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DIRECTORS AND ADVISERS

Directors	I.R. Holzberger	(Executive Chairman)
	T.J. Dean	(Non-Executive Director)
	G.R. Walker	(Non-Executive Director)
	J.G. Wilson	(Non-Executive Director)
	J.W.D. Ayre	(Non-Executive Director) resigned 7 April 2017
	L.E. Simovici	(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 Audit Limited Chartered Accountants 25 Moorgate London EC2R 6AY
Nominated Advisor	Canaccord Genuity Limited 88 Wood Street, London, EC2V 7QR
Broker	Canaccord Genuity Limited 88 Wood Street, London, EC2V 7QR
Solicitors	Kerman & Co LLP 200 Strand London WC2R 1DJ
Registrars	Capita Registrars Limited 40 Dukes Place London EC3A 7NH
Company's registered number	05098945

CHAIRMAN'S STATEMENT

Dear Shareholder,

I have satisfaction in presenting Metals Exploration plc's (the 'Company' or the 'Group') twelfth set of audited financial results and the Annual Report for the year ended 31 December 2016.

2016 was a landmark year for your Company, as it completed its transition from explorer to emerging gold producer. Ore commissioning commenced in early June 2016 with the first gold pour shortly thereafter. Ramp up has been challenging and at a slower rate than planned. It had been anticipated that the Project would transition through ramp up and achieve design by the end of the year or in Q1 2017. Unfortunately, this did not transpire due to a number of internal and external factors. It is now reasonable, subject to external factors, to expect that the Project will achieve design during H2 2017. The Strategic Report provides a more comprehensive review of progress and developments covering the year to 31 December 2016 and the period subsequent to the financial year end.

The mining industry in the Philippines experienced very uncertain times during H2 2016 and Q1 2017 to the extent that the sector's future could be considered to have been questionable. These circumstances arose out of the actions, policies and statements of the then acting Secretary of the Department of Environment and Natural Resources ("DENR"), the government department responsible for regulating the industry. Recently a new nominee has been appointed as acting Secretary with the industry now hopeful of a period of stability for those companies such as ourselves, who are committed to responsible, world class mining, environmental and stakeholder practices.

Much has been written and spoken about in the Philippines with respect to responsible mining and Australian and Canadian mining standards setting the benchmark of achievement for operating mines. I wish to assure you that your mine at Runruno in Northern Luzon in the Philippines has been built to the highest standard. It includes multiple environmental management and mitigation initiatives such as a unique three stage neutralisation circuit, to render processing residue benign within the plant area before it is discharged into the purpose-built reservoir. Our Project is at least on a par with Australian or Canadian standards and often exceeds these standards. We have an obligation to replant every tree which is felled with 100 new sapling replacements; to date the Project has removed 700 trees but we are responsible for the planting of over 1.7 million sapling trees through various arborist programmes. This is a staggering statistic well in excess of our commitments and one I am personally proud of. This is only a small part of our social and community commitment which is undertaken with passion and conviction.

The delay in commencing and completing the ramping up process placed significant pressure on the cash reserves of the Group. The shareholders continued their unwavering support of the Group and the Runruno Project providing over £21 million in additional equity throughout 2016. The Runruno Project could not have achieved what it has without the steadfast support of its shareholders.

I am also appreciative of the ongoing support the Group has received from its financiers HSBC Bank Plc and BNP Paribas who agreed to a further rescheduling of the Group's repayments under the existing facility agreement. The restructuring provides the Group additional flexibility to manage its working capital position as it completes the ramp up phase into commercial production. The rescheduling was agreed in December 2016 and became effective in January 2017.

The development of the Runruno Gold Project has required skill, persistence and dedication and in this regard, I express my gratitude to the employees, consultants, contractors and suppliers who have contributed to the development of the Project.

On 7 April 2017, the Company announced the resignation of Non-Executive Director Mr. Jeremy Ayre. The Board appreciated the experience and support Jeremy has contributed to the development of the Group over the last three years and wishes him the very best for his future.

The Company's Board of Directors and management place great importance on developing constructive, sustainable and mutually beneficial relationships with the communities in which the Company operates and have made, and continue to make, significant investments in fostering opportunities for the development of sustainable income producing businesses by local community members. The Group also promotes responsible environmental management for the wellbeing of its local communities and during the year achieved ISO14001:2015 accreditation of the Company's environmental systems.

I would also like to thank the numerous regulatory agencies and the various levels of government who have worked closely with the Group as it has navigated the administrative labyrinths and complexities involved in obtaining more than 500 permits required for the ongoing operation of Runruno Project.

Currently the project is operating soundly as it continues ramp-up to design throughput and gold production. The economic fundamentals of the Runruno Project remain attractive with the existing mineral reserves and resources providing approximately ten years of production at cash costs that are in the lowest quartile for the industry.

It is with some confidence and optimism that I look to the year ahead in anticipation of reporting another year of significant achievement in 2017.

Ian R. Holzberger

Ian R. Holzberger
Executive Chairman
19 May 2017

CORPORATE GOVERNANCE STATEMENT

In 2013, the Quoted Companies Alliance published the Corporate Governance Code for Small and Mid-sized Quoted Companies. The Company's Board of Directors has complied with these guidelines during the year, except where stated below.

Incorporation
The Company was incorporated in the UK as a public limited company on 8 April 2004 under the Companies Act 1985 (now Companies Act 2006). On 22 October 2004, the Company was admitted to the Alternative Investment Market in the UK for the trading of its ordinary shares.

Directors
For the year ended 31 December 2016 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. T.J. Dean, Mr. J.G. Wilson and Mr. L.E. Simovici who were nominated to the Board by the major shareholder MTL (Luxembourg) Sarl Ltd, Mr. G.R. Walker who was nominated to the Board by a significant shareholder, Runruno Holdings Limited and Mr. J.W.D. Ayre, an independent director. On 7 April 2017, Mr. Ayre resigned as a Director of the Company.

The Board undertakes full agenda meetings 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 Director also gives an appraisal of the current status and short term plans for operational and development activities. The latest management and financial information is circulated to the Directors in advance of meetings. In addition to its schedule the Board convenes restricted agenda meetings on an as required basis.

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 2016, no Nomination Committee has been established.

Audit, Remuneration and Risk Committees
During the year ended 31 December 2016, the Audit Committee consisted of two Directors, Mr. T.J. Dean and Mr. G.R. Walker. There is no independent Director on the Board of the Audit Committee. Mr. T.J. Dean 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, to agree the audit plan, 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 2016, the Remuneration Committee comprised three Directors, Mr. I.R. Holzberger, Mr. T.J. Dean and Mr. G.R. Walker. The Remuneration Committee is responsible for the Group remuneration policy and setting remuneration for Directors. Directors' remuneration currently consists of a salary package. At the time of writing this report no current directors have any

Corporate Governance Statement (continued)

warrants in their remuneration package and only the Chairman has a performance based option package. The Committee meets when necessary.

The Risk committee comprises three directors Mr. I.R. Holzberger, Mr. T.J. Dean and Mr. G.R. Walker and management is represented by Mr. I.R. Holzberger, Mr. L.A. Ruddy, Mr. S.J. Kelly and Mr. R. Salazar (Chairman of FCF Minerals Corporation, a wholly owned subsidiary and the Project operating company). The committee employs the services of a specialist hedging consultant as required. The committee is quorate with any two of three directors present. The committee has delegated powers for evaluating and setting the Group's risk and hedging policies and opining on management's hedging recommendations. The committee meets when necessary.

Communication with shareholders

The annual general meeting, annual report and financial statements, 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 may 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.

Going concern

The consolidated financial statements of the Group have been prepared on a going concern basis, which contemplates the continuity of business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

The company's business activities are described in the Strategic Report on pages 9 to 21, and the factors likely to affect its future development, performance and position are set out in this report and in the Directors' Report at pages 25 to 29. Specific reference is made to the summary of the current regulatory environment for the Philippines mining industry provided in the Directors' Report at pages 27 to 28.

As at 31 December 2016, the Group's current liabilities exceeded its current assets by £41,283,290 due primarily to the portion of the Group's external borrowings that is scheduled to be repaid by 31 December 2017. The Group reported an operating loss after tax of £18,032,541 for the year ended 31 December 2016 and cash outflows from operations of £8,668,434 for the year ended 31 December 2016.

As at 31 December 2016 the Group had not made all scheduled principal repayments under its external finance facilities and had obtained waivers from its financiers so that no event of default occurred.

Corporate Governance Statement (continued)

On 15 December 2016, the Group executed an Amendment Letter that varied the terms of its financing facilities, including the rescheduling of principal repayments taking into consideration updated cashflow projections for the Group. The Amendment Letter became effective on 27 January 2017.

Subsequent to 31 December 2016, the Group's production of gold has been below the forecast production contemplated when the amended principal repayment schedule was agreed with the Group's financiers on 15 December 2016. The Group requested, and was granted, a waiver and extension for the principal repayment of US $4.24 million scheduled for payment on 31 March 2017.

In addition, in the absence of the Group raising additional funds, or agreeing a further restructuring of the Group's financing facilities with its financiers prior to 30 June 2017, it is likely that the Group will be unable to meet interest, principal and fee payments as they fall due under the Group's financing facilities.

Over the next financial period, the continuing viability of the Group and its ability to operate as a going concern is dependent upon the ability of the Group to raise additional funding to meet its short term working capital requirements and to operate the Runruno Gold Project successfully so as to generate sufficient cash flows from the Project to enable the Group to settle its liabilities as they fall due.

The Company has commenced discussions with potential providers of a working capital funding facility and the Company's Director's believe there is a reasonable prospect of the Company successfully negotiating such a facility.

As a consequence of the above matters, the directors have concluded that a material uncertainty exists that may cast significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group and the Company may be unable to realise its assets and discharge their liabilities in the normal course of business and at the amounts stated in this Financial Report.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors believe that there are reasonable grounds to believe that the use of the going concern basis remains appropriate as there is a reasonable expectation that the Group:

- will be able to raise additional working capital funding on or before 30 June 2017 to meet the Group's short term working capital requirements;
- will achieve forecast levels of gold production as the testing and debugging phase of operations is complete;
- will continue to have the support of its financiers; or

in the event that the above are considered unlikely to be achieved, then the Group may seek alternative financing from its shareholders.

Corporate Governance Statement (continued)

The 2016 Financial Statements do not include or contemplate adjustments relating to the recoverability and classification of recorded values, or to the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

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

Ian R Holzberger

I R Holzberger
Executive Chairman

19 May 2017

STRATEGIC REPORT

2016 provided a variety of challenges for the Company and the Runruno Gold Project (the "Project") but despite the operational and financial challenges it is notable as the year in which the Project achieved its first gold pour.

At the commencement of the year the Company was optimistic the first pour milestone would be achieved earlier than what transpired, but due to external factors the Project was restricted from this achievement until June 2016. Nevertheless, the Project has been able to produce and sell a high-quality gold doré as it has proceeded through ore commissioning and then on into ramp-up. The Project is still in the ramp-up stage. After achieving its first gold sale in November 2016, the Project has been able to routinely obtain the permits required to export for sale the doré bullion produced during this phase of the operations. Since commencing ore commissioning 16,552 troy ounces ("ozs") contained in gold doré bullion had been produced to the end of March 2017 of which 8,366 ozs were produced during Q1 of 2017.

The Project's performance during 2016 and Q1 2017 has been greatly influenced by technical issues, internal and external factors, and cash flow constraints resulting from the cumulative impacts of these influences. In an extremely challenging time for the whole of the Philippine mining industry the Project has made steady progress albeit not at the rate which was expected. Currently the project is operating soundly as it continues ramp-up to design throughput and gold production. There have been no changes to the Project's overall objectives, philosophies or strategies but there has been an acceptance that the cost of compliance in the Philippine industry, as measured in dollar terms and operational constraints has increased significantly. This is impacting all mining stakeholders in the Philippines and is not expected to be a short-lived phenomenon.

The continuation of the partial suspension order imposed in October 2015 on the construction activities in the Residual Storage Impoundment ("RSI"), seriously impacted the commencement of ore commissioning and full mining activities of the Project. This suspension order continued through to 25 April 2016 when it was lifted provided certain conditions, predominantly enhancement works, were completed to the satisfaction of the Mines and Geosciences Bureau ("MGB") the primary mining regulatory body. A further six months of commissioning and ramp-up was compromised whilst these enhancement works and attendant reporting were completed.

MINING OPERATIONS

The mining operations and mining equipment have performed satisfactorily. However, the requirement to continue "enhancement works" within the RSI and a prolonged four month period of continuous rain commencing in November 2016 limited the efficient operation of the mine by hampering waste stripping to expose sulphide ore in the mine. To maintain production and lower stripping ratios during this period, inferior near surface ore was mined which resulted in lower grade ores being delivered and poorer recoveries in the processing plant. This became especially prevalent during January and February 2017. Prior to the impact of the wet period, mining activity was largely directed to mining waste material for the construction work in the RSI and to enhancement works required as conditions to the lifting of the RSI partial suspension order. Sufficient ore was mined during the period from the commencement of ore commissioning in the process plant to December 2016 to support the ore commissioning and ramp-up activities.

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

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

The mine design calls for the majority of the ore and waste mined to be free dug, however harder areas of the operation will require blasting to enable efficient mining. One such area of sulphide ore has been outlined in the mine to date. It has taken much longer than anticipated to obtain a site blasting permit for the operation which would enable the early mining of this area. A permit enabling the first blast has recently been issued by the MGB. This delay required a re-design of the operation in this area to mitigate the inefficiency of having to mine around this area.

The delay in the issuing of the third tree cutting permit, identified above, precluded the proper operational management of waste over the last nine month period. The development of a planned and previously designed overflow waste dump site in an area known as Tullingan prior to the recent wet season would have prevented this issue. The Tullingan development could only have been undertaken on the issue of the third tree cutting permit. Following lodgment over two years ago the application progressed through the various stages of assessment but it has not been issued by the DENR Secretary. The delays experienced in the issue of this routine permit placed the project in a limbo situation where mining decisions were required to be made for the benefit of the environment and the Project. Alternative strategies for waste management are currently being developed in advance of the 2017-18 wet season to prevent a repeat of the circumstances recently experienced should the tree cutting permit be delayed further. The Project far exceeds its tree planting obligations of around 80,000 trees at a ratio of 100 trees planted for each tree removed and to date is responsible for more than 1.7 million trees being planted in the Philippines.

PROCESS PLANT

The Project's first gold pour milestone was achieved on 13 June 2016 after ore commissioning commenced early in June. First gold sale occurred on 29 November 2016.

After a period of relative inactivity the process plant re-commenced commissioning, "test running and debugging" operations and ramp-up in June 2016, following the conditional lifting of the RSI suspension order and the commissioning of the RSI and slurry and return water pipelines. Dry commissioning had been completed in December 2015 and wet commissioning and snagging works followed on after the issue of the permits required to operate the process equipment early in 2016. However, ore commissioning could not commence until the RSI was available to accept tailing material from the process plant. Consequently, the process plant sat in an almost idle state for a number of months before ore commissioning began. A number of mechanical and electrical failures which followed can be attributed to natural deterioration during this period while other failures are attributed to construction and design related issues. The more significant mechanical issues included the failure of the feed end trunnion bearing on the SAG mill and the deterioration of the rollers on the limestone mill.

Strategic Report (continued)

Shortly after the completion of load commissioning of the SAG mill a critical failure was experienced on the feed-end trunnion bearing causing milling activities to be suspended in June 2016. The suspension lasted until mid-July 2016 and corrective action involved the mill manufacturer's engineers and an independent Philippine based engineering services company. A replacement trunnion bearing was sourced and fitted and other works undertaken to address the cause of the failure. The mill has operated reliably since this incident. A number of minor design issues mainly involving material movement which restricted the operation of the plant have been identified and rectified.

The plant has now been made mechanically and operationally sound and has been operating routinely since November 2016. A number of the unit operations are at or around design throughput and recovery criteria:

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

The process plant ramp-up was designed to initially treat oxides ores predominantly to maximise gold recovery from the gravity and carbon in leach (CIL) circuits. This stage was expected to last for a period of 2-3 months while the BIOX® circuit was ore commissioned after which the circuit was to be progressively transitioned to sulphidic or fresh ores in line with the BIOX® ramp-up. As a "living" circuit using bacteria to oxidise gold bearing sulphide ore for subsequent recovery of gold from through the CIL circuit the BIOX® circuit must be established, activated and ramped up with care over a 2-3 month period before a steady state operation is established. Increasing tonnages of gold bearing sulphide concentrate is feed into the BIOX® circuit progressively as the bio-mass increases and its activity levels improve until design throughput and oxidation rates are established. The Runruno Gold Project is designed to recover 30% of its gold from gravity and 70% from the BIOX process in steady state operations.

