*Share premium account*	*Shares to be issued reserve*	*Translation reserve*	*Non controlling interest reserve*	*Profit and loss account*	*Non controlling interest*	*Total equity*
Balance as at	£	£	£	£	£	£	£	£
1 January 2011	2,697,163	28,783,007	3,114,509	3,860,032	-	(17,268,862)	260,611	21,446,460
Exchange differences on translating foreign operations	-	-	-	159,554	-	-	51,457	211,011
Loss for the year	-	-	-	-	-	(2,263,426)	(87,554)	(2,350,980)
Total comprehensive loss for the year	-	-	-	159,554	-	(2,263,426)	(36,097)	(2,139,969)
Acquisition of non controlling interest in subsidiary	-	-	-	-	(3,785,077)	-	(224,514)	(4,009,591)
Movement in share based payments	-	-	537,646	-	-	-	-	537,646
Issue of equity share capital	4,249,573	50,893,874	-	-	-	-	-	55,143,447
Share issue expenses	-	(1,844,568)	-	-	-	-	-	(1,844,568)
Balance as at								
31 December	6,946,736	77,832,313	3,652,155	4,019,586	(3,785,077)	(19,532,288)	-	69,133,425

Equity is the aggregate of the following:

- Share capital; being the nominal value of shares issued
- Share premium account; being the excess received over the nominal value of shares issued less direct issue costs
- Shares to be issued reserve; being the credit side of the entry relating to the expense recognised in the income statement for share based remuneration
- Translation reserve; being the foreign exchange differences on the translation of foreign subsidiaries
- Profit and loss account; being the cumulative loss attributable to equity shareholders
- Acquisition of non controlling interests reserve; being an acquisition of 15% of FCF Minerals Corporation's shares after previous acquisitions which had provided the Group with control of the board of the subsidiary company.

METALS EXPLORATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2010

	Share capital	*Share premium account*	*Shares to be issued reserve*	*Translation reserve*	*Profit and loss account*	*Non controlling interest*	*Total equity*
Balance as at	£	£	£	£	£	£	£
1 January 2010	2,697,163	28,783,007	2,719,676	3,157,958	(12,979,643)	379,351	24,757,512
Exchange differences on translating foreign operations	-	-	-	702,074	-	118,913	820,987
Loss for the year	-	-	-	-	(4,289,219)	(237,653)	(4,526,872)
Total comprehensive loss for the year	-	-	-	702,074	(4,289,219)	(118,740)	(3,705,885)
Movement in share based payments	-	-	394,833	-	-	-	394,833
Issue of equity share capital	-	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-	-
Balance as at 31 December 2010	2,697,163	28,783,007	3,114,509	3,860,032	(17,268,862)	260,611	21,446,460

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 DECEMBER 2011

	Notes	2011 £	2010 £
Net cash used in operating activities	21	(816,424)	(1,519,942)
Investing activities			
Purchase of intangible assets		(6,142,471)	(5,076,813)
Purchase of property, plant and equipment		(1,280,875)	(69,502)
Proceeds from sale of investment designated at fair value through profit or loss		-	442,753
Net cash used in investing activities		(7,423,346)	(4,703,562)
Financing activities			
Proceeds from issue of share capital		42,143,446	-
Share issue costs incurred		(1,844,568)	-
Proceeds from short-term borrowings		9,000,000	4,000,000
Acquisition of non controlling interests		(4,009,591)	-
Repayment of short-term borrowings		(2,000,000)	-
Net cash from financing activities		43,289,287	4,000,000
Net increase/(decrease) in cash and cash equivalents		35,049,517	(2,223,504)
Cash and cash equivalents at beginning of period		1,192,667	3,403,812
Foreign exchange differences		224	12,359
Cash and cash equivalents at end of period		36,242,408	1,192,667

METALS EXPLORATION PLC

COMPANY BALANCE SHEET as at 31 DECEMBER 2011

	Notes	*2011* £	*2010* £
Non-current assets			
Property, plant and equipment	11	-	1,955
Other intangible assets	12	41,222	81,568
Investments in subsidiaries	13	6,141,842	2,132,250
Trade and other receivables	14	35,673,392	26,885,802
		41,856,456	29,101,575
Current assets			
Trade and other receivables	15	43,512	74,133
Cash and cash equivalents	16	33,972,672	636,763
		34,016,184	710,896
Current liabilities			
Trade and other payables	17	(120,485)	(203,777)
Short-term borrowings	18	-	(6,000,000)
		(120,485)	(6,203,777)
Net assets		75,752,155	23,608,694
Equity			
Share capital	19	6,946,736	2,697,163
Share premium account		77,832,313	28,783,007
Shares to be issued reserve		3,652,155	3,114,509
Profit and loss account		(12,679,049)	(10,985,985)
		75,752,155	23,608,694

The financial statements were approved by the Board of Directors on 15 May 2012 and were signed on its behalf by:

Ian R Holzberger

Executive Chairman

16 May 2012

COMPANY STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2011

	Share capital	*Share premium account*	*Shares to be issued reserve*	*Profit and loss account*	*Total equity*
Balance as at 1 January 2010	£ 2,697,163	£ 28,783,007	£ 2,719,676	£ (8,563,823)	£ 25,636,023
Loss for the year	-	-	-	(2,422,162)	(2,422,162)
Total comprehensive loss for the year	-	-	-	(2,422,162)	(2,422,162)
Movement in share based payments	-	-	394,833	-	394,833
Balance as at 31 December 2010	2,697,163	28,783,007	3,114,509	(10,985,985)	23,608,694
Loss for the year	-	-	-	(1,693,064)	(1,693,064)
Total comprehensive loss for the year	-	-	-	(1,693,064)	(1,693,064)
Movement in share based payments	-	-	537,646	-	537,646
Issue of equity share capital	4,249,573	50,893,874	-	-	55,143,447
Share issue expenses	-	(1,844,568)	-	-	(1,844,568)
Balance as at 31 December 2011	6,946,736	77,832,313	3,652,155	(12,679,049)	75,752,155

Equity is the aggregate of the following:

- Share capital; being the nominal value of shares issued
- Share premium account; being the excess received over the nominal value of shares issued less direct issue costs
- Shares to be issued reserve; being the expense recognised in the income statement for share based remuneration
- Profit and loss account; being the cumulative loss attributable to equity shareholders

METALS EXPLORATION PLC

COMPANY CASH FLOW STATEMENT for the year ended 31 DECEMBER 2011

	Notes	*2011* £	*2010* £
Net cash used in operating activities	21	(9,953,414)	(6,717,925)
Investing activities			
Purchase of 15% shareholding of FCF Minerals Corporation		(4,009,591)	-
Proceeds from sale of investment designated at fair value through profit or loss		-	442,754
Purchase of intangible assets		-	(40,346)
Purchase of property, plant and equipment		-	(2,072)
Net cash (used in)/received from investing activities		(4,009,591)	400,336
Financing activities			
Proceeds from issue of share capital		42,143,446	-
Share issue costs incurred		(1,844,568)	-
Proceeds from short term borrowings		9,000,000	4,000,000
Payment of short term borrowings		(2,000,000)	-
Net cash from financing activities		47,298,878	4,000,000
Net increase/(decrease) in cash and cash equivalents		33,335,873	(2,317,589)
Cash and cash equivalents at beginning of period		636,763	2,954,352
Foreign exchange differences		36	-
Cash and cash equivalents at end of period		33,972,672	636,763

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period covered by these financial statements.