The mill, gravity and flotation circuits commissioned and ramped up well. However, some process issues have been experienced with the ramp-up of the BIOX® circuit which are attributed to the supply of "inferior" low sulphide oxide ore produced from the mine during the extended rain season (as reported above, in Mining Operations). Prior to mining of predominantly oxide ore and the subsequent processing of these ores in the plant commencing in December 2016, the BIOX® process had been performing well with throughput having been built up to around 70% of design. Once supplies of available sulphidic ore were exhausted, and oxide ores were the only available alternative the performance of the BIOX® circuit progressively deteriorated until it effectively passivated. Following the re-establishment of a reliable sulphide ore feed to the process plant in March / April 2017 the bacteria are being re-activated with positive effect. An earlier short term interruption occurred during October 2016 which was fully resolved at the time and was attributed to commissioning and "housekeeping" issues.

Following the disturbance in the BIOX® the ramp-up plan has been re-established.

RESIDUAL STORAGE IMPOUNDMENT (RSI)

On 21 October 2015, the Mines and Geosciences Bureau ("GMB") of the Philippines imposed a partial suspension order on the construction of the Project's Residual Storage Impoundment ("RSI"). Super Typhoon Lando had passed over the Project and caused water related damage in the area downstream of the RSI's embankment, but no damage was sustained to the RSI structure. Restoration works were immediately undertaken and completed quickly but enhancement works continued through until mid-February 2016. A further two months were absorbed engaging in independent geotechnical verification of the works and presentations to the MGB of the total package of works undertaken. The result of these reports was to recommend further enhancement works which were not initially contemplated but which the Project embraced and directed effort and finances towards. Fortunately the enhancement works were undertaken during the dry season but this delayed Project mining works which had been planned to be undertaken during this period.

Stage 2 of the RSI construction, the level required to commence the discharge of tailing materials, was completed in Q2 2016 complete with a number of enhancements including shotcrete lining of the upper spillway, construction of a sediment pond, polishing pond, energy dissipation concrete constructs and a number of other enabling works. On completion of these works the design contractors Resource Development Consultants Limited, "RDCL" (RSI wall) and GHD certified the various works resulting in the conditional lifting of the partial suspension order by the MGB. The RSI was then available for commissioning and deposition of tailing material.

GHD took over the design and monitoring of the ongoing lifting of the RSI commencing with Stage 3 of the wall which is being built in two sub-stages. Stage 3a which involved lifting the wall 6 m and the construction of a new high volume "over the wall" spillway from roller emplace concrete and gabion baskets and mattresses commenced in June and was completed in November. Stage 3b a further 9 m lift is ongoing.

The RSI is operating to design with an excellent environmental performance.

MAILILIBEG DUMP SITE

One other area of concern for the MGB following Typhoon Lando and included in the partial suspension order was the stability of an engineered filled waste dump known as the Malilibeg Dump Site ("MDS"). An independent geotechnical report confirmed the MDS was stable and that the typhoon inflicted no structural damage, although some superficial embankment erosion had been experienced. The report identified various enhancement recommendations including rock sheeting over the surface of the dump site, about 500 metres long by 37metres high to improve the factor of safety and prevent surface erosion. The recommendations were embraced and the enhancement works undertaken to comply with the MGB's requirements. The surface of the dump has now been rehabilitated using a mixture of endemic and specialised species to further enhance the stability and erosion performance.

COMMUNITY AND SOCIAL DEVELOPMENT

The Community & Social Development Department, the community interface arm of the Company, maintains strong partnerships with various national agencies and local governments from the Barangay to the Provincial level in the implementation of identified and prioritized projects and programs under them as a component of the Company's Corporate Social Responsibility programs.

Strategic Report (continued)

It is the Company's objective to benefit its host communities by undertaking sustainable development within the community with programs focused in key areas:

- Health;
- Education;
- Capacity building;
- Community development and empowerment;
- Enterprise development, improvement and networking;
- Infrastructure development; and
- Preservation and respect of socio-cultural values.

The programs assist the residents of the Barangay of Runruno and surrounding Barangays, the Municipality of Quezon and the Province of Nueva Vizcaya.

HEALTH AND SAFETY

There have been no material health and safety incidents throughout the construction phase and transition into commissioning. A safe working culture is actively promoted by a dedicated department and is embraced across the Project site and in departments, with all staff recognising their individual responsibilities to their own safety and the safety of others. During 2016, the company achieved a very commendable 6,008,406 man-hours before incurring the first of three lost time incidents recorded during the year.

ENVIRONMENT

The Company is active in promoting and implementing "responsible mining" practices. It is a leader in the Philippine mining industry in its environmental and environmental rehabilitation practices. It recognises good environmental management as a key parameter in its Corporate Social Responsibility ("CSR") charter. The Company maintains its commitment to the effective stewardship, protection and enhancement of the environment in and around the areas where it operates, and the conduct of its business in an environmentally sound manner is the driving thrust towards the goal of sustainable development and reducing potential significant impacts of the project upon the environment.

REAFFORESTATION AND REHABILITATION

The Company actively reduces the potential environmental impacts of its operations and enhances its environmental performance in mined-out and disturbed areas through immediate and continuous rehabilitation activities and by the re-greening of barren lands, establishment of protection forests and the provision of habitat for wildlife within the FTAA area. These programs demonstrably improve the environment within and surrounding the Company's operations and are designed for beautification, stabilisation, off-set green-house gas emissions and the impacts of the Company's operations. Through its various programs, the Company is responsible for the planting of more than 1.7 million endemic and cash crop trees.

A major nursery holding up to 80,000 trees seedlings along with native and engineered grasses is maintained at Runruno. To supplement these activities the Company works closely with the Nueva Viscaya State University in the furtherance of its reforestation programs.

ENVIRONMENTAL MONITORING

The Company maintains very high compliance standards and employs a number of industry leading initiatives to ensure the highest environmental performance. It regularly conducts its own internal comprehensive environmental monitoring program to ensure compliance with its licence provisions, Philippine regulations and any appropriate contemporary standards. These programs extend to reference sites outside the immediate operational area and are used to provide reference and base-line data for future use. The Company also engages an independent third party consultant group specialising in environment monitoring services to conduct independent monitoring of its environmental performance.

LEGAL COMPLIANCE

High compliance standards are practiced across the Company in the maintenance of its operations. A large site based team is dedicated to managing the high levels of compliance mandated within the Philippines. The site is regularly audited with upwards of 50 audits, verifications or reviews of its operations undertaken annually by the various regulators. As of April 2017, the Company has 524 active permits with a number of additional permits in process. The wide range of permits to operate in the Philippines are secured from a number of Government agencies and regulators including the DENR, MGB, Environmental Management Bureau, Forrest Management Bureau, Bureau of Internal Revenue, Bureau of Customs, Bureau of Investment, Provincial Government, Municipality, Philippines National Police, National Telecommunications Commission, Water Management Bureau, and the Local Government Units (LGU).

PRIVATE SHARE PLACEMENTS

This Project's challenge was compounded with a need to find additional cash reserves to complete the RSI works and carry the Project into its gold producing and selling phase. The Project had experienced its current cash reserves being depleted over the suspension period which absorbed an additional amount of US $4million for remediation and enhancement works, and a further US $11.5million in working capital cash burn. It could not have been forecast how long the suspension period would last. Once out of suspension stages 2 and 3 RSI construction works were required to be accelerated together with the remaining Process Plant commissioning, to be made ready for dispersal of processing residue into the reservoir. Throughout this period of time the Lenders were kept fully aware of Project developments and weekly cash flow information was provided to enable them to understand the financial constraints the Project was working under.

An amount of US $6million which had been funded from equity in 2015 was held in a Project reserve account controlled by the Lenders. These funds were reserved to provide operational start-up working capital, and when applied for it was agreed with the Lenders they would be released from the Project reserve account for immediate operating expenses. A capital payment of US $2million which was due to be paid on 31 March 2016 was funded from cash released from the Debt Service Reserve Account. An amount of interest to the value of US $0.181 million was due on 31 March 2016 relating to additional margin interest pursuant to debt rescheduling, was also settled from funds in the DSRA reducing the balance in that account to US $0.155 million.

Strategic Report (continued)

The Company projected that due to its depleting cash resources the Project required to quickly raise working capital that would suffice for a period of time. That period of time was estimated to be for two months, wherein it was expected that the Project would achieve commercial operations and have a positive cash flow. During March 2016 management entered into discussions with its Lenders to realign the economic variables of the Project with a less aggressive capital repayment profile and to a more achievable timeline. The expectation was that the Lenders' facility would be restructured to achieve this and that this could be completed by the end of June 2016 with all parties working to that end.

In conjunction with the above a private share placement was completed during March 2016 to raise £4,300,716 by the issue of 148,300,536 new ordinary 1 pence shares at a subscription price of 2.9 pence per new share. The price of 2.9 pence per new ordinary share represented a 29.7 per cent discount to the closing mid-price of 4.13 pence per ordinary share as at 10 March 2016, and a 35.8 per cent discount to the 1-year average closing mid-price of 4.52 pence per ordinary share. This placement comprised the major shareholders of the Company taking up an offer on a prorata basis as follows:

PRIVATE SHARE PLACEMENT TO RAISE AN AMOUNT EQUIVALENT TO US $6.2 MILLION (17 MARCH 2016)

SHAREHOLDER	CURRENT SHARES	%	NEW SHARES	NEW REGISTER	%	£
MTL (Luxembourg) Sarl[1]	740,905,659	46.8%	85,431,490	826,337,149	47.7%	£2,477,513
Runruno Holdings Ltd	300,407,305	19.0%	34,639,017	335,046,322	19.4%	£1,004,531
Baker Steel Capital Managers LLP[2]	141,922,845	9.0%	16,658,476	158,581,321	9.2%	£483,096
Investec Wealth & Management Ltd	105,297,639	6.7%	11,571,553	116,869,192	6.8%	£335,575
Non participating Shareholders	294,471,897	18.6%	-	294,471,897	17.0%	-
Total	**1,583,005,345**		**148,300,536**	**1,731,305,881**		**£4,300,716**

Notes:

MTL (Luxembourg) Sarl[1] - an entity comprising a related party, Ms. Crompton-Candy
Baker Steel Capital Managers LLP[2] - acting on behalf of various funds for which it acts as full discretionary investment manager.

During July 2016 there became a need for a second private share placement to raise additional working capital funds for the Group primarily due to three reasons:

- discussions with the Lenders taking longer than expected
- a commissioning problem encountered by the Project's mill
- conditions attaching the release of the Project's US $6 million working capital contingency

Management had been in discussions since March 2016 with its senior debt Lenders (HongKong and Shanghai Banking Corporation Limited and BNP Paribas) to find a solution for the Project's cash requirements during the period prior to achieving a sustainable cash flow from operations. It had been hoped that a restructured package could have been put in place by 30 June 2016, which unfortunately was not achieved. A third bank was invited to enter the restructuring process and was undertaking its due diligence process thereby increasing the timeline to completion which was expected to be finalised by the end of August 2016. This meant that the Company could not meet its capital payment of US $15 million scheduled for 30 June 2016 but the Company had hoped to have the debt rescheduled by 30 June 2016, a date which had not been achieved.

On 24 June 2016 the Company announced the milling operations at the Project were suspended due to an issue on the feed end trunnion bearing of the mill. The mill was undergoing commissioning activities when a failure occurred. The downtime experienced due to the mill being out of operation caused a

Strategic Report (continued)

delay receiving revenue from gold sales. The Project had achieved its first and second gold pours producing 119 ounces of gold before the situation with the mill occurred. Management was reasonably optimistic of receiving revenues from gold sales but due to the mill failure it reforecast these revenues down to zero.

US $6 million of equity had been deposited into a reserve account bank during 2015 which was an amount of working capital which would be released to the Project's proceeds accounts once the Project had entered the commissioning phase of operations. In May 2016 management approached the Lenders to have the US $6 million released after the partial suspension order was lifted and when the Company had announced entering the operations debugging phase (a term defined in the Project's Financial or Technical Assistance Agreement). The Lenders agreed to release of the US $6 million working capital for the benefit of the Project but with certain conditions attached. These conditions were that the interest due 30 June 2016 would be reserved out of these funds. An amount of US $2,874,420 was reserved on drawdown of the US $6 million working capital on 3 June 2016 and the interest was paid to the lenders on 30 June 2016.

The 30 June 2016 capital amount due of US $15 million was deferred by a waiver agreement until the earlier of the debt rescheduling or 31 December 2016. The debt was finally rescheduled by an Amendment Agreement dated 15 December 2016 and a new capital payment profile agreed.

The Company had an imminent requirement to raise US $5 million (approximately £3.8 million) for working capital purposes and to bridge the period of time to when it was expected that the mill would be repaired and the company could commence its ramp up period; during which it would be producing and selling gold.

Because of the immediate need to raise the funds, management approached its major shareholders for financial assistance and received binding commitments to raise £3,806,421 from a private share placement of 76,128,414 new issued 1 pence ordinary shares at a placing price of 5.0 pence per share. The subscription price of 5.0 pence per new ordinary share represented a 41.2 per cent discount to the closing mid-price of 8.5 pence per ordinary share as at 22 July 2016, and a 3.2 per cent premium to the 1-year average closing mid-price of 4.85 pence per ordinary share. This placement comprised the major shareholders of the Company taking up an offer on a prorata basis as follows:

PRIVATE SHARE PLACEMENT TO RAISE AN AMOUNT EQUIVALENT TO US $5.0 MILLION (29 JULY 2016)

SHAREHOLDER	CURRENT SHARES	%	NEW SHARES	NEW REGISTER	%	£
MTL (Luxembourg) Sarl[1]	826,337,149	47.7%	41,796,379	868,133,528	48.0%	£2,089,819
Runruno Holdings Ltd	335,046,322	19.4%	16,946,743	351,993,065	19.5%	£847,337
Baker Steel Capital Managers LLP[2]	158,581,321	9.2%	7,246,199	165,827,520	9.2%	£362,310
Ruffer LLP[3]	200,455,373	11.6%	10,139,093	210,594,466	11.7%	£506,955
Non participating shareholders	210,885,716	12.2%	-	210,885,716	11.7%	-
Total	**1,731,305,881**		**76,128,414**	**1,807,434,295**		**£3,806,421**

Notes:

MTL (Luxembourg) Sarl[1] - an entity comprising a related party, Ms. Crompton-Candy

Baker Steel Capital Managers LLP[2] - acting on behalf of various funds for which it acts as full discretionary investment manager

Ruffer LLP[3] - acting on behalf of its investment clients

Strategic Report (continued)

During September and November 2016 management approached its major shareholders twice more to raise further working capital funds for a total of £4,850,109 and £8,344,906 respectively. Ongoing operational delay issues continued to hamper the Group's ability to generate sustainable cash flow resulting in a further requirement to raise additional funds for working capital purposes. The ongoing debt rescheduling discussions continued but during October 2016 a third bank which had been introduced as a potential additional lender and which completed its due diligence exercise, informed the Company that it had decided to withdraw from the restructuring exercise. The bank cited the developing political risk profile in the Philippines caused by the newly elected administration as the main reason for their decision. There was full support within their credit committee for the Project otherwise.

It was hoped that this bank would become an equal partner in a restructured facility which would be increased to US $90 million through the injection of an additional US $9 million of cash for the benefit of the Project. Without the third bank the current Lenders agreed to reschedule the outstanding capital amount of $81m by rolling the two facilities (US $73 million senior debt facility and US $8 million cost overrun facility) into one facility and extending the tenor to accommodate a less aggressive repayment schedule.