Basis of preparation

The financial information has been prepared on a historical cost basis and in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the European Union and as regards the Parent Company financial statements applied in accordance with the provisions of the Companies Act 2006.

New standards and interpretations

At the date of authorisation of these financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Group. Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of, these consolidated financial statements; the following may have a material impact going forward.

IFRS10 – *Consolidated Financial Statements*: effective for annual periods beginning on or after 1 January 2013. The objective of IFRS10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. In particular the standard defines the principle of control, and establishes control as the basis for consolidation. It sets out the accounting requirements for the preparation of consolidated financial statements. Metals Exploration plc has several entities comprising its group and will require management to exercise judgement in determining to what extent entities are controlled and therefore to be included in consolidation.

IFRS12 – *Disclosure of Interests in Other Entities:* effective for annual periods beginning on or after 1 January 2013. This standard applies where an entity has an interest in subsidiaries, joint arrangements, associates or undisclosed structured entities. The entity is required to disclosure information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Management will require to use significant judgement to identify and evaluate certain risks in its various entities, and disclose these in future financial statements.

IFRS13 – *Fair Value Measurement*: effective for annual periods beginning on or after 1 January 2013. IFRS13 defines fair value, sets out in a single standard a framework for measuring fair value, and requires disclosures about fair value measurements. There are certain exceptions such as share-based payment transactions, leasing transactions and measurements such as inventories or asset impairment, which are the subject of specific other standards. It is uncertain what impact this standard will have in future financial statements.

IAS19 – *Employee Benefits*: effective for annual periods beginning on or after 1 January 2013. The objective of IAS19 is to prescribe the accounting and disclosure for employee benefits (that is, all forms of consideration given by an entity in exchange for service rendered by employees). The principle underlying all of the detailed requirements of the Standard is that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable. Management has yet to evaluate the impact of this standard on Group performance and will require to apply judgment and estimation in evaluation of each component of employee benefits in recognition of how much and when benefits are earned.

IFRIC20 – *Stripping Costs in the Production Phase of a Surface Mine*: effective for annual periods beginning on or after 1 January 2013. The standard considers when and how to account separately for the two benefits accruing from stripping operations involved in surface mining activity during the production phase of the mine. These are usable ore obtained from stripping, and economic efficiencies derived from improved access to further quantities of material to be mined in future periods. This standard will become applicable at Runruno (surface mining) once production commences.

1. Accounting policies (continued)

IFRS9 *Financial instruments - Classification and measurement of financial instruments*: effective for annual periods beginning on or after 1 January 2015. IFRS9 is the first step in replacing IAS39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013, with early adoption permitted. The International Accounting Standards Board intends to expand IFRS9 to add new requirements for impairment of financial assets measured at amortised cost, and hedge accounting. When these projects are completed, then, IFRS9 will be a complete replacement for IAS 39. It is expected this first phase adoption of IFRS9 will have an impact on the classification and measurement of the Group's financial assets but will not impact its financial liabilities.

During the year, the following standards were adopted by the Group:

IAS24 (Revised) – *Related Party Disclosures;* IAS24 (Revised) requires disclosures of the effect of the existence of related parties and the possibility the financial position and profit or loss may have been effected by transactions and any outstanding balances with such parties.

IFRS7 (Amended) – *Financial Instruments:* IFRS7 requires management to provide improved disclosure requirements about (i) fair value measurements using a classification system involving a fair value hierarchy and (ii) the liquidity risk associated with fair value instruments by explanation of the nature and extent of liquidity risk arising from financial instruments and how this is managed.

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2011. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiary companies have been included in the Group's financial statements from the date of acquisition when control was passed to the Group using the purchase method of accounting. The Group financial statements include the results of the Company and its subsidiaries as if they were a single reporting entity. On consolidation, intra-Group transactions and balances are eliminated.

Business combinations and goodwill

On acquisition, the assets, liabilities and contingent liabilities of the Company's subsidiaries are measured at their fair values at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Goodwill arising on consolidation is recognised as an asset in the consolidated balance sheet and tested annually for impairment and any impairment is accounted for as a reduction in the value of the asset. Goodwill is considered to have an indefinite useful life.

Where there is an acquisition of an increased share of an existing subsidiary's net assets after the Company has previously gained or had effective control of the decision making of the subsidiary, such that there is no dilution or loss of effective control in the subsidiary, then the transaction is accounted for in equity and reserves in the consolidated balance sheet. This particular type of acquisition transaction does not add to the value of goodwill on consolidation.

1. Accounting policies (continued)

Foreign currency

The individual financial statements of the Company and its subsidiaries are presented in their functional currencies which are the currencies of the primary economic environments in which the entities operate. The Group financial statements are presented in Pounds Sterling which is the presentation currency for the Group and Company financial statements.

Transactions in currencies different to the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange gains and losses on the settlement of monetary items are recognised in the statement of total comprehensive income.

On consolidation, the assets and liabilities of foreign subsidiaries are translated to Pounds Sterling at the rates prevailing at the balance sheet date. Income and expenses are translated at the average exchange rates for the period. Exchange differences are recognised within other comprehensive income in the consolidated balance sheet.

Taxation

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to other comprehensive income in which case, the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority, on either the same taxable Group Company or different Group entities, which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

1. Accounting policies (continued)

Share based payments

The Company enters into equity-settled share based payment transactions with its employees, including Directors and some associates, in which the counterparty provides services to the Company in exchange for remuneration in the form of certain equity instruments of the Company. The equity instruments comprise warrants and share options.

The services received by the Company in a share based payment transaction are measured by reference to the fair value of the equity instruments at the date of grant and are recognised as an expense in the income statement with a corresponding increase in equity.

The Company estimates the fair value of the equity instruments at the grant date using the Black Scholes model in which the terms and conditions upon which those equity instruments were granted are taken into account.

For equity instruments granted that do not vest until the counterparty completes a specified period of service, the expense is recognised as the services are being rendered by the counterparty during the vesting period. The expense recognised is based on the best available estimate of the number of equity instruments expected to vest and on the vesting date, the expense is revised to reflect the actual number of equity instruments that vested.

For equity instruments granted that vest immediately and the counterparty is unconditionally entitled to the equity instruments, the expense is recognised in full on the grant date. Where an equity-settled share based payment is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the income statement.

Intangible assets

Exploration costs

Costs relating to the exploration of precious and base metal properties are capitalised as intangible assets in the balance sheet once the Group has obtained the legal right to explore an area.

Capitalised exploration costs are reclassified to tangible assets once technical feasibility and commercial viability of extracting a mineral resource are demonstrable. This was achieved with the signing of the DMPF on 20 October 2011 and reclassification of these costs is effective as of 1 December 2011 when the group committed to pre-construction earthworks capital expenditure at the project site. The capitalised exploration costs are tested for impairment annually.

Other Intangible assets

Intangible assets acquired separately are initially recognised at cost. Intangible assets acquired as part of a business combination are measured at their fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less any accumulated amortisation and impairment losses. Computer software is amortised over its expected useful life of 3 years using the straight-line method. Licences acquired to support mining operations will be amortised over the expected useful life of the mining operation (or the term of the licence if shorter) when development is complete and mining commences. Intangible assets are tested annually for impairment.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

1. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are initially recognised at cost plus directly attributable costs and are subsequently carried at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated over their expected useful lives, using the straight-line method.

The classes of depreciable assets, their expected useful lives and their depreciation methods are:

Buildings	10 years	Straight-line
Drilling equipment	5 years	Straight-line
Motor vehicles	5 years	Straight-line
Leasehold improvements	5 years	Straight-line
Fixtures, fittings and equipment	3 years	Straight-line
Freehold land		this is not a depreciable asset.
Mining properties		these costs are depreciated over the useful life of the mine at the point of commissioning the mining process plant.

Mining properties costs have arisen entirely as a result of a reclassification of intangible deferred exploration costs, as the extraction of gold from the Runruno site is assessed as being both technically feasible and commercially viable. The recovery of these costs is dependent upon achieving the commercial mining economics as outlined in the feasibility study approved by the Mines and Geosciences Bureau, and the company's ability to raise sufficient debt funding to build a processing plant and ancillary buildings. The costs will be depreciated over the useful life of the mine once the process plant has been commissioned and the process of recovery of gold from mineral ore has commenced.

Investments

Investments in subsidiaries are recognised at cost less any impairment losses.

Financial instruments

Financial instruments are recognised as assets, liabilities or within equity in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets of the Group comprise cash and cash equivalents and other receivables. The Group's financial liabilities comprise trade and other payables and long-term and short-term borrowings.

Cash and cash equivalents include cash in hand and short-term bank deposits. Other receivables are measured at fair value.

Trade and other payables and long-term and short-term borrowings are initially measured at fair value and subsequently measured at amortised cost. Fair value usually equates to the proceeds received. Finance costs are accrued for in the statement of total comprehensive income to the extent that they are unpaid.

Convertible loan notes proceeds are split between a liability element and an equity component. The fair value of the liability component is estimated using the prevailing market interest rate for similar non convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component is included in equity. The liability component is carried at amortised cost. Issue costs are apportioned between the liability component and the equity component based on their relative carrying amounts.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates, assumptions and judgements that affect the application of policies, and reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from reported amounts in the financial statements.

The estimates, assumptions and judgements which have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities are:

Impairment of goodwill
The Group is required to test, at least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Actual outcomes could vary from those calculated.

Impairment of tangible and intangible assets
Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, an asset is reviewed for impairment. An asset's carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset's carrying amount.

Depreciation of tangible assets
Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives. The selection of these residual values and estimated lives requires the exercise of management judgement.

Share based payments
Certain Group employees and directors are rewarded with share based instruments. These are stated at fair value at the date of grant and are expensed to the profit and loss account based on the activity of the employee or director over the vesting period of the instrument. Fair value is estimated using the Black-Scholes valuation model. The proceeds received net of any directly attributable transaction costs are credited to share capital account at nominal value and share premium account, when the options are exercised.

Functional currency of group companies
The Group comprises several entities in three different countries; Philippines, Indonesia and United Kingdom. The financial statements of each entity are prepared using the functional currency of the country where it is registered to do business. On preparation of Group consolidated financial statements, management chooses an appropriate exchange rate to translate each of the functional currencies to £GBP. The Group financial statements are presented in the functional currency of the parent company. This judgement may change if future events dictate a more appropriate presentational currency should be adopted.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

3. Operating loss for the year is stated after charging/(crediting):

	2011	*2010*
	£	*£*
Depreciation of property, plant and equipment	341,277	362,535
Impairment of intangible assets	-	200,630
Amortisation	58,154	57,534
Foreign exchange gains	(583,427)	(121,917)
Staff costs (see Note 6)	1,245,205	2,279,980
Share based payments	537,646	394,833
Operating leases	55,979	16,457
Auditors remuneration (see Note 4)	39,775	52,000

4. Auditor's remuneration

	2011	*2010*
	£	*£*
Fees payable to the Group and Company's auditor for the audit of the Group and Company's accounts	33,825	32,000
Fees payable to the Company's auditor and its associates for other services:		
Other services relating to taxation compliance	5,950	20,000
	39,775	52,000

5. Segmental analysis

Operating segments have been identified on the basis of the Group's internal reporting to the Chief Operating Decision Maker ("CODM") and in particular the components of the Group which are regularly reviewed by the CODM. The operating segments included in internal reports are determined on the basis of their significance to the Group. The CODM has been determined to be the Board of Directors as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The primary segments have been identified into three geographic areas of the UK, Philippines and Indonesia. The CODM uses 'Loss before tax' and 'Cash & cash equivalents' as the key measures of the segments' results, and these measures reflect the segments' underlying performance for the period under evaluation. Major customers are not identifiable or reported as the Group's mining operations are not yet operating in a production capacity, and it is expected that in 2012 the Group will begin mining construction and in 2013 it will commence mining production. It is because of this status that most expenditure is of a capital nature.

The segment results for the year ended 31 December 2011, for the year ended 31 December 2010 and the reconciliation of the segment measures to the respective statutory items in the consolidated financial information are as follows:

5. Segmental analysis (continued)

Year ended 31 December 2011	UK	Philippines	Indonesia	Eliminations	Total
	£	£	£	£	£
Segment results					
Group operating loss	(1,500,215)	(674,867)	(35,745)	57,471	(2,153,356)
Finance income & similar items	12,608	732	32	-	13,372
Finance costs	(205,457)	(5,232)	(307)	-	(210,996)
Loss before tax	(1,693,064)	(679,367)	(36,020)	57,471	(2,350,980)

Year ended 31 December 2010	UK	Philippines	Indonesia	Eliminations	Total
	£	£	£	£	£
Segment results					
Group operating loss	(2,211,090)	(1,833,394)	(271,026)	44,684	(4,270,826)
Finance income & similar items	77,464	384	67	(40,033)	37,882
Finance costs	(289,609)	(4,319)	-	-	(293,928)
Loss before tax	(2,423,235)	(1,837,329)	(270,959)	4,651	(4,526,872)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