The Company received binding commitments to raise £4,850,109 and on 14 September 2016 a private share placement realised the issue of 97,002,174 new issued 1 pence ordinary shares at a placing price of 5.0 pence per share. The subscription price of 5.0 pence per new ordinary share represented an 11.1 per cent discount to the closing mid-price of 5.625 pence per ordinary share as at 7 September 2016, and a 2.6 per cent discount to the 1-year average closing mid-price of 5.136 pence per ordinary share. This placement comprised the major shareholders of the Company taking up an offer on a prorata basis as follows:

PRIVATE SHARE PLACEMENT TO RAISE AN AMOUNT EQUIVALENT TO US $6.4 MILLION (14 SEP 2016)

SHAREHOLDER	CURRENT SHARES	%	NEW SHARES	NEW REGISTER	%	£
MTL (Luxembourg) Sarl[1]	868,133,528	48.0%	56,552,267	924,685,795	48.6%	£2,827,613
Runruno Holdings Ltd	351,993,065	19.5%	22,931,314	374,924,379	19.7%	£1,146,566
Baker Steel Capital Managers LLP[2]	149,907,490	8.3%	6,268,119	156,175,609	8.2%	£313,406
Investec Wealth Management Ltd	119,033,014	6.6%	7,000,474	126,033,488	6.6%	£350,024
Lynchwood Nominees Limited	2,633,783	0.1%	3,750,000	6,383,783	0.3%	£187,500
HSBC Marketing Name Nominee	5,000,756	0.3%	500,000	5,500,756	0.3%	£25,000
Non participating shareholders	310,732,659	17.2%	-	310,732,659	16.3%	-
Total	**1,807,434,295**		**97,002,174**	**1,904,436,469**		**£4,850,109**

Notes:

MTL (Luxembourg) Sarl[1] - *an entity comprising a related party, Ms. Crompton-Candy*

Baker Steel Capital Managers LLP[2] - *acting on behalf of various funds for which it acts as full discretionary investment manager*

The withdrawal of the potential additional funding partner changed the nature of the planned refinancing from a funding package of higher value (US $90 million), to a rescheduling of the existing level of debt (US $81 million). The deliverables of the Project were realigned with a rescheduled capital and interest profile and the tenor of the facility extended to December 2019. No additional hedging was required by the Lenders and the Company can, at its discretion place hedge contracts.

The Company received binding commitments to raise working capital funds totalling £8,344,906 and on 17 November 2016 a private share placement realised the issue of 166,898,117 new issued

METALS EXPLORATION PLC

Strategic Report (continued)

1 pence ordinary shares at a placing price of 5.0 pence per share. The subscription price of 5.0 pence per new ordinary share represented a 14.97 per cent discount to the closing mid-price of 5.88 pence per ordinary share as at 11 November 2016, and a 10.07 per cent discount to the 1-year average closing mid-price of 5.56 pence per ordinary share. This placement comprised the major shareholders of the Company taking up an offer on a prorata basis as follows:

PRIVATE SHARE PLACEMENT TO RAISE AN AMOUNT EQUIVALENT TO US $10.295 MILLION (17 NOV 2016)

SHAREHOLDER	CURRENT SHARES	%	NEW SHARES	NEW REGISTER	%	£
MTL (Luxembourg) Sarl[1]	924,685,795	48.6%	45,846,348	970,532,143	46.9%	£2,292,317
Runruno Holdings Ltd	374,924,379	19.7%	18,588,923	393,513,302	19.0%	£929,446
Nutraco Nominees	-	0.0%	81,055,670	81,055,670	3.9%	£4,052,784
Investec Wealth & Management Ltd	104,939,789	5.5%	3,907,176	108,846,965	5.3%	£195,359
Jarvis Nominees	10,808,032	0.6%	4,350,000	15,158,032	0.7%	£217,500
Lynchwood Nominees Limited	6,240,783	0.3%	3,750,000	9,990,783	0.5%	£187,500
HSBC Bank plc Junior Gold	-	0.0%	8,200,000	8,200,000	0.4%	£410,000
Smith & Williamson Investment Mngt[2]	1,600,000	0.1%	200,000	1,800,000	0.1%	£10,000
Winterflood Securities Ltd	42,763	0.0%	500,000	542,763	0.0%	£25,000
HSBC Marketing Name Nominee	5,500,756	0.3%	500,000	6,000,756	0.3%	£25,000
Non participating shareholders	475,694,172	25.0%	-	475,694,172	23.0%	-
Total	**1,904,436,469**		**166,898,117**	**2,071,334,586**		**£8,344,906**

Notes:

MTL (Luxembourg) Sarl[1] - an entity comprising a related party, Ms. Crompton-Candy

Smith & Williamson Investment Mngt[2] – acting on behalf of its investment clients

DECEMBER 2016 DEBT RESCHEDULING

The Company entered 2016 by announcing it had successfully rescheduled the senior debt facility it had entered into with the Lenders on 28 May 2014. The rescheduling was necessary due to a lack of cash flow caused by external time delay factors experienced in 2015 disabling the Runruno Gold Project achieving commercial production.

Due to the various challenges the Project faced in 2016 which transpired to delay commercial operations, management sought to restructure the senior debt facility by increasing the loan amount to US $90 million through the introduction of a third lender into a new structured facility. It was extremely unfortunate that the third lender had completed its due diligence with a favourable view of the Project but declined to participate solely due to a higher risk profile its credit committee applied to the Philippines. Eventually in Q4 2016 the two original lenders agreed to reschedule the debt facilities but the value of the loan would remain at US $81 million, after a US $2 million capital payment had been made in March 2016. One of the conditions attached to the restructuring was that the Project would have poured a 500 ounce gold production target, which was achieved in H2 2016.

The main commercial terms of the rescheduled loan are as follows:

- BNP Paribas have replaced Hong Kong Shanghai Banking Corporation as the technical bank for the life of the facility;
- the tenor of the loan was extended by 12 months until 31 December 2019;
- a less aggressive capital payment profile was applied details of which are in the table below;

Strategic Report (continued)

- to facilitate the new capital payment profile an amount equal to US $28,160,000 was expired from the front end of the capital payment profile rescheduled in January 2016, and applied to the back end of the newly rescheduled capital payment profile; see table below for details;
- the two outstanding facilities (a. US $71 million senior facility and b. US $8 million cost overrun facility) were rolled into one senior debt facility;
- the facility interest rate pre Project Completion[1] payable is US 6 month LIBOR plus a 5.75% margin;
- post Project Completion the interest rate applied is US 6 month LIBOR plus a 4.75% margin;
- an accelerated 35% cash sweep is applied as capital payments payable to the Lenders, on available free cash;
- no additional hedging was included but the Company can at its election enter into hedge contracts;
- the cost of providing the rescheduled facility was 1.25% of the outstanding capital amount or US $1,012,500 payable in four quarterly instalments of which three payments have been made in H1 2017

Note[1] Project Completion occurs following the successful application of a 90 day physical and financial performance testing regime during which design throughput, recovery and operating costs are demonstrated. Typically the testing will be initiated by the Company once the plant ramp-up is complete and following a period of stable operations.

RESCHEDULED SENIOR LOAN FACILITY AND COST OVERRUN FACILITY TOTALLING US $81 MILLION						
Payment Date	**Capital payments[1] 28 May 2015**	**Rescheduled[2] capital payments 29 Oct 2015**	**Capital payment 31 March 2016**	**Senior loan Outstanding 15 Dec 2016**	**expired and new[3] capital payments 15 Dec 2016**	**rescheduled capital payments 15 Dec 2016**
31 Dec 15	$13,000,000					$0
31 Mar 16		$2,000,000	($2,000,000)			$0
30 June 16	$13,000,000	$15,000,000		$15,000,000	($15,000,000)	$0
31 Dec 16	$13,000,000	$15,000,000		$15,000,000	($13,160,000)	$0
31 Mar 17						$4,240,000
30 Jun 17	$13,000,000	$15,000,000		$15,000,000		$6,480,000
30 Sep 17						$6,480,000
31 Dec 17	$8,000,000	$13,000,000		$13,000,000		$6,480,000
31 Mar 18						$6,480,000
30 Jun 18	$8,000,000	$8,000,000		$8,000,000		$7,290,000
30 Sep 18						$7,290,000
31 Dec 18	$7,000,000	$7,000,000		$7,000,000		$8,100,000
31 Mar 19					$8,100,000	$8,100,000
30 Jun 19					$8,100,000	$8,100,000
30 Sep 19					$8,100,000	$8,100,000
31 Dec 19					$3,860,000	$3,860,000
Senior facility	**$75,000,000**	**$75,000,000**	**($2,000,000)**	**$73,000,000**	**$0**	**$81,000,000**
Costoverrun facility	**$8,000,000**	**$8,000,000**		**$8,000,000**	**-**	**-**
Total loan facility	**$83,000,000**	**$83,000,000**	**($2,000,000)**	**$81,000,000**	**$0**	**$81,000,000**

Notes:
[1] The original capital payment profile included in the Facility Agreement signed 28 May 2014 with the Lenders
[2] The original capital payment profile was rescheduled in a revised Amendment Deed date 29 October 2015, with the Lenders
[3] To facilitate an extension of the tenor of the loan to 31 December 2019 an amount of US $28,160,000 of new loan funds was drawn down in full on the date of an Amendment Deed on 15 December 2016 and utilised to extinguish capital amounts due on 3 June 2016 and 31 December 2016 to the total amount of US $28,160,000; the capital payment of the new loan funds (US $28,160,000) together with the balance of the total capital amounts outstanding (US $52,840,000) have been rescheduled in new quarterly amounts payable to the Lenders commencing 31 March 2017 and ending 31 December 2019.

HEDGING

Under the hedging requirements of the senior debt Facility Agreement dated 28 May 2014, FCF entered into contracts for interest rate swaps for an aggregate notional principal amount that is at least 40% but not more than 100% of the interest rate commitments over the term of the loan facility. The commitments were calculated based on company forecast. The variable six month US Libor rate is swapped out for a fixed rate of 1.575% over the term. No further interest rate swap contracts were required after the January 2016 or December 2016 debt rescheduling agreements. The cost to the company payable upon settlement dates of this hedge facility during 2016 was US $162,405.

FCF entered into a series of gold forward sales contracts for 30% of the annual forecast gold production of the Project over three years with contracts settling on a quarterly basis for 7,500 ounces of gold each quarter. The initial forward sales orders placed totaling 90,000 ounces of gold at twelve quarterly intervals of 7,500 ounces each quarter. At the election of the Lenders a further 15,000 ounces of gold may be contracted for settlement in 2018 in two quarterly tranches of 7,500 ounces of gold each. To date these elections have not been taken up by the Lenders and no further gold forward sales contracts were required after the January 2016 or December 2016 debt rescheduling agreements.

All forward sales contracts are cash settled instruments. Cash settlements for 2016 were for the benefit of the Project of US $1,778,233 (2015; US $1,887,150). In Q1 2017 US $370,466 and Q2 2017 US $320,494 were received for the benefit of the Project.

The fixed average weighted forward price achieved on the forward sales contacts for 90,000 ounces of gold is US $1,287.36.

The remaining forward gold price swap contracts outstanding as at 31 December 2016 in their maturing years is:

	2017	2018	Total
- ounces of gold	30,000	15,000	**45,000**
- average price US $	$1,285.81	$1,287.19	**$1,286.74**

The Company decided to close out the eight forward gold sales contracts maturing in 2016 by placing stop loss orders for each settlement, to preserve the value in the hedge contracts for the benefit of the Project in a period when the gold price was rising towards the strike price; and wherein the Project had no matching gold sales. The Lenders were in agreement with this strategy on the basis the Project had no matching gold deliveries and preferred the Project would not have a cash payment exposure in its current liquidity situation. The table below explains the result of the decision to close out the four quarterly hedge contracts and whereby the Project benefited by receiving a total of US $1,334,800 when the contracts settled.

Strategic Report (continued)

Lender	Fixing Date	Settlement Date	Volume Au Oz	Relevant Forward Price (US $/Oz)	Stop Loss price achieved (US $/Oz)	In the Money (US $)
HSBC[1]	31 March 2016	04 April 2016	3,750	$1,293.448	$1,270.515	$86,000
HSBC[1]	30 June 2016	5 July 2016	3,750	$1,293.448	$1,231.990	$230,468
HSBC[1]	30 September 2016	04 October 2016	3,750	$1,281.375	$1,234.150	$177,094
HSBC[1]	30 December 2016	05 January 2017	3,750	$1,281.375	$1,236.400	$168,656
BNPP[2]	31 March 2016	04 April 2016	3,750	$1,287.490	$1,271.600	$59,588
BNPP[2]	30 June 2016	5 July 2016	3,750	$1,287.490	$1,231.657	$209,374
BNPP[2]	30 September 2016	04 October 2016	3,750	$1,287.490	$1,233.674	$201,810
BNPP[2]	30 December 2016	04 January 2017	3,750	$1,287.490	$1,233.674	$201,810
						$1,334,800

HSBC[1] - Hong Kong Shanghai Banking Corporation Limited
BNPP[2] - BNP Paribas (Singapore)

Two forward gold sales contract maturing in Q1 2017 but settling in Q2 2017 naturally matured at the market closing price on the contracted fixing date, 31 March 2017 as follows:

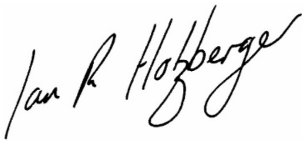
Lender	Fixing Date	Settlement Date	Volume Au Oz	Relevant Forward Price (US $/Oz)	Market closing price on fixing date (US $/Oz)	In the Money (US $)
HSBC[1]	31 March 2017	04 April 2017	3,750	$1,281.375	$1,241.700	$148,781
BNPP[2]	31 March 2017	04 April 2017	3,750	$1,287.490	$1,241.700	$171,713
						$320,494

HSBC[1] - Hong Kong Shanghai Banking Corporation Limited
BNPP[2] - BNP Paribas (Singapore)

INTEREST PAYMENTS
All interest payments due and payable to the Lenders have been made by the Project and a total of US $5,392,204 interest payments were made in 2016 (2015: US $4,382,252) and a further US $1,324,180 paid during H1 2017.

FOREIGN EXCHANGE
The Group recognised other comprehensive income of £17,565,678 (2015: £182,115) on the translation of the financial statements of foreign operations into GBP principally as a result of a depreciation of the GBP against the Philippine Peso during the 2016 financial year.

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



I R Holzberger
Executive Chairman

19 May 2017

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 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Group is to identify, acquire, explore for and develop mining and processing projects, mining companies, businesses or opportunities 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 (now Companies Act 2006) 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 15 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.

FINANCIAL RESULTS

For the year ended 31 December 2016 the loss on ordinary activities of the Group was £18,032,541 (2015: loss of £2,149,167).

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A review of the current and future development of the Group's business is given in the Chairman's Statement on page 3 and the Strategic Report on page 9.

NOMINATED ADVISOR & STOCK BROKER

The Company changed its nominated advisor from Stockdale Securities Limited to Canaccord Genuity Limited, on 18 January 2017. The Company also changed its stockbroker from SP Angel Corporate Finance LLP to Canaccord Genuity Limited on 18 January 2017.

AUDITOR

Nexia Smith & Williamson has expressed willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006, a resolution to re-appoint Nexia Smith & Williamson as auditor of the Company and authorise the Directors to fix their remuneration, will be proposed at the Annual General Meeting to be held on 15 June 2017. In view of the substantial recent changes in the Group, the Board considers that audit quality would be best safeguarded by maintaining continuity in the audit team. Last year it was therefore proposed that the expected five year term of the current senior statutory auditor be extended for a maximum of two years, subject to annual review. 2017 will therefore be the final year of service of the current senior statutory auditor.

Directors' Report (continued)

DIRECTORS & DIRECTORS' INTERESTS
The Directors of the Company during the year and since the year end were:

I. R. Holzberger	(Executive Chairman)	
J. W. D. Ayre	(Non-Executive Director)	*resigned 7 April 2017*
T. J. Dean	(Non-Executive Director)	
L. E. Simovici	(Non-Executive Director)	
G. R. Walker	(Non-Executive Director)	
J. G. Wilson	(Non-Executive Director)	

There are no female members of the Board of Directors.

The beneficial interests of the Directors who held office during the year, including family interests, at the beginning and end of the year and at the date of this report, were as follows:

Ordinary shares of 1p:	*19 May 2017*	*31 December 2016*	*31 December 2015*
Mr. Jeremy W. D. Ayre - *resigned 7 April 2017*	7,000,000	2,000,000	-
Mr. Tim J. Dean	-	-	-
Mr. Ian R. Holzberger	-	-	-
Mr. Lucia E. Simovici	-	-	-
Mr. Guy R. Walker	-	-	-
Mr. Julian G. Wilson	-	-	-

Directors' interests include shareholdings in their names and/or under controlled subsidiaries.

During the year the following payments were paid by the Company and its controlled subsidiaries to the Directors:

- to Mr Ian R. Holzberger £562,660 (2015: £494,399) for his services provided as Director and Chairman of the Company;
- to Mr Jeremy Ayre £24,000 (2015: £24,000) for his services provided as a Non-executive Director
- to MTL (Luxembourg) Sarl Pte Ltd[1] £72,000 (2015: £72,000) for services provided by three Non-Executive Director
- to Runruno Holdings Limited[2] £48,000 (2015: £48,000) for services provided by a Non-Executive Director

Note:
[1] Further details relating to a Services Agreement between MTL (Luxembourg) Sarl Pte Ltd and the Company are provided in Note 7 to the Financial Statements.
[2] Further details relating to a Services Agreement between Runruno Holdings and the Company are provided in Note 7 to the Financial Statements.