5. Segmental analysis (continued)

Year ended 31 December 2011	UK	Philippines	Indonesia	Total
	£	£	£	£
Segment assets				
Segment tangibles & intangibles	1,052,038	32,894,271	10,075	33,956,384
Segment trade & other receivables	43,512	191,537	8,473	243,522
Segment cash	33,972,672	2,266,291	3,445	36,242,408
Total segment assets	35,068,222	35,352,099	21,993	70,442,314
Segment trade & other payables	(120,486)	(1,181,211)	(7,192)	(1,308,889)
Total segment liabilities	(120,486)	(1,181,211)	(7,192)	(1,308,889)
Total segment net assets	34,947,736	34,170,888	14,801	69,133,425

Year ended 31 December 2010	UK	Philippines	Indonesia	Total
	£	£	£	£
Segment assets				
Segment tangibles & intangibles	1,094,340	25,731,245	20,283	26,845,868
Segment trade & other receivables	(180,669)	403,670	8,712	231,713
Segment cash	636,763	546,541	9,363	1,192,667
Total segment assets	1,550.434	26,681,456	38,358	28,270,248
Segment loans	(6,000,000)	-	-	(6,000,000)
Segment trade & other payables	(203,777)	(605,975)	(14,036)	(823,788)
Total segment liabilities	(6,203,777)	(605,975)	(14,036)	(6,823,788)
Total segment net assets	(4,653,343)	26,075,481	24,322	21,446,460

Segment net assets are analysed net of intercompany transactions.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

5. Segmental analysis (continued)

Year ended 31 December 2011	UK	Philippines	Indonesia	Total
	£	£	£	£
Segment other information				
Amortisation of intangible assets	(40,346)	(17,808)	-	(58,154)
Depreciation of property, plant and equipment	(1,956)	(329,670)	(9,651)	(341,277)
Additions to non-current assets	-	7,423,344	-	7,423,344

Year ended 31 December 2010	UK	Philippines	Indonesia	Total
	£	£	£	£
Segment other information				
Amortisation of intangible assets	(39,085)	(18,449)	-	(57,534)
Depreciation of property, plant and equipment	(2,246)	(347,322)	(12,967)	(362,535)
Additions to non-current assets	42,418	5,664,902	-	5,707,320

The results of each segment have been prepared using accounting policies consistent with those of the Group as a whole.

6. Staff numbers and costs

The average number of persons, including Directors, was:	*2011*	*2010*
	Number	*Number*
Administration	38	64
Exploration	354	418
	392	482

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

6. Staff numbers and costs (continued)

Staff costs of the above persons were:	*2011*	*2010*
	£	*£*
Wages and salaries	1,186,425	2,005,763
Social security costs	15,298	88,663
Pension costs	5,482	21,910
Termination benefits	38,000	163,644
	1,245,205	2,279,980
Share based payments	537,646	394,833
	1,782,851	2,674,813

Directors' emoluments:	*2011*	*2010*
	£	*£*
Directors		
Mr. I.R. Holzberger	367,466	321,868
Mr. J.P.B. Beardsworth	20,100	247,766
Mr. T.G. Wheeler	-	39,914
	387,566	609,548
Sums paid to third parties in respect of directors		
Solomon Capital Limited – Mr. T. Dean	25,703	24,000
Solomon Capital Limited – Mr. E. Parsons	18,000	-
Solomon Capital Limited – Mr. R.S. Williams	18,000	-
Runruno Holdings Limited – Mr G. R. Walker	33,000	-
	94,703	24,000
Share based payments	525,208	403,704
Employers national insurance contributions	10,859	16,090
	1,018,336	1,053,342

The Directors are considered to be the only members of key management personnel.

Pursuant to the Subscription and Shareholders' Agreement of 8 March 2011, Solomon Capital Limited and Runruno Holdings Limited subsequently entered into separate Services Agreements which detailed the terms of remuneration each of these companies receives for the supply of their representative directors. Solomon Capital Limited is represented by Mr. Edward Parsons, Mr. Richard Williams and Mr. Tim Dean. Runruno Holdings Limited is represented on the board of directors by Mr Guy Walker. The Services Agreement for Solomon Capital Limited does not directly apply to Mr. Tim Dean but it is acknowledged that his remunerative terms follow the convention for Mr Parsons and Mr Williams as detailed in the agreement.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

6. Staff numbers and costs (continued)

a) *Shares held by Directors*:

	2011	*2010*
Shareholder		
J. P. B. Beardsworth	750,000	750,000

b) *Warrants held by Directors*:

Warrant holder	*Grant date*	*Number of warrants*	*Exercise price*	*Earliest vesting date or rate per month*	*Expiry date*
J. P. B. Beardsworth	30 April 2007	1,000,000	26.25p	30 April 2008	29 April 2014
	30 April 2007	1,000,000	39.375p	30 April 2009	29 April 2014
	30 April 2007	500,000	52.5p	30 April 2010	29 April 2014
I. R. Holzberger	8 July 2008	1,000,000	20p	8 July 2008	30 June 2013
	8 July 2008	1,000,000	40p	4 May 2010	30 June 2013

c) *Share options held by Directors*:

Option holder	*Grant date*	*Number of options*	*Exercise price*	*Earliest vesting date*	*Expiry date*
J. P. B. Beardsworth	30 April 2007	2,000,000	26.25p	30 April 2010	29 April 2017
I. R. Holzberger	18 March 2010	6,000,000	25p	18 March 2012	17 March 2017
J. P. B. Beardsworth	18 March 2010	5,000,000	25p	18 March 2012	17 March 2017

7. Finance costs and income

	2011 £	*2010* £
Loan interest payable	(201,602)	(289,590)
Bank interest payable	(9,394)	(19)
Other interest payable	-	(4,319)
Finance costs	(210,996)	(293,928)
Revaluation of investment designated at fair value through profit/(loss)	-	37,357
Bank interest receivable	13,372	525
Finance income and similar items	13,372	37,882

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

8. Taxation

	2011	*2010*
	£	*£*
Loss before tax	(2,350,980)	(4,526,872)
Tax on loss on ordinary activities at standard UK corporation tax rate of 26% (2010: 28%)	(611,255)	(1,267,524)
Effects of:		
Overseas expenses not taxable for tax purposes	186,001	590,322
Expenses not deductible for tax purposes	39,158	91,636
Depreciation in excess of capital allowances	463	308
Losses carried forward	385,633	585,258
Total tax expense for the period	-	-

For the year ended 31 December 2011 the Group has unused tax losses of £7,225,467 (2010: £6,363,569) available for offset against future profits. However, due to the Company's on-going tax losses situation, the deferred asset has not been recognised on the Balance Sheet due to uncertainty over its future reversal.

The losses arising in overseas subsidiary companies have been disallowed from the tax computation in the Group accounts.

On 23 March 2011 the Government announced a number of changes to the UK corporation tax system, including a reduction of the main rate of corporation tax from 28% to 26% with effect from 1 April 2011. This change of rate became substantively enacted for the purposes of IAS 12; Income Taxes, on 29 March 2011 by passing a resolution to this effect under the Provisional Collection of Taxes Act 1968.