At 31 December 2016, one Director has an interest in unissued ordinary shares granted by the Company under share options in his name and/or under controlled subsidiaries:

Name	*Date of grant*	*Exercise price*	*Ordinary Shares*	*Date from which exercisable*	*Expiry date*
Mr. Ian R. Holzberger	18 Mar 2010	25.00p	6,000,000	18 Mar 2012	17 Mar 2017

METALS EXPLORATION PLC

Directors' Report (continued)

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or its subsidiary a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Mr Ayre acquired two million shares in March 2016 and five million shares in January 2017. Both transactions were made through a broker on the traded market.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, or any of its subsidiary companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the year.

DIRECTORS' MEETINGS

The Directors hold general meetings on a regular basis, special telephone meetings as required and written resolutions circulated by email as and when required to deal with items of business from time to time. In accordance with the Company's Articles of Association a written resolution requires to be signed by all Directors of the Company. Meetings held and attended by each Director during the year of review were:

General Meetings	Meetings Held Whilst in Office	Meetings Attended	% Attended
Mr. Jeremy W. D. Ayre	8	6	75%
Mr. Tim J. Dean	8	5	63%
Mr. Ian R. Holzberger	8	8	100%
Mr. Lucia E. Simovici	8	5	63%
Mr. Guy R. Walker	8	8	100%
Mr. Julian G. Wilson	8	6	75%

Special Meetings	Meetings Held Whilst in Office	Meetings Attended	% Attended
Mr. Jeremy W. D. Ayre	12	7	58%
Mr. Tim J. Dean	12	11	92%
Mr. Ian R. Holzberger	12	11	92%
Mr. Lucia E. Simovici	12	12	100%
Mr. Guy R. Walker	12	12	100%
Mr. Julian G. Wilson	12	11	92%

Directors' Report (continued)

Written Resolution Meetings	Meetings Held Whilst in Office	Meetings Attended	% Attended
Mr. Jeremy W. D. Ayre	7	7	100%
Mr. Tim J. Dean	7	7	100%
Mr. Ian R. Holzberger	7	7	100%
Mr. Lucia E. Simovici	7	7	100%
Mr. Guy R. Walker	7	7	100%
Mr. Julian G. Wilson	7	7	100%

Total of all Meetings	Meetings Held Whilst in Office	Meetings Attended	% Attended
Mr. Jeremy W. D. Ayre	27	20	74%
Mr. Tim J. Dean	27	23	85%
Mr. Ian R. Holzberger	27	26	96%
Mr. Lucia E. Simovici	27	24	89%
Mr. Guy R. Walker	27	27	100%
Mr. Julian G. Wilson	27	24	89%

Where it is necessary the Independent Directors of the Company meet to discuss and deal with matters where non independent Directors may be conflicted. During the year under review the Independent Directors met on nine occasions and were attended as follows:

Independent Directors' Meetings	Meetings Held Whilst in Office	Meetings Attended	% Attended
Mr. Jeremy W. D. Ayre	9	9	100%
Mr. Ian R. Holzberger	9	9	100%

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Board of Directors review the principal risks and uncertainties facing the Group on an ongoing and regular basis. Assessments are made as to how to manage these and mitigate as much risk as possible through various controls. Many of these risks and uncertainties are common to all mining projects. The principal risks and uncertainties facing the Group are identified as follows:

Availability of funding

The Group's access to further financing as a source of funding for the Runruno Project and other projects is subject to various factors, many of which are outside of its control, such as political instability, an economic downturn, social unrest, or changes in the Philippine regulatory environment, changes to the Company's regulatory environment (including but not limited to the AIM Rules, the Financial Conduct Authority's Rules and Regulations) which result in an increase in the cost of borrowing of the Group or restrict its ability to obtain financing. There is no assurance that the Group will be able to arrange financing on acceptable terms, if at all. If the Group were unable to obtain financing from banks and other financial institutions or from capital markets this would adversely affect the ability of the Group to execute its expansion and growth strategies as well as its financial condition and prospects.

If adequate funds are not available to satisfy either short or long-term capital requirements, the Group may be required to limit its operations significantly.

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.

Shareholders' decisions to invest in other mining projects are significantly influenced by the relative prices of metals and future expectations for such prices.

The Group will be exposed to a dual currency risk in operations; (i) Philippine domestic peso currency exposure from costs associated with mining and gold recovery and (ii) US dollar currency exposure due to sales of its gold output and spares, fuel and process consumables are US dollar denominated or linked. The Philippine peso:US dollar currency exposure requires careful management to maximise shareholder value but the exposure cannot be diversified away altogether.

Plant commissioning risks and first time operating through the ramp up period
The successful completion of the Runruno Gold project's commissioning and ramp up into full commercial production is reliant on the performance of the processing plant, the mining operation and the Project satisfying the conditions stipulated by the Mines and Geosciences Bureau ("MGB") for the commencement of operations. Additionally, the Project must ensure its compliance with a large number of permits issued by the statutory regulators with authority over the operations.

Nature of mining and resource estimation
Exploration and development of mineral deposits involve a wide range of significant risks over an extended period of time. These risks are seldom constant with new types invariably arising and adding to the industry's and Group's challenges.

Mineral resource and reserves estimation provides no assurance that the potential tonnage and grades will be achieved. The exploration of mineral rights is speculative in nature and any published results are expressions of judgement developed using industry tested measuring techniques, none of which can be relied upon with complete certainty. Each set of published results builds upon the previous published information and includes any new and reliable information from systematic drill results, mining, and recovery and reconciliation activities and is independently verified by qualified persons. However, this still involves experience, judgement, skill and estimation, all of which are imprecise, interpretative and open to challenge. The actual results of mining may differ upwards and downwards from the published reserves upon which the Group relies in its business projections.

The size of the deposit, its grade, depth and type of orebody, are only some of the particular attributes which determine the costs and recovery methods required to be employed. There is also the length of haul to the processing plant, age and maintenance programs for plant and equipment, land access, environmental protection and community relations, capital costs, reclamation and closure costs and labour and host community relations. The quantities, costs and assumptions used to identify and interpret these variables can be modelled to the lowest level of detail possible but they do not provide absolute certainty that the expected cost of mining will be achieved.

Directors' Report (continued)

Mining regulatory risk

Foreign mining investors are exposed to a high level of regulatory risk under the governing bodies responsible for the Philippine mining sector. There are a wide array of 'rules and regulations' (the "Rules") that govern the regulatory regime for foreign mining investment in the Philippines and the Rules are created and enforced by several layers of government and government agencies nationally, provincially and locally.

The main-rule makers in the Philippines for foreign mining investment regulation are:

- the House of Representatives of the Philippines
- the Senate of the Philippines
- the President
- the Supreme Court
- the Department of Energy and Natural Resources ("DENR"), which issues implementing rules and regulations through its Bureaus:
  - the Mines and Geosciences Bureau ("MGB"), responsible for management, development and proper use of the country's mineral resources
  - the Environmental Management Bureau ("EMB"), responsible for management of the environment
  - the Forest Management Bureau ("FMB"), responsible for management development and proper use of the country's forest resources
- the National Economic and Development Agency (NEDA), which is responsible for formulating social and economic policies
- the Department of Finance which sets policy pertaining to investment and the economy. The Bureau of Internal Revenue and the Bureau of Customs are Agencies of the Department responsible for the collection of taxation and customs duties and the Bureau of Investment responsible for managing foreign investments
- various local government units (LGUs), at provincial, municipal and barangay levels, and
- various other house and senate committees some with overlapping jurisdiction.

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

- Commencing July 2016 the Philippines Department of Energy and Natural Resources ("DENR") undertook an audit of all operating mines, suspended mines or mines under care and maintenance. The Company's operations have been routinely audited for compliance, and the regulatory performance verified on a quarterly basis, by the Government Agencies accountable for the regulation of the mining industry. Its operations were not included in the DENR Audit as they were in the development or the pre-operating phase at the time of the audit.
- In February 2017, the Secretary of the DENR announced that a number of mining projects were to be issued with suspension or closure notices for alleged environmental breaches identified by the audit.
- In February 2017, the Secretary of the DENR also announced the cancellation of a total of seventy five (75) mining projects considered to be located in watersheds. Show cause orders were issued to the concerned mining companies, which were given seven days to respond to the orders.
- The DENR has also issued Memorandum Order No. 2016-01 that announced a moratorium on the acceptance, processing and / or approval of mining applications and / or new mining projects for all metallic and non-metallic minerals.

Further, some mining projects in the Philippines have announced the full or partial suspension of mining and processing operations due to delays in receiving, extending or amending approvals, licences or permits.

The Company has in excess of 520 approvals, licences and permits to conduct mining, processing and related activities at its Runruno Gold Project in the Philippines (collectively "Regulatory Approvals") and is routinely required to obtain new permits and Regulatory Approvals or to amend, renew or extend its existing permits and Regulatory Approvals.

As at 19 May 2017, neither the Company nor its mining project is subject to any suspension or closure order. The Company has applied for, or is in the process of applying for the issue, extension or renewal of a number of Regulatory Approvals and cannot be certain that they will be issued, extended or renewed on acceptable terms or within the required timeframes.

Failure to receive, extend or amend any Regulatory Approval, or delays in receiving, extending or amending any Regulatory Approval may adversely affect the properties, business or operations of the Company including, but not limited to, increasing the costs of the Company's activities; limiting the Company's capacity to produce gold; delaying the implementation of any planned changes to the Company's activities; or requiring the full or partial suspension of the Company's operations.

Key personnel
The Group's future success is very dependent upon the continued service of senior management, and its highly skilled and trained personnel in all levels of management and exploration, the retention of which cannot be guaranteed. There can be no certainty that the Group can recruit suitably qualified or skilled employees in a competitive, highly skilled, specialist industry and it is very probable the Group will face periods of varying lengths of management and skills shortages. Where key personnel cannot be retained in the medium to long term the Group's commercial production could be compromised at various intervals.

Environmental risk
Mining operations are by nature environmentally risky ventures. As a responsible miner the Group takes its environmental responsibilities very seriously and is subject to stringent rules and regulations before, during and after its period of exploration and mining development. Open pit mining is mining on a large-scale and has the capacity to become entangled in environmental disputes. The Group employs every effort to avoid and mitigate even the most minor of damage to the environment but it is aware it will always be exposed to these risks for as long as it is present at Runruno. Any breach of its environmental code or obligations to the environment as dictated in its FTAA or its Environmental Compliance Certificate may result in a temporary suspension of operations, fines, and even the possibility of closure of mining operations at Runruno. The Group is aware there will be further environmental standards imposed throughout the life of its mining operations which will involve further costs, time and compromises to be compliant.

Directors' Report (continued)

Political and Country Risk
The Philippines is a particularly challenging jurisdiction for foreign mining companies to succeed. During the early 70's mining accounted for nearly 20% of GDP of the country but mining currently accounts for approximately 3% of GDP. Political and country risk issues continue to hold back the development of a world class mining industry. Since 1995 there have been a number of attempts to renew the development of the mining sector but bureaucracy and policy uncertainty has made a challenging climate for foreign investing mining companies. Provincial governments, regulators and the judiciary undermine confidence in the Philippines mining industry. These include:

- Several attempts to repeal the 1995 Mining Act;
- Recent environmental protection laws ('Writ of Kalikasan') and judicial procedures opening up the potential for mining opponents to delay mining projects unfairly; and
- Provincial level 'laws' banning open-cut mining, although the legal basis for doing so is questionable.

The Group has no control or influence in these matters and these risks are a constant.

To mitigate this risk, the Group applied for and was granted a Financial or Technical Assistance Agreement, a contract in law with the government. The 1995 Mining Act allows 100% foreign ownership of mining entities where there is a US $50 million investment or higher, through the ownership of a FTAA. Mines operating under a FTAA have recourse for disputes to be arbitrated offshore, avoiding the cumbersome Philippine legal system. Despite opposition to the Act successive Presidents have supported the framework.

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. This programme requires a level of diligence and the Group has been successful to date and is continues to obtain permits sufficient for its operation to continue. The Group is confident of its satisfaction of the compliance obligations imposed on its operations and its ability to maintain and renew permits as required.
- The outcome of technical work undertaken on the Company's projects measured against budgets, forecasts, expectations and industry benchmarks. This continues to be in line with expectation and there is no reason to believe this will not continue to be so.
- Resource measurement in compliance with JORC standards. The Group's latest resource update in March 2013 was JORC compliant which is Group standard practice and a prerequisite before announcing any updated results. The Group has no intentions of deviating from this standard and is comfortable with its current resource measurements and will maintain a consistent approach whilst striving to increase reserves through ongoing strategically focused and systematic drilling activities compliant with JORC standards.
- 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. A detailed monthly review of actual expenditure and committed project costs is undertaken. Projected costs and physical performance are re-forecast 3 monthly.

EVENTS AFTER THE BALANCE SHEET DATE
Details of significant events occurring after the balance sheet date are set out in Note 33 to the consolidated financial statements.

FINANCIAL RISK MANAGEMENT
Details of the Group's policies with respect to financial risk management are given in Note 30 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.

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 mining project areas, to promote social and economic development for the traditional custodians and to offer employment and training opportunities to those who live in the mining project areas.

POLITICAL CONTRIBUTIONS AND CHARITABLE CONTRIBUTIONS
During the year of review the Group did not make any political contributions or charitable donations.

ANNUAL GENERAL MEETING
This report and the financial statements will be presented to shareholders for their approval at the Annual General Meeting ("AGM").

The Company's AGM is convened for 15 June 2017 at 11.00 am to be held at the offices of Kerman & Co LLP located at 200 Strand, London WC2R 1DJ. The Notice of the AGM is enclosed with the financial statements.

The Notice includes items of Special Business and an explanation regarding such business can be found at the end of the Notice.

The Director who retires by rotation is Mr. Julian G. Wilson and who freely offers himself for re-election at the AGM.

SHARE CAPITAL
On 1 January 2016 there were 1,583,005,345 ordinary shares of 1p each in issue, and during the year of review the Company issued 488,329,241 new ordinary shares of 1 pence each at various intervals and prices, to close on 31 December 2016 with 2,071,334,856 ordinary shares of 1p each in issue.

There were four private share issues during the year under review to raise working capital requirements totalling £21,302,151 as follows:

Directors' Report (continued)

a. Private Share Placement No1 - March 2016

On 17 March 2016 a total of 148,300,536 new ordinary 1p shares were admitted for trading on the Alternative Investment Market ("AIM"). The shares were issued at 2.9p per new share which represented a 29.7 per cent discount to the closing mid-price of 4.13 pence per ordinary share as at 10 March 2016, and a 35.8 per cent discount to the 1-year average closing mid-price of 4.52 pence per ordinary share. The total gross working capital funds raised through this issue was £4,300,716 and no commissions were payable on the entire issue.

b. Private Share Placement No2 - July 2016

On 29 July 2016 a total of 76,128,414 new ordinary 1p shares were admitted for trading on the Alternative Investment Market ("AIM"). The shares were issued at 5.0p per new share which represented a 41.2 per cent discount to the closing mid-price of 8.5 pence per ordinary share as at 22 July 2016, and a 3.2 per cent premium to the 1-year average closing mid-price of 4.85 pence per ordinary share. The total gross working capital funds raised through this issue was £3,806,421 and no commissions were payable on the entire issue.

c. Private Share Placement No3 - September 2016

On 14 September 2016, a total of 97,002,174 new ordinary 1p shares were admitted for trading on the Alternative Investment Market ("AIM"). The shares were issued at 5.0p per new share which represented an 11.1 per cent discount to the closing mid-price of 5.625 pence per ordinary share as at 7 September 2016, and a 2.6 per cent discount to the 1-year average closing mid-price of 5.136 pence per ordinary share. The total gross working capital funds raised through this issue was £4,850,109 and no commissions were payable on the entire issue.

d. Private Share Placement No4 - November 2016

On 17 November 2016, a total of 166,898,117 new ordinary 1p shares were admitted for trading on the Alternative Investment Market ("AIM"). The shares were issued at 5.0p per new share which represented a 14.97 per cent discount to the closing mid-price of 5.88 pence per ordinary share as at 11 November 2016, and a 10.07 per cent discount to the 1-year average closing mid-price of 5.56 pence per ordinary share. The total gross working capital funds raised through this issue was £8,344,906 and no commissions were payable on the entire issue.