The Company has recalculated its un-provided UK deferred tax assets at the end of the reporting period using the most recently substantively enacted corporation tax rate of 25% (2010: 28%), and the deferred tax asset is estimated to be £1,711,491 (2010: £1,781,799).

The Government also announced the intention to reduce the rate of corporation tax by 1% per year to 23% by 1 April 2014. As these changes have not been substantively enacted at 31 December 2011, they have not been recognised in these financial statements. Had these changes been enacted, then the cumulative effects would have been a reduction in the deferred tax asset of £109,256 (24%), and £218,513 (23%).

9. Loss per share

	2011	*2010*
	£	*£*
Loss		
Net loss attributable to equity shareholders for the purpose of basic and diluted loss per share	(2,263,426)	(4,289,218)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	507,534,203	269,716,344
Basic and diluted loss per share	(0.446p)	(1.59p)

The loss per share was calculated on the basis of net loss attributable to equity shareholders divided by the weighted average number of ordinary shares. The basic and diluted loss per share is the same, as the exercise of share options and warrants would reduce the loss per share and therefore, are anti-dilutive.

Weighted average number of potential ordinary shares that are not currently dilutive	32,387,292	34,926,904

10. Goodwill

	2011	*2010*
	£	*£*
Cost and net book value	1,010,816	1,010,816

Goodwill has arisen from the acquisition of a 70% share in FCF Minerals Corporation in February 2005, and a further 15% in August 2007. Following the adoption of IAS27; *Consolidated and Separate Financial Statements (revised 2008)*, no goodwill has been recognised on the acquisition of the remaining 15% shareholding in FCF Minerals Corporation. Instead, the fair value of the consideration less the value of the non-controlling interest has been accounted for in equity reserves as the ‘Acquisition of Non Controlling Interest Reserve’ in the consolidated balance sheet.

Under IAS36 - *Impairment of Assets*, a cash generating unit to which goodwill has been allocated should be tested annually for impairment. The Company assesses the recoverable amount of the cash generating unit based on the value in use of the Runruno project using cash flow projections over the expected life of the mine of 10 years and a discount rate of 5% and 10%. The cash flow projections are based on the current resource estimate of 1m ounces of gold and include estimated capital expenditure and annual operating costs using externally sourced price forecasts for gold. The estimated value in use exceeded the aggregate of the carrying values of the Group’s intangible assets, including goodwill, therefore no impairment was made.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

11. Property, plant and equipment – Group

	Leasehold Improvements	*Motor vehicles*	*Fixtures, fittings & equipment*	*Land & buildings*	*Mining properties*	*Drilling equipment*	*Total*
	£	£	£	£	£	£	£
Cost							
As at 1 January 2010	193,645	199,002	390,303	158,627	-	879,310	1,820,887
Additions	23,120	8,822	37,560	-	-	-	69,502
Foreign exchange differences	7,505	7,356	14,324	5,865	-	32,503	67,553
As at 31 December 2010	224,270	215,180	442,187	164,492	-	911,813	1,957,942
Additions	7,179	857	106,516	1,166,322	-	-	1,280,875
Reclassification of costs	-	-	-	-	25,771,751	-	25,771,751
Foreign exchange differences	(684)	729	845	557	-	3,089	4,535
As at 31 December 2011	230,765	216,766	549,548	1,331,371	25,771,751	914,902	29,015,103
Depreciation							
As at 1 January 2010	(70,251)	(91,967)	(214,019)	(8,482)	-	(224,496)	(609,215)
Charge for the period	(40,872)	(30,070)	(104,462)	(4,768)	-	(182,363)	(362,535)
Foreign exchange differences	(2,744)	(3,399)	(7,841)	(314)	-	(8,298)	(22,596)
As at 31 December 2010	(113,867)	(125,436)	(326,322)	(13,564)	-	(415,157)	(994,346)
Charge for the period	(44,620)	(24,234)	(84,656)	(4,785)	-	(182,982)	(341,277)
Foreign exchange differences	521	(425)	(548)	(46)	-	(1,405)	(1,903)
As at 31 December 2011	(157,966)	(150,095)	(411,526)	(18,395)	-	(599,544)	(1,337,526)
Net book value							
As at 31 December 2011	72,799	66,671	138,022	1,312,976	25,771,751	315,358	27,677,577
As at 31 December 2010	110,403	89,744	115,865	150,928	-	496,656	963,596
As at 1 January 2010	123,394	107,035	176,284	150,145	-	654,814	1,211,672

During the year FCF Minerals Corporation's ('FCF') Mining Project Feasibility study and application was approved by the Mines and Geosciences Bureau of the Philippines on 20 October 2011. As of 1 December 2011 the Board of Directors approved the transition for FCF to commit expenditure towards the construction of a mining process plant at Runruno. Exploration and development costs incurred at Runruno which were previously accumulated and reported as intangible assets, have been transferred into the Property Plant & Equipment category of tangible assets.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

11. Property, plant and equipment – Company

	Fixtures, fittings & equipment *£*
Cost	
As at 1 January 2010	6,754
Additions	2,071
As at 31 December 2010	8,825
Additions	-
As at 31 December 2011	8,825
Depreciation	
As at 1 January 2010	(4,624)
Charge for the period	(2,246)
As at 31 December 2010	(6,870)
Charge for the period	(1,955)
As at 31 December 2011	(8,825)
Net book value	
As at 31 December 2011	-
As at 31 December 2010	1,955
As at 1 January 2010	2,130

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

12. Other intangible assets - Group

	Cost of Exploration	*Licences*	*Software*	*Total*
	£	*£*	*£*	*£*
Cost				
As at 1 January 2010	14,236,639	4,643,058	75,437	18,955,134
Additions	5,538,931	87,805	11,082	5,637,818
Foreign exchange differences	519,147	164,627	2,788	686,562
As at 31 December 2010	20,294,717	4,895,490	89,307	25,279,514
Additions	5,600,998	512,568	28,905	6,142,471
Foreign exchange differences	68,093	15,804	303	84,200
Reclassification of costs incurred	(25,771,751)	-	-	(25,771,751)
As at 31 December 2011	192,057	5,423,862	118,515	5,734,434
Impairments				
As at 1 January 2010	-	-	-	-
Impairment to carrying value of investments	(200,630)	-	-	(200,630)
Foreign exchange differences	8,573	-	-	8,573
As at 31 December 2010 and 31 December 2011	(192,057)	-	-	(192,057)
Amortisation				
As at 1 January 2010	-	(109,066)	(47,641)	(156,707)
Charge for the period	-	(39,085)	(18,449)	(57,534)
Foreign exchange differences	-	-	(1,760)	(1,760)
As at 31 December 2010	-	(148,151)	(67,850)	(216,001)
Charge for the period	-	(40,346)	(17,808)	(58,154)
Foreign exchange differences	-	-	(231)	(231)
As at 31 December 2011	-	(188,497)	(85,889)	(274,386)
Net Book Value				
As at 31 December 2011	-	5,235,365	32,626	5,267,991
As at 31 December 2010	20,102,660	4,747,339	21,457	24,871,456
As at 1 January 2010	14,236,639	4,533,990	27,796	18,798,427

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

12. Other intangible assets – Company

	Licences
	£
Cost	
As at 1 January 2010	189,373
Additions	40,346
As at 31 December 2010	229,719
Additions	-
As at 31 December 2011	229,719
Amortisation	
As at 1 January 2010	(109,066)
Charge for the period	(39,085)
As at 31 December 2010	(148,151)
Charge for the period	(40,346)
As at 31 December 2011	(188,497)
Net Book Value	
As at 31 December 2011	41,222
As at 31 December 2010	81,568
As at 1 January 2010	80,307

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

13. Investments in subsidiaries - Company

	£
Cost	
As at 1 January 2010	2,584,576
Additions	-
As at 31 December 2010	2,584,576
Additions	4,009,592
As at 31 December 2011	6,594,168
Impairment	
As at 1 January 2010	(452,326)
Charge for the period	-
As at 31 December 2010	(452,326)
Charge for the period	-
As at 31 December 2011	(452,326)
Net book value	
As at 31 December 2011	6,141,842
As at 31 December 2010	2,132,250
As at 1 January 2010	2,132,250

The investments in subsidiaries are as follows:

Company	*Country of registration*	*Percentage holding*	*Nature of business*
FCF Minerals Corporation	Philippines	100%	Holder of mining rights
PT Cupati	Indonesia	96%	Holder of mining rights
MTL Philippines	Philippines	100%	Regional head office
Cupati Holdings	Philippines	40%	Warehouse facility
Woggle Corporation	Philippines	40%	Holder of quarrying rights

FCF Minerals Corporation, PT Cupati and MTL Philippines are direct subsidiaries of the Company. The Company's investments in Cupati Holdings and Woggle Corporation are held through MTL Philippines. Cupati Holdings and Woggle Corporation have been treated as subsidiaries of the Company and their results for the year ended 31 December 2011 have been consolidated.

In 2009, the Company established a Regional Office Headquarters in the Philippines. It is an overseas branch of the Company and therefore, its results are reported together with the Company's.

14. Trade and other receivables due in more than one year - Group

	2011	*2010*
	£	*£*
Other receivables	28,879	-

14. Trade and other receivables due in more than one year - Company

	2011	*2010*
	£	*£*
Amounts due from group undertakings	35,673,392	26,885,802

15. Trade and other receivables due in less than one year - Group

	2011	*2010*
	£	*£*
Other receivables	-	118,426
Prepayments	214,643	113,287
	214,643	231,713

15. Trade and other receivables due in less than one year - Company

	2011	*2010*
	£	*£*
Other receivables	-	14,966
Prepayments	43,512	59,167
	43,512	74,133

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

16. Cash and cash equivalents - Group

	2011	*2010*
	£	*£*
Cash on hand	7,806	11,440
Current accounts	8,721,693	1,163,369
Time deposits and call accounts	27,512,909	17,858
	36,242,408	1,192,667

16. Cash and cash equivalents – Company

	2011	*2010*
	£	*£*
Current accounts	6,459,764	618,904
Time deposits and call accounts	27,512,908	17,859
	33,972,672	636,763

17. Trade and other payables – Group

	2011	*2010*
	£	*£*
Trade payables	795,469	552,218
Other payables	371,736	41,104
Other tax and social security payable	-	29,351
Accruals	141,684	201,115
	1,308,889	823,788

17. Trade and other payables - Company

	2011	*2010*
	£	*£*
Trade payables	79,697	52,428
Other tax and social security payable	-	25,093
Accruals	40,788	126,256
	120,485	203,777

18. Short-term borrowings – Group and Company

	2011	2010
	£	£
Convertible loan	-	6,000,000

A short term loan from New City High Yield Fund for £2,000,000 was redeemed at par on 1 August 2011. Solomon Capital Limited (Solomon) provided a convertible loan facility of £13,000,000 of which £4,000,000 had been drawn down as of 31 December 2010. During 2011 there were two further draw downs from the facility of £1,750,000 providing a total loan to the Company of £5,750,000. Pursuant to a Shareholders Agreement of 8 March 2011 Solomon elected to convert the existing loan drawn down of £5,750,000 and the balance of the facility of £7,250,000 into 100,000,000 ordinary shares; equivalent to a conversion price of 13p per share. As of 31 December 2011 the Company has no outstanding loans.

19. Called up share capital

	2011	2010
	£	£
Allotted, called up and fully paid		
694,673,627 ordinary shares of 1p each (as at 31 December 2010: 269,716,344)	6,946,736	2,697,163

On 8 March 2011, the Company entered into a Subscription and Shareholders' Agreement (the 'Agreement') with Solomon Capital Limited (Solomon) and amongst others Runruno Holdings Ltd and Williams de Broë Limited.

The Agreement was entered into to address the concerns of certain minority shareholders relating to the Solomon takeover offer, and related parties to Solomon, dated 23 July 2010 whereby Solomon announced the terms of a cash offer for the entire issued share capital of the Company.

As part of the requirement of the Agreement the Company utilised the remaining balance of a £13,000,000 loan facility provided to the Company by Shelfco 724 Limited, an associate company of Solomon. A conversion notice was served on the Company and Shelfco 724 Limited exercised the conversion of the £13,000,000 loan facility as follows:

- The £4,000,000 loan outstanding as of 31 December 2010 was fully converted into 30,769,231 new ordinary 1p shares at a price of 13p per share on 5 April 2011.
- A further £1,750,000 drawn-down by the Company after the balance sheet date was fully converted into 13,461,538 new ordinary 1p shares at a price of 13p per share on 5 April 2011.
- The unutilised balance of £7,250,000 of the £13m total facility was drawn down and fully converted into 55,769,231 new ordinary 1p shares at a price of 13p per share on 5 April 2011.
- Commissions of £462,500 were deducted.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

19. Called up share capital (continued)

Runruno Holdings Ltd (RHL) subscribed for and received a total of 76,923,077 new ordinary 1p shares at 13p per shares in consideration for a gross value of £10,000,000 on which a 4% commission (£400,000) was deducted.

Williams de Broë Limited subscribed for and received a total of 15,384,615 new ordinary 1p shares at 13p per shares in consideration for a gross value of £2,000,000 on which a 4% commission (£80,000) was deducted.

On 22 February 2011, the Company issued 300,000 ordinary shares of 1p each at a price of 12p per share, realising £36,000 following the exercise of share options by a member of staff.

On 14 March 2011, the Company issued 50,000 ordinary shares of 1p each at a price of 12p per share, realising £6,000 following the exercise of share options by a member of staff.