METALS EXPLORATION PLC

Directors' Report (continued)

SUBSTANTIAL SHAREHOLDINGS

At 31 December 2016, the Company is either aware of or has been notified of the following shareholders which hold disclosable interests of 3% or more of the nominal value of the Company's shares:

Substantial Shareholders	Shares held as of 31 December 2016	%	Shares held as of 31 December 2015	%
MTL (Luxembourg) Sarl Pte Ltd[1]	970,532,143	46.9%	740,905,659	46.8%
Runruno Holdings Ltd	393,513,302	19.0%	300,407,305	19.0%
Ruffer LLP[2]	206,778,216	10.0%	200,710,373	12.7%
Baker Steel Capital Managers LLP[3]	149,025,609	7.2%	147,200,136	9.3%
Investec Wealth & Investment Management Ltd	107,094,089	5.2%	99,148,549	6.3%
Nutraco Nominees	81,055,670	3.9%	-	-

Notes:
[1]MTL (Luxembourg) Sarl Pte Ltd incudes 1m shares owned by a related party; Ms. Crompton Candy.
[2]Ruffer LLP acting on behalf of its' clients.
[3]Baker Steel Capital Managers LLP acting on behalf of various funds for which it acts as full discretionary Investment Manager.

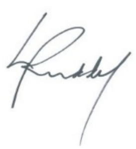
DISCLOSURE OF INFORMATION TO THE AUDITORS

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 Group'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 Group'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.

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



L. A. Ruddy
Company Secretary

19 May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, 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 ('IFRS') 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 IFRS as adopted by the European Union; and
- 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.

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

We have audited the financial statements of Metals Exploration plc for the year ended 31 December 2016 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 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) 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 33, 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 Financial Reporting Council's (FRC'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 FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRS 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditor's report (continued)

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Emphasis of matter - Going concern

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the ability of the Group to continue as a going concern. The ability of the Group to meet its financial obligations and commitments is dependent on restructuring existing debt or raising further debt or equity finance.

In the event that existing debt is not restructured or debt or equity finance is not raised, the Group will not meet scheduled external debt repayments as at 30 June 2017. In this instance plant and equipment held by the Group at £186,598,682, the goodwill held at £1,010,816 and the other intangible assets held at £10,252,068 may be impaired, additional liabilities may arise and assets and liabilities currently classified as non-current may become current.

These conditions indicate that there are material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

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

25 Moorgate
London
EC2R 6AY

19 May 2017

METALS EXPLORATION PLC

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME for the year ended 31 DECEMBER 2016

	Notes	2016 £	2015 £
Continuing Operations			
Revenue	3	5,768,928	-
Cost of sales	3	(5,768,928)	-
Gross loss		-	-
Administrative expenses		(9,513,900)	(5,206,287)
Operating loss	4	**(9,513,900)**	**(5,206,287)**
Finance income and similar items	8	471	1,028
Finance costs	8	(4,238,490)	(2,898,071)
Fair value (loss) /gain on forward sales contracts	21	(6,680,962)	8,511,399
Fair value loss on interest rate swaps	21	(43,875)	(146,101)
Share of profit / (losses) of associates	16	7,964	(26,325)
(Losses) / gains before tax		**(20,468,792)**	**235,643**
Taxation	9/10	2,436,251	(2,384,810)
Losses for the year		**(18,032,541)**	**(2,149,167)**
Other comprehensive income:			
Items that may be re-classified subsequently to profit or loss:			
Exchange differences on translating foreign operations		17,565,678	182,115
Remeasurement of pension liabilities		25,872	-
Total comprehensive loss for the period		**(440,991)**	**(1,967,052)**
Loss for the period attributable to:			
Equity holders of the parent		(18,032,541)	(2,149,167)
		(18,032,541)	**(2,149,167)**
Total comprehensive loss attributable to:			
Equity holders of the parent		(440,991)	(1,967,052)
		(440,991)	**(1,967,052)**
Loss per share:			
Basic and diluted	11	**(1.013)p**	**(0.151)p**

CONSOLIDATED BALANCE SHEET as at 31 DECEMBER 2016

	Notes	2016 £	2015 £
Non-current assets			
Property, plant and equipment	12	186,598,682	148,012,151
Goodwill	13	1,010,816	1,010,816
Other intangible assets	14	10,252,068	7,436,054
Derivative asset	21	1,427,473	7,402,121
Investment in associate companies	16	105,556	97,862
Trade and other receivables	17	2,093,155	2,160,956
		201,487,750	**166,119,960**
Current assets			
Other assets	22	499,264	-
Derivative asset	21	2,854,948	4,010,014
Trade and other receivables	18	2,641,167	871,115
Cash and cash equivalents	19	5,986,493	10,969,449
		11,981,872	**15,850,578**
Non-current liabilities			
Loans	23	(23,669,976)	(37,895,318)
Derivative liability	21	(10,076)	(80,386)
Deferred tax liabilities	10	(2,259,897)	(4,270,103)
Provision for mine rehabilitation	24	(1,505,708)	(1,324,736)
		(27,445,657)	**(43,570,543)**
Current liabilities			
Trade and other payables	20	(6,065,077)	(4,790,342)
Loans - current portion	23	(47,200,085)	(21,685,730)
		(53,265,162)	**(26,476,072)**
Net assets		**132,758,803**	**111,923,923**
Equity			
Share capital	25	20,713,347	15,830,054
Share premium account		145,144,316	128,751,738
Shares to be issued reserve		3,652,155	3,652,155
Acquisition of non-controlling interest reserve		(3,785,077)	(3,785,077)
Translation reserve		21,100,367	3,534,689
Remeasurement reserve		25,872	-
Profit and loss account		(54,092,177)	(36,059,636)
Equity attributable to equity holders of the parent		**132,758,803**	**111,923,923**

The financial statements were approved by the Board of Directors on 19 May 2017 and were signed on its behalf by:

Ian R. Holzberger

Ian R. Holzberger

Executive chairman

19 May 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2016

	Share capital	*Share premium account*	*Shares to be issued reserve*	*Translation reserve*	*Acquisition of non-controlling interest reserve*	*Remeasurement Reserve*	*Profit and loss account*	*Total equity*
	£	£	£	£	£	£	£	£
Balance at 1 January 2016	**15,830,054**	**128,751,738**	**3,652,155**	**3,534,689**	**(3,785,077)**	**-**	**(36,059,636)**	**111,923,923**
Exchange differences on translating foreign operations	-	-	-	17,565,678	-	-	-	17,565,678
Change in pension liability	-	-	-	-	-	25,872	-	25,872
Loss for the year	-	-	-	-	-	-	(18,032,541)	(18,032,541)
Total comprehensive income for the year	-	-	-	17,565,678	-	25,872	(18,032,541)	(440,991)
Issue of equity share capital	4,883,293	16,418,858	-	-	-	-	-	21,302,151
Costs of issuing equity	-	(26,280)	-	-	-	-	-	(26,280)
Balance at 31 December 2016	**20,713,347**	**145,144,316**	**3,652,155**	**21,100,367**	**(3,785,077)**	**25,872**	**(54,092,177)**	**132,758,803**

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 Statement of Total Comprehensive Income for share based remuneration
- Translation reserve; being the foreign exchange differences on the translation of foreign subsidiaries
- Remeasurement reserve: being the cumulative actuarial gains and losses, return on plan assets and changes in the effect of the asset ceiling (excluding net interest on defined benefit liability) recognised in the Statement of Comprehensive Income.
- Profit and loss account; being the cumulative loss attributable to equity shareholders

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2015

	Share capital	*Share premium account*	*Shares to be issued reserve*	*Translation reserve*	*Acquisition of non-controlling interest reserve*	*Profit and loss account*	*Total equity*
	£	£	£	£	£	£	£
Balance at 1 January 2015	13,749,721	124,591,071	3,652,155	3,352,574	(3,785,077)	(33,910,469)	107,649,975
Exchange differences on translating foreign operations	-	-	-	182,115	-	-	182,115
Loss for the year	-	-	-	-	-	(2,149,167)	(2,149,167)
Total comprehensive income for the year	-	-	-	182,115	-	(2,149,167)	(1,967,052)
Issue of equity share capital	2,080,333	4,160,667	-	-	-	-	6,241,000
Balance at 31 December 2015	**15,830,054**	**128,751,738**	**3,652,155**	**3,534,689**	**(3,785,077)**	**(36,059,636)**	**111,923,923**

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 DECEMBER 2016

	Notes	*2016* £	*2015* £
Net cash used in operating activities	27	**(8,688,434)**	**(4,018,110)**
Investing activities			
Purchase of property, plant and equipment		(20,177,336)	(34,090,272)
Purchase of intangible assets		(2,396,371)	(51,040)
Investment on associates		-	-
Net cash used in investing activities		**(22,573,707)**	**(34,141,312)**
Financing activities			
Proceeds from borrowings	23	-	29,084,416
Repayment of borrowings	23	(1,475,830)	-
Proceeds from issue of share capital		21,275,871	6,241,000
Proceeds from settlement of gold forward contracts		1,468,012	1,277,813
Net cash arising from financing activities		**21,268,053**	**36,603,229**
Net decrease in cash and cash equivalents		(9,994,088)	(1,556,193)
Cash and cash equivalents at beginning of year		10,969,449	12,251,994
Foreign exchange difference		5,011,132	273,648
Cash and cash equivalents at end of year		**5,986,493**	**10,969,449**

COMPANY BALANCE SHEET as at 31 DECEMBER 2016

	Notes	***2016*** ***£***	***2015*** ***£***
Non-current assets			**Restated**
Property, plant and equipment	12	-	-
Other intangible assets	14	-	-
Investment in subsidiaries	15	6,057,046	6,057,046
		6,057,046	**6,057,046**
Current assets			
Other assets		16,115	-
Trade and other receivables	18	140,883,808	122,728,572
Cash and cash equivalents	19	4,918,696	2,570,262
		145,818,619	**125,298,834**
Current liabilities			
Trade and other payables	20	(256,130)	(165,084)
Non-current liabilities			
Loans	23	(4,952,702)	(3,333,771)
Net assets		**146,666,833**	**127,857,025**
Equity			
Share capital	25	20,713,347	15,830,054
Share premium account		145,144,316	128,751,738
Shares to be issued reserve		3,652,155	3,652,155
Profit and loss account		(22,842,985)	(20,376,922)
Equity attributable to equity holders of the parent		**146,666,833**	**127,857,025**

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 2016 dealt with in the financial statements of the Company was £2,466,063 (2015: £955,967). The Company made no gains or losses which would be reported in other comprehensive income in the year ended 31 December 2016 (2015: £nil) and therefore the Company has not published its statement of total comprehensive income.

The financial statements were approved by the Board of Directors on 19 May 2017 and were signed on its behalf by:

Ian R Holzberger

Executive Chairman

19 May 2017

COMPANY STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2016

	Share capital	*Share premium account*	*Shares to be issued reserve*	*Profit and loss account*	*Total equity*
	£	£	£	£	£
Balance at 1 January 2015	13,749,721	124,591,071	3,652,155	(19,420,955)	122,571,992
Loss for the year	-	-	-	(955,967)	(955,967)
Total comprehensive loss for the year	-	-	-	(955,967)	(955,967)
Issue of equity share capital	2,080,333	4,160,667	-	-	6,241,000
Balance at 31 December 2015	**15,830,054**	**128,751,738**	**3,652,155**	**(20,376,922)**	**127,857,025**
Loss for the year	-	-	-	(2,466,063)	(2,466,062)
Total comprehensive loss for the year	-	-	-	(2,466,063)	(2,466,063)
Issue of equity share capital	4,883,293	16,418,858	-	-	21,302,151
Costs of issuing equity	-	(26,280)	-		(26,280)
Balance at 31 December 2016	**20,713,347**	**145,144,316**	**3,652,155**	**(22,842,985)**	**146,666,833**

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 Statement of Total Comprehensive Income for share based remuneration
- Remeasurement reserve: being the cumulative actuarial gains and losses, return on plan assets and change in the effect of the asset ceiling (excluding net interest on defined benefit liability).
- Profit and loss account; being the cumulative loss attributable to equity shareholders

COMPANY CASH FLOW STATEMENT for the year ended 31 DECEMBER 2016

	Notes	*2016* £	*2015* £
Net cash used in operating activities	27	**(19,764,233)**	**(7,572,888)**
Investing activities			
Investment in subsidiary		-	-
Investment in associates		-	-
Net cash used in investing activities		**-**	**-**
Financing activities			
Proceeds from issue of share capital		21,275,871	6,241,000
Proceeds from borrowings		-	3,333,771
Net cash from financing activities		**21,275,871**	**9,574,771**
Net increase in cash and cash equivalents		1,511,647	2,001,883
Cash and cash equivalents at beginning of year		2,570,262	568,379
Foreign exchange difference		836,787	-
Cash and cash equivalents at end of year		**4,918,696**	**2,570,262**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016

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 ('IFRS') as issued by the International Accounting Standards Board (IASB). The information is also prepared in accordance with IFRS adopted by the European Union and, as regards the Parent Company financial statements, applied in accordance with the provisions of the Companies Act 2006.

Going concern
The consolidated financial statements of the Group have been prepared on a going concern basis, which contemplates the continuity of business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and the Directors' Report on pages 9 to 32. Specific reference is made to the summary of the current regulatory environment for the Philippines mining industry provided at pages 27 to 28.

As at 31 December 2016, the Group's current liabilities exceeded its current assets by £41,283,290 due primarily to the portion of the Group's external borrowings that is scheduled to be repaid by 31 December 2017. The Group reported an operating loss after tax of £18,032,541 for the year ended 31 December 2016 and cash outflows from operations of £8,668,434 for the year ended 31 December 2016.

As at 31 December 2016 the Group had not made all scheduled principal repayments under its external finance facilities and had obtained waivers from its financiers so that no event of default occurred. On 15 December 2016, the Group executed an Amendment Letter that varied the terms of its financing facilities, including the rescheduling of principal repayments taking into consideration updated cashflow projections for the Group. The Amendment Letter became effective on 27 January 2017 (refer Note 33).

Subsequent to 31 December 2016, the Group's production of gold has been below the forecast production contemplated when the amended principal repayment schedule was agreed with the Group's financiers on 15 December 2016. The Group requested, and was granted, a waiver and extension for the principal repayment of US $4.24 million scheduled for payment on 31 March 2017.

In addition, in the absence of the Group raising additional funds, or agreeing a further restructuring of the Group's financing facilities with its financiers prior to 30 June 2017, it is likely that the Group will be unable to meet interest, principal and fee payments as they fall due under the Group's financing facilities.

Over the next financial period, the continuing viability of the Group and its ability to operate as a going concern is dependent upon the ability of the Group to raise additional funding to meet its short term working capital requirements and to operate the Runruno Gold Project successfully so as to generate sufficient cash flows from the Project to enable the Group to settle its liabilities as they fall due.

The Company has commenced discussions with potential providers of a working capital funding facility and the Company's Director's believe there is a reasonable prospect of the Company successfully negotiating such a facility.

As a consequence of the above matters, the directors have concluded that a material uncertainty exists that may cast significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group and the Company may be unable to realise its assets and discharge their liabilities in the normal course of business and at the amounts stated in this Financial Report.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

1. Accounting policies (continued)

Nevertheless, after making enquiries and considering the uncertainties described above, the directors believe that there are reasonable grounds to believe that the use of the going concern basis remains appropriate as there is a reasonable expectation that the Group:

- will be able to raise additional working capital funding on or before 30 June 2017 to meet the Group's short term working capital requirements;
- will achieve forecast levels of gold production as the testing and debugging phase of operations is completed;
- will continue to have the support of its financiers; or
- if the above are considered unlikely to be achieved, then the Group may seek alternative financing from its shareholders.

This Financial Report does not include adjustments relating to the recoverability and classification of recorded set amounts, or to the amounts and classifications of liabilities that might be necessary should the Group not continue as a going concern.

Changes in accounting policies and disclosures
The accounting policies and disclosures applied in the preparation of these financial statements are consistent with the accounting policies and disclosures applied in the preparation of the prior period financial statements.

New standards and interpretations
The financial statements have been drawn up on the basis of accounting standards, interpretations and amendments effective at the beginning of the accounting period on 1 January 2016. The new standards, interpretations and amendments effective from 1 January 2016 had no impact on the group.