On completion of the Agreement, Option Agreements were entered into between the Company and each of Solomon and RHL which granted options to subscribe for shares at 13p each which would ensure that the respective aggregate shareholdings of Solomon and its related parties and RHL and its related parties were capable of being maintained at 65 per cent and 18 per cent. This offer was premised on the shareholding falling below this respective holding pursuant to the number of shares rescinded, or if the aggregate shareholding of the Solomon entities was below 50%. It transpired that after the rescissions were received and the shares were subscribed for as per the agreement, the Solomon entities shareholding was 53.7% of the recently increased shares in issue.

Under the Deed of Option provided, the Solomon entities were able to subscribe for a total of 202,183,240 share options at a price of 13p per share. Under the Deed of Option provided the RHL entities they were able to subscribe for a total of 29,116,350 share options at a price of 13p per share. Solomon subscribed for its full allocation in three separate Exercise Notices and contributed a gross total of £26,283,821 and a net total of £25,495,307 to the Company after commissions. RHL subscribed for its full allocation in two separate Exercise Notices and contributed a gross total of £3,785,126 and a net total of £3,671,572 to the Company after commissions.

Solomon thereafter entered into a separate sales agreement with Baker Steel Fund Managers (Baker Steel) whereby it sold 126,923,076 of these purchased option shares to Baker Steel in two tranches; one sale of 76,923,076 shares and the other of 50,000,000 shares.

On 12 July, 2011 a warrant holder exercised the right to subscribe for 1,000,000 ordinary shares at 3.25p per share.

During 2011 a total of 424,957,282 new ordinary shares were issued and net proceeds of £49,298,878 were received by Metals Exploration plc.

These proceeds exclude amounts relating to the conversion of the £4,000,000 loan held at 31 December 2010.

20. Share based payments

Share options

The Group operates a share option scheme named the Unapproved Share Option Scheme 2007 ("Share Option Scheme") adopted on 29 March 2007.

Under the Group's Share Option Scheme, options are generally exercisable after 3 years from the issue date at a price equal to the quoted market price of the Company's shares on the date of grant. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding are as follows:

	Year ended 31 December 2011		*Year ended 31 December 2010*	
	Number of share options	*Weighted Average exercise price*	*Number of share options*	*Weighted Average exercise price*
		P		*P*
Outstanding at the beginning of the period	15,330,000	25.4	3,865,000	29.0
Exercised during the period	(350,000)	12.0	-	-
Forfeited during the period	(255,000)	40.0	(485,000)	27.0
Issued during the period	-	-	11,950,000	24.0
Outstanding at the end of the period	14,725,000	25.5	15,330,000	25.0
Exercisable at the end of the period	3,725,000	30.66	3,630,000	29.0

The options outstanding as at 31 December 2011 had a range of exercise prices from 12p to 40p (2010: 12p to 40p) and a weighted average remaining contractual life to expiry of 5 years (2010: 7 years). During the year, an expense of £537,646 was recognised in the statement of total comprehensive income (2010: £383,735).

The value of the options is measured by the use of the Black Scholes model. The inputs into the Black Scholes model were as follows:

	Share option issue 18 March 2010	*Share option issue 15 March 2010*
Weighted average share price	13.5p	13.8p
Weighted average exercise price	25p	15p
Expected volatility	72.7%	72.7%
Expected life	5 years	5 years
Risk free rate	2.33%	2.15%
Expected dividend yield	Nil	Nil
Number granted	11,000,000	950,000
Share price at date of grant	13.5p	13.8p
Fair value at date of grant	7.89p	8.76p
Earliest vesting date	18 March 2012	15 March 2011
Exit date	17 March 2017	17 March 2016

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

20. Share based payments (continued)

Warrants

The Group also operates a warrant scheme. Under the Group's warrant scheme, warrants are generally exercisable for up to 7 years from the issue date.

Details of the warrants outstanding are as follows:

	Year ended 31 December 2011		*Year ended 31 December 2010*	
	Number of warrants	*Weighted Average exercise price*	*Number of warrants*	*Weighted Average exercise price P*
Outstanding at the beginning of the period	18,010,000	14.8	18,250,000	20.0
Exercised during the period	(1,000,000)	3.25	-	-
Forfeited during the period	-	-	(240,000)	20.0
Outstanding at the end of the period	17,010,000	14.8	18,010,000	18.0
Exercisable at the end of the period	17,010,000	14.8	18,010,000	18.0

The warrants outstanding as at 31 December 2011 had a range of exercise prices from 3.25p to 52.5p (2010: 3.25p to 52.5p) and a weighted average remaining contractual life to expiry of 1.5 years (2010: 2.5 years). During the year, a £nil charge was recognised in the statement of total comprehensive income (2010: an expense of £11,098).

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

21. Net cash used in operating activities - Group

	2011	*2010*
	£	£
Loss after taxation	(2,350,980)	(4,526,872)
Depreciation	341,277	362,535
Amortisation	58,154	57,534
Revaluation of investment designated at fair value through profit and loss	-	(37,357)
Impairment of carrying costs of exploration in respect of PT Cupati	-	200,630
Share based payment expense	537,646	394,833
Net interest payable	188,230	293,404
(Increase)/decrease in receivables	(11,809)	1,890,401
Increase in payables	485,102	68,057
Foreign exchange differences	124,186	70,297
Cash used in operations	(628,194)	(1,226,538)
Interest received	13,372	524
Interest paid	(201,602)	(293,928)
Net cash used in operating activities	(816,424)	(1,519,942)

21. Net cash used in operating activities - Company

	2011	*2010*
	£	£
Loss after taxation	(1,693,064)	(2,422,162)
Depreciation	1,956	2,246
Amortisation	40,346	39,085
Provision for doubtful intercompany receivable – PT Cupati	66,713	44,684
Revaluation of investment designated at fair value through profit and loss	-	(37,357)
Share based payment expense	537,646	394,833
Net interest payable	188,994	289,535
Increase in receivables	(8,823,682)	(4,734,963)
Decrease in payables	(83,291)	(4,291)
Foreign exchange differences	(38)	-
Cash used in operations	(9,764,420)	(6,428,390)
Interest received	12,608	74
Interest paid	(201,602)	(289,609)
Net cash used in operating activities	(9,953,414)	(6,717,925)

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

22. Pension commitments

	2011	*2010*
	£	*£*
Defined contribution scheme costs	-	9,000
	-	9,000

23. Capital commitments

As at 31 December 2011 the Group had £2,244,653 of outstanding capital commitments.

Under the terms of the Financial or Technical Assistance Agreement (FTAA) dated 28 October 2009 upon the Company entering into the Development and Construction Period over a defined area within the FTAA it is required to “commit a minimum investment of Fifty Million US Dollars ($50,000,000) or its Philippine Peso equivalent, on infrastructure and development” in the defined area, “which amount shall include all Pre-Operating Expenses incurred after the commencement of the Development and Construction Period”.