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU):

- *IAS 12 (amended) Recognition of Deferred Tax Asset for Unrealised Losses*
- *IFRS 16 Leases*
- *IAS 7 Disclosure Initiative*
- *lFRIC 22 Foreign Currency Transactions and Advance Consideration*
- *lFRS 9 Financial Instruments*
- *lFRS 15 Revenue from Contracts*
- *lFRS 2 (amended) Classification and Measurement of Share-based Payment Transactions*
- *lFRS 15 Clarification to IFRS 15 Revenue from Contracts with Customers*
- *Annual improvements to IFRSs: 2014-2016 Cycle*

The Group considers that the only standard that may have a significant impact is IFRS 9. The new standard will replace existing accounting standards. It is applicable to financial assets and liabilities and will introduce changes to existing accounting concerning classification, measurement and impairment (introducing an expected loss method). The Group considers that whilst IFRS 15 and IFRS 16 may impact on the Group the effect will not be significant. The operating leases held by the Company are of low value and revenue contracts usually contain a single performance criteria that is satisfied at a point in time. The Group will adopt the above standards at the time stipulated by the relevant standard. The Group does not at this time anticipate voluntary early adoption of any of the standards.

1. Accounting policies (continued)

Basis of consolidation
The Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2016. 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 acquisition 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.

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 Company'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 statement of total comprehensive income.

Taxation and deferred tax
Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the statement of total comprehensive income 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 only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

1. Accounting policies (continued)

Taxation and deferred tax (continued)
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 statement of total comprehensive income, 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 the statement of total 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.

Share based payments
The Company enters equity-settled share based compensation plans for the employees of its subsidiaries and enters equity-settled share based transactions with its Directors, 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 these share based payment agreements 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 statement of total comprehensive income 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 considered.

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.

Inventories
From the point at which the mine processing plant is use assessed as being available for use as intended by management, finished goods (bullion), gold in circuit and stockpiles of processed ore are stated at the lower of costs and estimated net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated based on normal operating capacity. Costs are assigned to ore stockpiles and gold in circuit items of inventory based on weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business (excluding derivatives) less the estimated costs of completion and the estimated costs necessary to make the sale.

Prior to the point at which the mine processing plant is assessed as being available for use as intended by management, costs are capitalised to Mining Properties and Construction in Progress, To the extent that revenue is generated from the sale of gold prior to the processing plant being available for use as intended by management, revenue from the sale of gold is recognised in the Statement of Comprehensive Income and an equivalent amount of costs is transferred from Construction in Progress or Mining Properties to cost of sales in the Statement of Comprehensive Income.

Consumables have been valued at cost less an appropriate provision for obsolescence. Cost is determined on a first-in-first-out basis.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

1. Accounting policies (continued)

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. The capitalised exploration costs are tested for impairment annually.

Where exploration costs have been incurred and capitalised for a specific tenement and the commercial and technical requirements to demonstrate positive economic returns using approved mining techniques has not been established, the Company recognises these costs as an intangible asset and tests these costs annually for impairment.

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.

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	3-5 years	Straight-line
Leasehold improvements	10 years	Straight-line
Fixtures, fittings and equipment	3 years	Straight-line
Freehold land	this is not a depreciable asset.	
Construction in progress	these costs are depreciated by applying the units of production method over the useful life of the mine from the point at which the mine's plant becomes available for use as intended by management.	
Mining properties	these costs are depreciated by applying the units of production method over the useful life of the mine from the point at which the mine's plant becomes available for use as intended by management.	

Mining properties costs have arisen entirely because of a reclassification of the intangible assets deferred exploration costs, advances to surface occupants, and mining licenses. As of 20 October 2011, the extraction of gold from the Runruno site has been assessed as being both technically feasible and commercially viable. Further costs since this date have been capitalised directly to mining properties.

Construction in progress tangible assets have been incurred after 1 December 2011, the date the board of directors announced that the Group had moved into the capital construction phase of its development. The costs were substantially incurred throughout 2012 to 2016.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

1. Accounting policies (continued)

The recovery of the Mining Property and Construction in Progress costs is dependent upon achieving the commercial mining economics as outlined in the feasibility study approved by the Mines and Geosciences Bureau.

Mining property costs will be depreciated over the useful life of the mine once the process plant has been assessed by Group management to be available for use as intended by management.

Construction in progress costs will be appropriately identified and allocated to a property, plant and equipment tangible asset category, once the processing plant has been assessed as being available for use as intended by management. The costs will be treated as being reclassified and will be depreciated according to the adopted method of the appropriate asset category.

Investments
Investments in subsidiaries and investment in associates are recognised at cost less any impairment losses in the Company accounts.

Equity accounting is applied to investments in associates on a Group basis. Investments in associates are recognised at the cost of investment as adjusted for post-acquisition changes in the Group's share of net assets of the associate. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Provision for mine rehabilitation and decommissioning
Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the end of the reporting period when the related environmental disturbance occurs, based on the estimated future costs using information available at the end of the reporting period.

The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the statement of comprehensive income. At the time of establishing the provision, a corresponding asset is capitalized and depreciated over future production from the operations to which it relates.

The provision is reviewed on an annual basis for changes to obligations or legislation or discount rates that affect change in cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision resulting from changes in the estimated cash flows or discount rate, and the adjusted cost of the asset is depreciated prospectively.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each end of the reporting period and the cost is charged to the statement of comprehensive income.

Revenue recognition
Gold sales
Revenue is recognised when the risk and reward of ownership has passed from the Group to an external party and the selling price can be determined with reasonable accuracy. Sales revenue represents the gross proceeds receivable from the customer.

Revenue from the sale of by-products such as silver is included in sales revenue.

Interest
Revenue is recognised as interest accrues using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

1. Accounting policies (continued)

Borrowing costs
Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalisation of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its estimated recoverable amount, an impairment loss is recorded.

When funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. When surplus funds are temporarily invested, the income generated from such temporary investment is deducted from the total capitalised borrowing cost. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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, trade and other receivables and derivative assets. The Group's financial liabilities comprise trade and other payables, loans and derivative liabilities.

Cash and cash equivalents include cash in hand and short-term bank deposits. Trade and other receivables are measured at amortised cost.

Trade and other payables and loans are initially measured at fair value less any transaction costs 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.

Derivative assets and liabilities
Derivative financial instruments (e.g. commodity derivatives such as forwards and swaps to economically hedge exposure to fluctuations in gold prices and interest rates) are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are accounted for at fair value through profit or loss, where any gains or losses arising from changes in fair value on derivatives are taken directly to profit or loss for the year.

As at 31 December 2016, the Company has freestanding derivative instruments (including gold forward sales contracts and interest rate swaps) used to hedge risks associated with commodity prices and interest rates and fix cash flows associated with the Group's loan facility. As such cash flows in respect of these derivative financial instruments are included in financial activities.

The Company recognised derivative assets and liabilities arising from the forward commodity sales contracts for gold sales transactions and interest rate swaps as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

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 tangible and intangible assets
At 31 December 2016, the carrying values of tangible and intangible assets of the group were £186,598,682 (2015: £148,012,151) and £11,262,884 (2015: £8,446,870) respectively. 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.

Functional currency of Group companies
The Group comprises several entities in three different countries; Philippines, Indonesia, Singapore 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 Pounds Sterling. 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.

Recovery of intercompany receivable accounts - Company
The recoverability of amounts due to the Company from other Group entities is assessed on an annual basis and is determined from value-in-use calculations. The key assumptions for these value-in-use calculations are those regarding discount rates, the estimated changes in the price of gold, increments in the resource statements and forecast changes in direct costs to reflect the operational gearing of the business, the ability of the entity to renew its mining permit(s) and comply with annual required levels of expenditure.

The carrying amount of the Company's intercompany receivable non-current asset at 31 December 2016 was £137,639,510 (2015: £122,149,115) which excludes an amount of £2,002,526 (2015: £2,002,526) as a result of impairment reviews performed on all Group entities in a prior year. This reflects the impairment of the amounts due from MTL Philippines, Inc. and PT Cupati.

The Group tests whether the carrying values of its intangible assets and tangible assets have suffered any impairment, at least annually using the same value-in-use determinations above.

If the actual performance of a Group entity becomes materially worse compared to the performance based on the estimates, possible impairment losses could arise, or could deviate from previously detected impairment losses. This impairment loss or deviation could have a material effect on the carrying amounts of the intangible or tangible assets.

The estimated value in use of the Group's entities did not indicate any deterioration in an entity's carrying values for its intangible assets or tangible assets for the year ended 31 December 2016.

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Estimating fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques such as discounted cash flow analysis and standard option pricing models. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

Estimates in the determination of mineral resources and ore reserves
The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for decommissioning and restoration. The information in this report as it relates to ore reserves, mineral resources or mineralisation is reported in accordance with the Aus.IMM "Australian Code for reporting of Identified Mineral Resources and Ore Reserves". The information has been prepared by or under the supervision of competent persons as identified by the Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated which may impact asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for decommissioning and restoration.

Significant estimate in determining the beginning of production
Estimations are made in the determination of the point at which development ceases and production commences for a mine development project. This point determines the cut-off between pre-production and production accounting.

The Group ceases capitalising pre-production costs and begins depreciation and amortisation of mine assets at the point at which the mine's plant becomes available for use as intended by management. Determining when this is achieved is an assessment made by the Group's management and includes the following factors:

- The level of development expenditure compared to project cost estimates.
- Completion of a reasonable period of testing of the mine plant and equipment.
- Achieved mineral recoveries, plant availability and throughput levels are at or near expected / budgeted levels.
- The ability to produce gold into a saleable form.
- The achievement of continuous production.

As at 31 December 2016, the Group's management assessed that the mine's plant was not available for use as intended by management as achieved mineral recoveries, plant availability and throughput levels were not at or near expected / budgeted levels.

Amendment to Facility Agreement
On December 15, 2016, the Group executed an Amendment Letter that varied the terms of the Facility Agreement dated May 28, 2014 entered into with the Group's financiers, HSBC and BNP. Judgement is required in assessing the effective date of this amendment. The Directors have assessed that this letter did not become effective until January 27, 2017 when all Conditions Precedent as set out in Clause 5.1 of the Amendment Letter were either satisfied or waived. As such the effects of the amendment letter will be reflected in the year ending 31 December 2017 financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

3. Revenue

	2016	*2015*
	£	*£*
Revenue from sale of gold and silver	5,768,928	-

As at 31 December 2016, the Runruno Gold Project plant had not attained design levels of recoveries or processing volumes through all production circuits and remained in the "test and debugging" phase. During this phase, the Group applies pre-production accounting with revenue from the sale of gold and silver being recognised in the Consolidated Statement of Comprehensive Income with an equivalent amount of costs being charged to cost of sales and credited against Property, Plant and Equipment.

4. Operating loss for the year is stated after charging:

	2016	*2015*
	£	*£*
Depreciation of property, plant and equipment	1,810,940	1,726,688
Amortisation	64,724	70,834
Foreign exchange losses	713,541	327,148
Staff costs (see note 7)	2,121,109	1,110,197
Auditors remuneration (see note 5)	50,693	59,700

5. Auditor's remuneration

	2016	*2015*
	£	*£*
Fees payable to the Group and Company's auditor for the audit of the Group and Company's accounts	43,593	42,200
Fees payable to the Company's auditor and its associates for audit related services	4,000	3,175
Taxation compliance services	3,100	6,250
Taxation advice services	-	4,100
Other services	-	3,975
	50,693	**59,700**

6. Segmental analysis

Operating segments have been identified based on 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 four geographic areas of the UK, Philippines, Singapore 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. Mining construction commenced in 2013 and it is expected that the mine plant will be operating as intended by management in the first half of 2017. It is because of this status that most expenditure is of a capital nature.

The segment results for the year ended 31 December 2016, for the year ended 31 December 2015 and the reconciliation of the segment measures to the respective statutory items in the consolidated financial information are as follows:

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

6. Segmental analysis (continued)

Year ended 31 December 2016	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
Segment results					
Sales revenue	-	5,768,928	-	-	5,768,928
Group operating loss	(2,162,069)	(7,339,097)	-	(12,734)	(9,513,900)
Finance income & similar items	4	467	-	-	471
Finance costs	(835,809)	(3,402,371)	-	(310)	(4,238,490)
Fair value gain on forward sales contracts	-	(6,680,962)	-	-	(6,680,962)
Fair value loss on interest rate swaps	-	(43,875)	-	-	(43,875)
Share of losses of associates	-	7,964	-	-	7,964
Gains/ (losses) before tax	**(2,997,874)**	**(17,457,874)**	**-**	**(13,044)**	**(20,468,792)**

Year ended 31 December 2015	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
Segment results					
Group operating loss	(1,458,857)	(3,723,928)	(17,062)	(6,440)	(5,206,287)
Finance income & similar items	249	764	15	-	1,028
Finance costs	(36,764)	(2,860,821)	(119)	(367)	(2,898,071)
Fair value gain on forward sales contracts	-	8,511,399	-	-	8,511,399
Fair value loss on interest rate swaps	-	(146,101)	-	-	(146,101)
Share of losses of associates	-	(26,325)	-	-	(26,325)
Losses before tax	**(1,495,372)**	**1,754,988**	**(17,166)**	**(6,807)**	**235,643**

Year ended 31 December 2016	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
Segment assets					
Segment tangibles & intangibles	-	197,859,151	2,415	-	197,861,566
Segment trade & other receivables	129,380	5,102,563	-	1,644	5,233,587
Segment cash	4,918,696	1,064,357	771	2,668	5,986,493
Segment derivative assets	-	4,282,421	-	-	4,282,421
Equity-accounted investees	-	105,556	-	-	105,556
Total segment assets	5,048,076	208,414,048	3,186	4,312	213,469,622
Segment liabilities					
Segment loans	4,952,701	65,917,360	-	-	70,870,061
Segment trade & other payables	256,130	5,797,229	6,112	5,606	6,065,077
Segment provisions	-	1,505,708	-	-	1,505,708
Segment derivative liabilities	-	10,076	-	-	10,076
Segment deferred tax	-	2,259,897	-	-	2,259,897
Total segment liabilities	5,208,831	75,490,270	6,112	5,606	80,710,819
Total segment net assets	**(160,755)**	**132,923,778**	**(2,926)**	**(1,294)**	**132,758,803**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

6. Segmental analysis (continued)

Year ended 31 December 2015	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
Segment assets					
Segment tangibles & intangibles	-	156,457,051	1,970	-	156,459,021
Segment trade & other receivables	206,546	2,824,890	-	635	3,032,071
Segment cash	2,570,262	8,384,120	629	14,438	10,969,449
Segment derivative assets	-	11,412,135	-	-	11,412,135
Equity-accounted investees	-	97,862	-	-	97,862
Total segment assets	2,776,808	179,176,058	2,599	15,073	181,970,538
Segment liabilities					
Segment loans	(3,333,771)	(56,247,277)	-	-	(59,581,048)
Segment trade & other payables	(165,084)	(4,615,742)	(4,983)	(4,533)	(4,790,342)
Segment provisions	-	(1,324,736)	-	-	(1,324,736)
Segment derivative liabilities	-	(80,386)	-	-	(80,386)
Segment deferred tax	-	(4,270,103)	-	-	(4,270,103)
Total segment liabilities	(3,498,855)	(66,538,244)	(4,983)	(4,533)	(70,046,615)
Total segment net assets	**(722,047)**	**112,637,814**	**(2,384)**	**10,540**	**111,923,923**

Segment net assets are analysed net of intercompany transactions.

Year ended 31 December 2016	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
Segment other information					
Amortisation of intangible assets	-	(64,724)	-	-	(64,724)
Depreciation of property, plant and equipment	-	(1,810,940)	-	-	(1,810,940)
Transfer of capitalised expenditure to cost of sales	-	(5,768,928)	-	-	(5,768,928)
Additions to property, plant and equipment	-	25,946,264	-	-	25,946,264

Year ended 31 December 2015	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
Segment other information					
Amortisation of intangible assets	-	(70,834)	-	-	(70,834)
Depreciation of property, plant and equipment	-	(1,726,688)	-	-	(1,726,688)
Additions to property, plant and equipment	-	34,876,928	-	-	34,876,928

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

All sales revenue has been derived through the sale of gold and silver to a counterparty domiciled in Switzerland. The Group is not contractually obliged to sell gold to any specific counterparty.

7. Staff numbers and costs - Group

	2016	2015
The average number of persons, including Directors, was:	*Number*	*Number*
Administration	32	24
Exploration	-	-
Construction & development	632	653
	664	**677**

	2016	2015
Staff costs of the above persons were:	£	£
Wages and salaries	2,038,864	1,068,022
Social security costs	61,761	3,492
Pension costs	19,243	38,683
Termination benefits	1,241	-
	2,121,109	**1,110,197**

Directors' emoluments:	**2016**	2015
	£	£
Directors		
I.R. Holzberger	562,660	494,399
Sums paid to third parties in respect of Directors		
Solomon Capital Limited/ MTL Luxembourg Sarl Pte Ltd – T.J. Dean	24,000	24,000
Solomon Capital Limited / MTL Luxembourg Sarl Pte Ltd– J.G Wilson	24,000	24,000
Solomon Capital Limited / MTL Luxembourg Sarl Pte Ltd– L. E. Simovici	24,000	24,000
J.W.D. Ayre	24,000	24,000
Runruno Holdings Limited – G.R. Walker	48,000	48,000
	144,000	144,000
	706,660	**638,399**

The Directors are considered to be the only members of key management personnel. All emoluments represent Directors' fees.

Pursuant to the Subscription and Shareholders' Agreement of 8 March 2011, Solomon Capital Limited (and later renamed as MTL Luxembourg Sarl Pte Ltd) 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. MTL Luxembourg Sarl Pte Ltd (and previously Solomon Capital Limited) is represented by Mr. Tim Dean, Mr. Julian Wilson and Mr. Edi Simovici. Runruno Holdings Limited is represented on the Board of Directors by Mr. Guy Walker.

Share options held by Director:

Option holder	*Grant date*	*Number of options*	*Exercise price*	*Earliest vesting date or rate per month*	*Expiry date*
I. R. Holzberger	18-Mar-10	6,000,000	£0.25000	18-Mar-12	17-Mar-17

Further details relating to key management are given in note 29 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

7. Staff numbers and costs – Company

The Company employed an average number of 8 administrative personnel, including Directors, who were paid wages and salaries, including Directors' emoluments of £884,490 (2015: average of 8 persons paid £869,655).

8. Finance costs and income

	2016	*2015*
	£	*£*
Exchange loss on translation of USD loans	(3,327,122)	(2,789,193)
Loan interest payable	(828,528)	(99,095)
Bank interest and charges payable	(82,840)	(9,783)
Finance costs and similar items	**(4,238,490)**	**(2,898,071)**
Bank interest receivable	471	1,028
Finance income	**471**	**1,028**

9. Taxation

The charge for taxation comprises the following

	2016	2015
	£	£
Current year corporation tax charge	-	-
Current year deferred tax (credit) / charge	(2,436,251)	2,384,810
Total tax charge for the year	**(2,436,251)**	2,384,810

The total tax charge for the year can be reconciled to losses for the year as follows:

	2016	2015
	£	£
(Losses) / profit before tax	(20,468,792)	235,643
Tax on loss on ordinary activities at standard UK corporation tax rate of 20% (2015: 20%)	(4,093,758)	47,129
Effects of:		
Overseas expenses not taxable for tax purposes	1,774,801	1,263,117
Differing tax rates in different jurisdictions	(754,655)	883,357
Deferred tax asset not recognised	617,248	171,332
Non taxable and non deductible items	18,429	17,418
Short-term timing differences	1,684	2,457
Total taxation (credit) / charge for the year	**(2,436,251)**	**2,384,810**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

10. Deferred tax charge, liability and asset

Deferred tax charge

	Tax charge		Tax Liability		Tax Asset	
	2016	2015	**2016**	2015	**2016**	2015
	£	£	£	£	£	£
Derivative assets	(2,138,951)	2,169,687	1,284,726	3,423,641	-	-
Undepleted asset retirement obligation	29,121	(221)	407,617	378,496	-	-
Unrealised foreign exchange gain	49,376	169,246	404,114	354,738	-	-
Other short term timing differences	54,278	88,471	163,440	113,228	-	-
	(2,006,140)	**2,427,183**	**2,259,897**	**4,270,103**	**-**	**-**

The differences between the deferred tax charge through the Consolidated Statement of Comprehensive Income and the deferred tax liability on the Consolidated Balance Sheet has occurred from translation differences arising on consolidation. Liabilities are translated using the closing foreign exchange rate prevailing at 31December 2016 whereas the foreign currency composition of the comprehensive income statement is translated using the average rate for the whole of the year.

Deferred tax asset
For the year ended 31 December 2016 the Group has net unused tax losses of £20,214,665 (2015: £14,079,463) available for offset against future profits. However, due to the Group's on-going tax losses situation, the deferred asset has not been recognised on the Consolidated Balance Sheet due to uncertainty over its future reversal.

For the year ended 31 December 2016 the Group has net unused tax losses available for offset against future profits as follows:

	2016	2015
	£	£
UK	15,806,508	13,469,875
Philippines	4,408,157	609,588
Indonesia	-	-
Group unused tax losses available	**20,214,665**	**14,079,463**

The UK Government has announced future tax changes to corporation tax rate. These changes resulted in a decrease in the standard rate of corporation of 20% for both the 2015/16 and 2016/17 tax years, falling to a rate of 19% for the 2017/18, 2018/19 and 2019/20 tax years and eventually culminating in a rate of 17% by 2020/21. As at 31 December 2016 all such changes have been substantively enacted and have therefore been reflected in the calculation of deferred tax for the year ended 31 December 2016.

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 17% (2015: 18%), and the deferred tax asset is estimated to be £2,687,106 (2015: £2,424,578).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

11. Loss per share

	2016	*2015*
	£	*£*
Loss		
Net loss attributable to equity shareholders for the purpose of basic and diluted loss per share	**(18,032,541)**	(2,149,167)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,779,329,876**	1,420,447,578
Basic and diluted loss per share	**(1.013)p**	(0.151)p

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.

	2016	*2015*
Weighted average number of potential ordinary shares that are not currently dilutive	**6,705,000**	9,775,000

12. Property, plant and equipment – Group

	Leasehold improvements	Motor vehicles	Fixtures, fittings & equipment	Land & buildings	Drilling equipment	Construction in progress	Mining properties	*Total*
	£	£	£	£	£	£	£	£
Cost								
As at 1 January 2015	221,117	736,342	12,254,785	1,305,593	1,062,358	74,202,51	28,975,550	118,758,256
Additions	-	10,494	514,895	-	13,805	34,090,888	246,847	34,876,929
Foreign exchange differences	(2,034)	(431)	(7,982)	(763)	(621)	(26,516)	(33,808)	(72,155)
As at 31 December 2015	**219,083**	**746,405**	**12,761,698**	**1,304,830**	**1,075,542**	**108,266,883**	**29,188,589**	**153,563,030**
Additions	-	-	77,274	-	-	23,707,867	2,161,123	25,946,264
Transfers to cost of sales	-	-	-	-	-	(5,768,928)	-	(5,768,928)
Foreign exchange differences	32,764	101,967	1,744,600	178,253	146,930	14,790,351	3,987,457	20,982,322
As at 31 December 2016	**251,847**	**848,372**	**14,583,572**	**1,483,083**	**1,222,472**	**140,996,173**	**35,337,169**	**194,722,687**
Depreciation								
As at 1 January 2015	(219,898)	(387,611)	(2,199,754)	(126,660)	(895,110)	-	-	(3,829,033)
Charge for the period	(230)	(106,015)	(1,494,793)	(124,270)	(1,380)	-	-	(1,726,688)
Foreign exchange differences	1,978	227	2,040	74	523	-	-	4,842
As at 31 December 2015	**(218,150)**	**(493,399)**	**(3,692,507)**	**(250,856)**	**(895,967)**	**-**	**-**	**(5,550,879)**
Charge for the period	-	(117,612)	(1,550,513)	(141,246)	(1,570)	-	-	(1,810,940)
Foreign exchange differences	(32,552)	(67,403)	(505,564)	(34,269)	(122,398)	-	-	(762,187)
As at 31 December 2016	**(250,702)**	**(678,414)**	**(5,748,584)**	**(426,371)**	**(1,019,935)**	**-**	**-**	**(8,124,006)**
Net book value								
As at 31 December 2016	**1,146**	**169,957**	**8,834,989**	**1,056,712**	**202,588**	**140,996,172**	**35,337,168**	**186,598,682**
As at 31 December 2015	934	253,006	9,069,191	1,053,974	179,575	108,266,882	29,188,589	148,012,151

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

12. Property, plant and equipment – Group (continued)

As of 1 December 2011 the Board of Directors approved the transition for FCF Minerals Corporation to commit expenditure towards the construction of a mining process plant at Runruno. Historical costs incurred at Runruno to gain access rights over land were previously accumulated and reported as intangible assets, but as of 1 January 2012 have been reclassified by transferring these costs into the Property, plant and equipment category of tangible assets.

The total borrowing costs capitalized to construction in progress amounted to £4,716,210 in 2016 (2015: £3,011,656)

12. Property, plant and equipment - Company

	Fixtures, fittings & equipment
	£
Cost	
As at 1 January 2015	8,825
Additions	-
As at 31 December 2015	8,825
Additions	-
As at 31 December 2016	**8,825**
Depreciation	
As at 1 January 2015	(8,825)
Charge for the period	-
As at 31 December 2015	(8,825)
Charge for the period	-
As at 31 December 2016	**(8,825)**
Net book value	
As at 31 December 2016	**-**
As at 31 December 2015	-
As at 1 January 2015	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

13. Goodwill

	2016	*2015*
	£	*£*
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 was recognised on the acquisition of the remaining 15% shareholding in FCF Minerals Corporation in 2011. Instead, the fair value of the consideration less the value of the non-controlling interest was 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 discount rates of 5%, 10% and 16%. 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.

Goodwill is not annually translated to the closing rate at the balance sheet date as any foreign exchange movements on this balance would be immaterial.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

14. Other intangible assets – Group

	Cost of Exploration	*Licences*	*Software*	*Total*
	£	*£*	*£*	*£*
Cost				
As at 1 January 2015	3,303,774	4,438,322	350,800	8,092,896
Additions	25,789	-	25,251	51,040
Foreign exchange differences	(1,932)	(2,595)	(205)	(4,732)
As at 31 December 2015	**3,327,631**	**4,435,727**	**375,846**	**8,139,204**
Additions	2,355,827	-	40,544	2,396,371
Foreign exchange differences	515,905	30,052	51,344	597,301
As at 31 December 2016	**6,199,363**	**4,465,779**	**467,734**	**11,132,876**
Impairment				
As at 1 January 2015	(187,902)	-	-	(187,902)
Foreign exchange differences	110	-	-	110
As at 31 December 2015	**(187,792)**	**-**	**-**	**(187,792)**
Foreign exchange differences	(42,551)	-	-	(42,531)
As at 31 December 2016	**(230,323)**	**-**	**-**	**(230,323)**
Amortisation				
As at 1 January 2015	-	(220,112)	(224,672)	(444,784)
Charge for the period	-	-	(70,834)	(70,834)
Foreign exchange differences	-	129	131	260
As at 31 December 2015	**-**	**(219,983)**	**(295,375)**	**(515,358)**
Charge for the period	-	-	(64,724)	(64,724)
Foreign exchange differences	-	(30,052)	(40,351)	(70,403)
As at 31 December 2016	**-**	**(250,035)**	**(400,450)**	**(650,485)**
Net Book Value				
As at 31 December 2016	**5,969,040**	**4,215,744**	**67,284**	**10,252,068**
As at 31 December 2015	3,139,839	4,215,744	80,471	7,436,054
As at 1 January 2015	3,115,872	4,218,210	126,128	7,460,210

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

14. Other intangible assets – Company

	Licences
	£
Cost	
As at 1 January 2015	220,111
Foreign exchange differences	(129)
As at 31 December 2015	**219,982**
Foreign exchange differences	30,052
As at 31 December 2016	**250,034**
Amortisation	
As at 1 January 2015	(220,111)
Foreign exchange differences	129
As at 31 December 2015	**(219,982)**
Foreign exchange differences	(30,052)
As at 31 December 2016	**250,034**
Net Book Value	
As at 31 December 2016	**-**
As at 31 December 2015	-
As at 1 January 2015	-

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

15. Investments in subsidiaries - Company

	£
Cost	
As at 1 January 2015	6,509,372
Further investment in existing subsidiaries	-
Share redemption under corporate reorganisation	-
As at 31 December 2015	**6,509,372**
Further investment in existing subsidiaries	-
Share redemption under corporate reorganisation	-
As at 31 December 2016	**6,509,372**
Impairment	
As at 1 January 2015	(452,326)
Charge for the period	-
Share redemption under corporate reorganisation	-
As at 31 December 2015	**(452,326)**
Charge for the period	-
Share redemption under corporate reorganisation	-
As at 31 December 2016	**(452,326)**
Net book value	
As at 31 December 2016	**6,057,046**
As at 31 December 2015	6,057,046
As at 1 January 2015	6,057,046

Metals Exploration Pte Ltd and PT Cupati are direct subsidiaries of the Company.

FCF Minerals Corporation and MTL Philippines, Inc. were direct subsidiaries of the Company in 2013. These investments were transferred to Metals Exploration Pte Ltd in 2014 as part of the corporate reorganisation required to perfect a security package pursuant to a loan facility agreement which FCF Minerals Corporation entered into on 28 May 2014, and for the benefit of the lenders. Additional investment was made in Metals Exploration Pte Ltd during 2014 in order to facilitate the Group reorganisation.

Metals Exploration plc ROHQ established in the Philippines, is an overseas branch of the Company and therefore its results are reported together with the Company's.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

15. Investments in subsidiaries - Company (continued)

The investments in subsidiaries are as follows:

Company	*Registered address*	*Percentage holding*	*Nature of business*
PT Cupati	Jl. Gunung Gamalama No. 03A Kampung Baru, Sorong, Papua Barat Indonesia	96%	Holder of mining rights
Metals Exploration Pte Ltd	6 Temasek Boulevard, #29-00 Suntec Tower Four Singapore 038986	100%	Holding and investment company
FCF Minerals Corporation	22F, Salcedo Towers, 169 H.V. dela Costa St, Salcedo Village, Makati City 1227, Philippines	100%	Holder of mining rights
MTL Philippines	22F, Salcedo Towers, 169 H.V. dela Costa St, Salcedo Village, Makati City 1227, Philippines	100%	Holder of exploration rights

The principal place of business of the subsidiary companies listed above is the same as their country of registration.

16 Investments in associates – Group

	2016	*2015*
	£	£
At 1 January	97,862	124,187
Further investment in existing associates	-	-
Share of profits / (losses) of associates	7,964	(26,325)
At 31 December	**105,556**	**97,862**

Associate company	**Domicile**	**Assets**	**Liabilities**	**P&L reserves Deficit at 31 Dec 15**	**Sales**	**Gains/(Losses)**	**Ownership %**
		£	£	£	£	£	
Cupati Holdings Corporation	Philippines	2,157,722	(2,151,054)	18,584	-	55,651	39.99%
Woggle Corporation	Philippines	268,126	(112,941)	(254,004)	-	(35,791)	39.99%

Cupati Holdings Corporation and Woggle Corporation were investments of the Company in 2013. These investments were transferred to Metals Exploration Pte Ltd in 2015 as part of the corporate reorganisation required to perfect a security package pursuant to a loan Facility Agreement which FCF Minerals Corporation entered into on 28 May 2015, and for the benefit of the lenders.

17. Trade and other receivables due in more than one year – Group

	2016	*2015*
	£	£
Amounts owed by associates	**2,093,155**	2,160,956

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

18. Trade and other receivables due in less than one year – Group

	2016	*2015*
	£	*£*
Receivables from gold sales	295,478	-
Other receivables	2,211,310	704,908
Prepayments	134,379	166,207
	2,641,167	**871,115**

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

	2016	*2015*
		Restated
	£	*£*
Receivables from subsidiary	140,770,594	122,149,115
Other receivables	97,099	563,342
Prepayments	16,115	16,115
	140,883,808	**122,728,572**

During the year the Directors have reviewed the classification of amounts "Receivable from subsidiary" and determined to reclassify them as being current assets as they are repayable on demand.

19. Cash and cash equivalents – Group

	2016	*2015*
	£	*£*
Cash on hand	5,728	4,881
Current accounts	5,980,765	10,964,568
	5,986,493	**10,969,449**

19. Cash and cash equivalents – Company

	2016	*2015*
	£	*£*
Current accounts	4,918,696	2,570,262
	4,918,696	**2,570,262**

20. Trade and other payables – Group

	2016	*2015*
	£	*£*
Trade payables	4,304,406	3,845,711
Other payables	904,399	690,503
Other tax and social security payable	151,468	48,655
Accruals	704,804	205,473
	6,065,077	**4,790,342**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

20. Trade and other payables - Company

	2016	*2015*
	£	*£*
Trade payables	122,701	84,961
Other payables	59,195	-
Other tax and social security payable	26,120	20,707
Accruals	48,114	59,416
	256,130	**165,084**

21. Derivative assets and liabilities

In 2015, the Group entered into Hedging Agreements based on the International Swaps and Derivatives Association, Inc. (ISDA) schedule to the 2002 Master Agreement.