For the Company to enter the Development and Construction Period in respect of a defined area within the FTAA it must first obtain the Mines and Geosciences Bureau of the Department of Environment and Natural Resources approval of the Company’s Declaration of Mining Feasibility. In the alternative if the Company was not prepared to commit to Fifty Million US Dollars ($50,000,000) or its Philippine Peso equivalent to a development, or could not commit to such a sum the Company has the option to convert that part of the FTAA into Mineral Production Sharing Agreement or withdraw from the FTAA.

The Company has had approval of its Declaration of Mining Feasibility as of 20 October 2011.

24. Related party transactions

It is only members of the Board of Directors of Metals Exploration plc who are deemed to be key management personnel. This Board has responsibility for planning, controlling and directing the activities of the Group. Key management compensation is disclosed in Note 6, Directors emoluments section. Other transactions with key management personnel are described below:

	Number of key management personnel	*Share Based payments*
		£
As at 31 December 2011	6	525,208
As at 31 December 2010	2	403,704

During the year to 31 December 2011, the Company recognised a provision of £57,471 in respect of a doubtful receivable balance owed by subsidiary company, PT Cupati (2010: £44,684).

During the year, the Company paid £9,303,454 to its subsidiaries to fund operations and purchase property, plant and equipment (2010: £4,701,115). At the year end, the Company was owed £35,673,392 by its subsidiaries (2010: £26,885,802).

25. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, short term borrowings and items such as trade payables and other receivables which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The carrying values of the Group's financial assets at the year end are as follows:

Group	*Cash and cash equivalents*	*Other receivables*	*Total*
	£	£	£
As at 31 December 2011	36,242,408	143,571	36,385,979
As at 31 December 2010	1,192,667	118,426	1,311,093

Other receivables and cash and cash equivalents are measured at amortised cost.

The Company's financial assets comprise cash and cash equivalents of £33,972,672 (2010: £636,763) and other receivables of £35,675,558 (2010: £26,900,768).

The carrying values of the Group's financial liabilities at the year end which are measured at amortised cost are as follows:

Group	*Trade payables*	*Accruals*	*Other Payables*	*Short term borrowings*	*Total*
	£	£	£	£	£
As at 31 December 2011	795,469	141,683	371,736	-	1,308,888
As at 31 December 2010	552,217	201,115	70,455	6,000,000	6,823,787

The Company's financial liabilities comprise trade payables of £79,697 (2010: £52,428), accruals of £40,788 (2010: £126,255), short term borrowings have a £nil balance (2010: £6,000,000).

The Group's operations expose it to a variety of financial risks including liquidity risk, credit risk, foreign currency exchange rate risk and interest rate risk. The policies set by the Board of Directors are implemented by the Group's finance departments.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

25. Financial instruments (continued)

Liquidity risk

The Group actively monitors its cash resources to ensure it has sufficient available funds for operations and planned expansions and fund raising activity is timed to meet cash requirements.

The contractual maturities of the financial liabilities at the year end which are measured at amortised cost are as follows:

Group	*Trade payables*	*Accruals and other payables*	*Short term borrowings*	*Total*
	£	*£*	*£*	*£*
As at 31 December 2011				
1 month or less	795,469	513,419	-	1,308,888
2 – 6 months	-	-	-	-
6 – 12 months	-	-	-	-
1 – 2 years	-	-	-	-
Total contractual cash flows	795,469	513,419	-	1,308,888
As at 31 December 2010				
1 month or less	552,217	271,570	-	823,787
2 – 6 months	-	-	161,316	161,316
6 – 12 months	-	-	6,030,575	6,030,575
1 – 2 years	-	-	-	-
Total contractual cash flows	552,217	271,570	6,191,891	7,015,678

Company	*Trade payables*	*Accruals and other payables*	*Short term borrowings*	*Total*
	£	*£*	*£*	*£*
As at 31 December 2011				
1 month or less	79,697	40,788	-	120,485
2 – 6 months	-	-	-	-
6 – 12 months	-	-	-	-
1 – 2 years	-	-	-	-
Total contractual cash flows	79,697	40,788	-	120,485
As at 31 December 2010				
1 month or less	52,428	151,349	-	203,777
2 – 6 months	-	-	161,316	161,316
6 – 12 months	-	-	6,030,575	6,030,575
1 – 2 years	-	-	-	-
Total contractual cash flows	52,428	151,349	6,191,891	6,395,668

25. Financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Group or Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Group and Company are exposed to credit risk attributable to its cash balances however, this risk is limited because the counterparties are large international banks.

The Group is exposed to credit risk for other receivables due from third parties. This risk is limited because the Group has not yet commenced sales operations.

The Company is exposed to credit risk to the extent that amounts owed by its subsidiaries may not be recoverable in the future. PT Cupati, a subsidiary based in Indonesia has incurred inter-company debts which the Group review for impairment each year. During 2011 it incurred debts of £57,471 (2010: £44,684) with Metals Exploration plc and which have been fully provided for in both years.

As at 31 December 2011, none of the other receivables were found to be impaired (2010: £nil). No unimpaired other receivables are past due as at 31 December 2011 (2010: £nil).

The maximum exposure to credit risk at the year end is best represented by the carrying amounts of other receivables and cash and cash equivalents.

Market risk and sensitivity analysis

Foreign currency exchange rate risk

The Group and Company are exposed to foreign currency exchange rate risk due to funds raised in Pounds Sterling but trade payables being predominantly settled in US Dollars and Philippine Pesos. The Group monitors exchange rates actively and converts funds raised to other currencies when deemed appropriate in order to meet expected future foreign currency commitments.

The Group is also exposed to translation risk due to the accounts of the Group's subsidiaries being in different currencies to the Company's. On consolidation, the subsidiary accounts are translated to Pounds Sterling. The impact on the reported net assets at the year end is a separate reserve of £4,071,043 (2010: £3,860,032).

The company had a US Dollar cash balance of $37,084,228 at the year end (2010: $27,619) and a 5% movement in the exchange rate would have resulted in a £1.1m impact on the loss for the year (2010: £nil).

Interest rate risk

The Group has interest bearing assets and no interest bearing liabilities. Interest bearing assets comprise cash and cash equivalents which earn interest at a variable rate. The Company's Pound Sterling cash balance earned interest at an average annual rate in the year of 0.15% (2010: 0.15%). The impact on the reported loss for the year is net interest income on cash of £12,608 (2010: £73).

Interest bearing liabilities comprise two convertible loans each with a fixed rate of interest, and during the year one of these loans has been fully converted into ordinary shares and the other has been repaid in full. The impact on the reported loss for the year is a net interest expense on the loans of £201,602 (2010: £389,609).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2011 (continued)

26. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital.

The Group defines capital as being share capital plus reserves. The Board of Directors monitors the level of capital as compared to the Group's long term debt commitments.

The Group is not subject to any externally imposed capital requirements.

27. Post balance sheet events

There have been no material post balance sheet events at the date of signing the balance sheet.

28. Ultimate controlling party

The Company has no single shareholder owning more than 50% of the issued share capital and therefore there is no ultimate controlling party.