Gold Forward

The Group is exposed to changes in gold prices and the Group entered into forward sales price swap contracts that protect against the risk of decreases in gold prices. The Group has entered into cash settled forward sales gold contracts totalling 90,000 ounces of gold to be settled over thirty six (36) months with the first settlement received on 2 October 2016. As at 31 December 2016, forward sales gold contracts totalling 45,000 ounces were outstanding. As at 31 December 2016, derivative assets and the related unrealised losses on these derivative contracts recognised in the statement of comprehensive income amounted to £6,680,962 (2015; unrealised gains £8,511,399).

	Non-current assets	***Current assets***	***Total 2016***
	£	*£*	*£*
At 1 January 2016	7,401,991	4,010,144	11,412,135
Fair value gain	(4,008,577)	(2,672,385)	(6,680,962)
Settlements	-	(1,589,262)	(1,589,262)
Foreign exchange differences	889,007	251,503	1,140,510
Transfer to current	(2,854,948)	2,854,948	-
At 31 December 2016	**1,427,473**	**2,854,948**	**4,282,421**

	Non-current assets	*Current Assets*	*Total 2015*
	£	*£*	*£*
At 1 January 2015	3,717,266	462,581	4,179,847
Fair value gain	8,314,313	197,086	8,511,399
Settlements	(565,608)	(712,205)	(1,277,813)
Foreign exchange differences	(915)	(383)	(1,298)
Transfers to current	(4,062,395)	4,062,395	-
At 31 December 2015	7,402,121	4,010,014	11,412,135

Gold forward contracts and interest rate swaps are classified as level 2 in the fair value hierarchy defined in IFRS 13.

21. Derivative assets and liabilities (continued)

The following table provides a summary of the forward gold price swap contracts outstanding at 31 December 2016, maturing in:

	2017	2018	Total
Forward sales contracts			
Ounces of gold	30,000	15,000	45,000
Average price US$	$1,285.81	$1,287.19	$1,286.74

Interest Rate Swap
The Group entered into Hedging Agreements with two international resource banks that provide for interest rate swap for an aggregate notional principal amount that is at least forty percent (40%) of the commitments over the term of the Loan Facility Agreement. When the Loan Facility was originally arranged in May 2015, the Company entered into interest rate swaps to swap the underlying variable six month US Libor interest rate into a fixed rate of 1.575% for the original fifty four month term ending 31 December 2018. A derivative liability and the related unrealised marked-to-market loss on the interest rate swap contracts are recognised in the financial statements.

	2016	*2015*
	£	*£*
At 1 January	(80,386)	(162,837)
Fair value loss	(43,875)	(146,101)
Settlements	121,250	228,444
Foreign exchange differences	(7,066)	108
At 31 December	**(10,076)**	(80,386)

22. Other current assets - Group

	2016	*2015*
	£	*£*
Consumable inventories	364,732	-
Other assets	134,532	-
	499,264	-

23. Loans - Group

On 28 May 2015, the Company entered into a loan Facility Agreement with two foreign international resource banks with each both bank having an equal participation. The Facility Agreement comprises three separate elements:

Senior Facility: The senior facility includes rolled up capitalised interest and bank fees during the construction phase of US $5,000,000[1]	US $75,000,000
Cost overrun facility:	US $8,000,000

Note[1]: the capitalised interest period covers the construction period 28 May 2015 to 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

23. Loans - Group (continued)

The Facility Agreement is for the fifty four (54) month period maturing on 31 December 2018 with the following interest rates applicable:

a.) Senior Facility:
- Six month US Libor plus a margin of 4.75% per annum up until the project completion date
- Six month US Libor plus a margin of 4.25% per annum after the project completion date

b.) Cost Overrun Facility: Six month US Libor plus a margin of 5.75% per annum

The Loan Facility Agreement is primarily secured by (i) Pledge Agreement over the Company, and Metals Exploration Pte Ltd's rights under certain collateral including certain shares it owns (ii) Mortgage Agreement constituted over current and future certain real and movable (chattel) properties of the Company during the term of the Facility Agreement.

As at 31 December 2015, the Group had fully drawn down against the US $70,000,000 senior debt facility for construction works, the US $5,000,000 facility available for capitalised interest and bank fees and the US $8,000,000 cost overrun facility. Due to the delay in commencing commercial obligations and associated lack of cash flow agreement was reached with the lenders to reschedule the debt repayments. The cost of the rescheduling includes a penal interest rate of 1%, capped at US $825,000. The maturing of the facility remains the same at 31 December 2016. The rescheduling of the loan repayments has not been deemed a substantial modification as defined by IAS39 Financial Instruments and therefore has been accounted for prospectively.

The Group made a US $2,000,000 principal repayment in the year ended 31 December 2016.

	2016	*2015*
	£	*£*
Loans due within one year	**47,200,085**	21,685,730
Loans due after more than one year	**23,669,976**	34,561,546

The senior debt facility was restructured subsequent to 31 December 2016 (refer Note 33).

23. Loans - Company

On 25 November 2016 the Company entered into a facility agreement with two major shareholders, MTL (Luxembourg) Sarl Pte Ltd and Runruno Holdings Limited. The purpose of this agreement was for general corporate and working capital requirements of the Company and to enable completion of the project. The facility amount of US $5,000,000 was fully drawn down, with interest capitalised against the facility at 20% per annum. The facility ranks pari passu with the claims of other unsecured and unsubordinated creditors. This loan is included in the Group balance sheet above.

	2016	*2015*
	£	*£*
Loans due within one year	**-**	-

	2016	*2015*
	£	*£*
Loans due after more than one year	**4,952,702**	3,333,771

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

24. Provision for mine rehabilitation and decommissioning

	2016	*2015*
	£	*£*
At 1 January	1,324,736	1,262,391
Unwinding of discount	71,659	63,073
Effect of change in estimate	(71,659)	-
Foreign exchange differences	180,972	(728)
At 31 December	**1,505,708**	**1,324,736**

The Company makes a full provision for the future cost of rehabilitation of the process plant and other future costs on a discounted basis. Provision for mine rehabilitation and decommissioning represents the present value of future rehabilitation and other costs. These provisions have been created based on the Company's internal estimates. Estimated costs include labour, equipment hire, consumables and transportation for disposal. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual costs will ultimately depend upon future market prices for the necessary works required which will reflect market conditions at the relevant time. Furthermore, the timing of the rehabilitation and expenditure of other costs is likely to depend on when the mine ceases to produce at economically viable rates, and the timing that the event for which the other provisions provided for will occur.

25. Called up share capital

	2016	*2015*
	£	*£*
Allotted, called up and fully paid at 1 January	15,830,054	13,749,721
Shares issued and fully paid during the year	4,883,292	2,080,333
Allotted, called up and fully paid at 31 December	**20,713,346**	**15,830,054**

26. 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

26. Share based payments (continued)

Details of the share options outstanding are as follows:

	Year ended 31 December 2016		Year ended 31 December 2015	
	Number of share options	Weighted average exercise price *p*	Number of share options	Weighted average exercise price *P*
Outstanding at the beginning of the period	7,235,000	25.25	7,235,000	25.25
Exercised during the period	-	-	-	-
Expired during the period	(650,000)	14.31	-	-
Outstanding at the end of the period	**6,585,000**	**26.33**	**7,235,000**	**25.25**
Exercisable at the end of the period	6,585,000	26.33	7,235,000	25.25

The share options outstanding had a range of exercise prices as follows:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Number of share options	Exercise price *p*	Weighted average remaining contractual life *(months)*	Number of share options	Exercise price *P*	Weighted average remaining contractual life *(months)*
	6,000,000	25.00	3	150,000	12.00	3
	585,000	40.00	10	500,000	15.00	2
				6,000,000	25.00	15
				585,000	40.00	22
Outstanding at the end of the period	**6,585,000**	**26.33**	**4**	**7,235,000**	**25.25**	**14**

During the year, an expense of £nil was recognised in the statement of total comprehensive income (2015: £nil).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

27. Net cash used in operating activities – Group

	2016	*2015*
	£	£
(Loss) / gain before tax	(20,468,792)	235,643
Depreciation	1,810,940	1,726,688
Amortisation	64,724	70,834
Share of (profits) / losses of associates	(7,964)	26,325
Net finance costs	4,238,490	2,897,043
Increase in receivables	(1,702,251)	(40,572)
Increase in other assets	(499,264)	-
(Decrease)/increase in payables	1,300,604	(294,824)
Fair value (gain) / loss on forward sales contracts	6,680,962	(8,511,399)
Fair value loss on interest rate swaps	43,875	146,101
Cash used in operations	**(8,538,676)**	**(3,744,161)**
Interest received	471	1,028
Finance costs paid	(150,229)	(274,977)
Net cash used in operating activities	**(8,688,434)**	**(4,018,110)**

27. Net cash used in operating activities - Company

	2016	*2015*
	£	£
Loss before tax	(2,466,061)	(995,967)
Net finance costs	835,809	6,943
Increase in receivables	(18,155,237)	(6,604,455)
Increase / (decrease) in payables	91,046	(12,466)
Increase in other assets	(16,115)	-
Cash used in operations	**(19,888,819)**	**(7,565,945)**
Interest received	-	249
Interest paid	(53,666)	(7,192)
Net cash used in operating activities	**(19,764,223)**	**(7,572,888)**

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

28. Capital commitments

As at 31 December 2016 the Group had £Nil of outstanding capital commitments (31 December 2015: £1,122,186) for the purchase of property, plant and equipment.

29. Related party transactions

Only members of the Board of Directors of Metals Exploration plc 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 7, Directors' emoluments section.
During the year to 31 December 2016, the Company recognised a provision of £Nil in respect of a doubtful receivable balance owed by subsidiary company, PT Cupati (2015: £13,199).

During the year, the Company advanced £15,490,395 to its subsidiaries to fund operations and purchase property, plant and equipment (2015: £6,566,973). At the year end, the Company was owed £137,639,510 by its subsidiaries (2015: £122,728,572).

During the year, the Company received £Nil from Woggle Corporation, (2015: received £Nil). At the year end, the Company owed £59,195 to its associates (2015: owed £59,195).

30. Financial instruments

The Company's financial assets comprise cash & cash equivalents of £4,918,696 (2015: £2,570,262), and trade and other receivables of £140,883,788 (2015: £122,728,572).

Fair values of commodity forwards are obtained using the "forward versus forward" approach using gold forward prices and discounted at the appropriate London Interbank Offered Rate. Fair value of forward commodity sales contracts for gold sales transactions is provided by the third-party banks' derivative team using proprietary forward pricing curves to value commodity contracts.

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

Group	***Cash and cash equivalents***	***Trade and other receivables***	***Derivative assets***	***Total***
	£	*£*	*£*	*£*
As at 31 December 2016	5,986,493	4,734,322	4,282,421	15,003,236
As at 31 December 2015	10,969,449	3,032,071	11,412,135	25,413,655

30. Financial instruments (continued)

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

Group	*Trade payables*	*Accruals and other payables*	*Loans*	*Derivative liability*	*Total*
	£	*£*	*£*	*£*	*£*
As at 31 December 2016	4,304,406	1,760,671	70,870,062	10,076	76,995,299
As at 31 December 2015	3,845,711	944,631	59,581,048	80,386	64,721,776

Trade payables, accruals and other payables and loans are measured at amortised cost. Fair value of interest rate swaps is provided by the third party banks' derivative team using interest rate and yield curves observable at commonly quoted intervals.

The Company's financial liabilities comprise trade payables of £122,701 (2015: £84,962), accruals of £48,114 (2015: 59,416), and other payables of £59,195 (2015: £20,707).

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 and senior management.

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 are as follows:

Group	***Trade and other payables***	***Loans***	***Loan interest***	***Total***
	£	***£***	***£***	***£***
As at 31 December 2016				
1 – 6 months	6,065,079	8,689,802	2,169,010	16,923,891
6 – 12 months	-	10,505,581	1,874,271	12,379,852
1 – 2 years	-	23,637,557	2,602,442	26,239,999
2 – 5 years	-	27,779,643	2,504,826	30,284,469
Total contractual cash flows	6,065,079	70,612,583	9,150,549	85,828,209
As at 31 December 2015				
1 – 6 months	4,790,342	11,520,544	3,159,735	19,470,621
6 – 12 months	-	10,165,186	1,408,057	11,573,243
1 – 2 years	-	18,975,014	1,668,554	20,643,568
2 – 5 years	-	18,920,304	2,406,766	21,327,070
Total contractual cash flows	4,790,342	59,581,048	8,643,112	73,014,502

Payments in respect of derivative financial liabilities are made quarterly expiring on 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

30. Financial instruments (continued)

Company

	Trade and other payables £	*Loans* £	*Loan interest* £	*Total* £
As at 31 December 2016				
1 – 6 months	256,130	-	-	256,130
6 – 12 months	-	-	-	-
1 – 2 years	-	-	-	-
2 – 5 years	-	4,952,702	1,621,271	6,573,973
Total contractual cash flows	-	4,952,702	1,621,271	6,830,103
As at 31 December 2015				
1 – 6 months	165,084	-	-	165,084
6 – 12 months	-	-	-	-
1 – 2 years	-	-	-	-
2 – 5 years	-	3,333,771	2,023,800	5,357,571
Total contractual cash flows	165,084	3,333,771	2,023,800	5,522,655

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 Group is exposed to credit risk to the extent that amounts owed by the associates may not be recoverable in the future.

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 2016 it incurred debts of £Nil (2015: £13,199) with Metals Exploration plc and which have been fully provided for in both years.

MTL Philippines, Inc.'s, a subsidiary in the Philippines, additional investment of £nil (2015: £Nil) and debt of £1,300,874 (2015: £1,300,874) with Metals Exploration plc were fully impaired in the Company in 2015 and 2013. MTL Philippines was fully impaired in the Company prior to the investment and provision of impairment being transferred to Metals Exploration Pte Ltd under the corporate reorganisation.

As at 31 December 2016, none of the other receivables were found to be impaired (2015: £nil). No unimpaired other receivables are past due as at 31 December 2016 (2015: £nil).

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

30. Financial instruments (continued)

Market risk and sensitivity analysis

Interest rate risk
The Group has interest bearing assets comprising cash and cash equivalents which earn interest at a variable rate.

The impact on the reported profit for the year is interest income on cash of £471 (2015: £1,028).

The Group has interest bearing liabilities and the impact on the reported profit for the year is an interest expense of £911,368 (2015: £108,878). Interest payable on the loan facility is currently capitalised. The value of interest and bank fees capitalised during the year is £5,498,353 (2015: £786,656).

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 £21,100,367 (2015: £3,534,689).

The company held a number of foreign currency balances at year end. A 5% movement in the exchange rate would have resulted in the following Pound Sterling losses for the year:

Currency	***2016***	*2015*	***2016 GBP loss £m***	*2015 GBP loss £m*
USD	1,909,791	678,224	(0.1)	(0.02)
AUD	25,180	98,624	(0.01)	-
EURO	-	-	-	-
ZAR	-	-	-	-
PHP	-	-	-	-

31. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2016 (continued)

32. Contingent liabilities

The Group has no contingent liabilities identified as at 31 December 2016 (2015: £nil).

33. Post balance sheet events

On December 15, 2016, the Company executed an Amendment Letter that varied the terms of the Facility Agreement dated May 28, 2014 entered into with the Company's financiers, HSBC and BNP. The Amendment Letter did not become effective until January 27, 2017 when all Conditions Precedent as set out in Clause 5.1 of the Amendment Letter were either satisfied or waived. The rescheduling of the loan repayments has not been deemed a substantial modification as defined by IAS39 Financial Instruments and therefore will be accounted for prospectively.

On March 31, 2017, the Company was granted a waiver by the lenders pursuant to the Facility Agreement dated May 28, 2014 (as amended) allowing the Company to defer repayment of US $4,240,000 principal that was due on March 31, 2017. Pursuant to the waiver, deferred principal amount is repayable as follows:

- US $1,000,000 on April 28, 2017
- US $2,000,000 on May 31, 2017
- US $1,240,000 on June 30, 2017

34. Ultimate controlling party

The Company has no ultimate controlling party.