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COMPANIES HOUSE

**METALS EXPLORATION PLC**

**DIRECTORS AND ADVISERS**

<b>Directors</b>	I.R. Holzberger (Executive Chairman) T.J. Dean (Non-Executive Director) G.R. Walker (Non-Executive Director) C.G. Whitehouse (Non-Executive Director) resigned 5 December 2014 J.G. Wilson (Non-Executive Director) J.W.D. Ayre (Non-Executive Director) appointed 6 March 2014 L.E. Simovici (Non-Executive Director) appointed 19 January 2015
<b>Company Secretary</b>	L.A. Ruddy
<b>Registered office</b>	200 Strand London WC2R 1DJ
<b>Bankers</b>	HSBC Bank plc 70 Pall Mall London SW1Y 5EZ
<b>Auditors</b>	Nexia Smith & Williamson Audit Limited Chartered Accountants 25 Moorgate London EC2R 6AY
<b>Nominated Advisor</b>	Westhouse Securities Limited One Angel Court London EC2R 7HJ
<b>Broker</b>	S.P. Angel Corporate Finance LLP Prince Frederick House 35-39 Maddox Street London W1S 2PP
<b>Solicitors</b>	Kerman & Co LLP 200 Strand London WC2R 1DJ
<b>Registrars</b>	Capita Registrars Limited 40 Dukes Place London EC3A 7NH
<b>Company's registered number</b>	05098945

## CHAIRMAN'S STATEMENT

Dear Shareholder,

It is with great pleasure that I present Metals Exploration plc's tenth set of audited financial results and Annual Report. The latest set of results and Annual Report cover the 12 month period up to 31 December 2014. In the Strategic Report you will find a review of progress and developments for the Group covering the year ended 31 December 2014 and period subsequent to the financial year-end.

2014 was another year of significant and progressive development of the mine site and the Group is now on the cusp of transforming itself from an exploration company into a mining company with first gold pour expected later this year. Realising the tangible benefits of the investments, which commenced on 22 October 2004 when the Company was admitted to trading on AIM, is now tantalisingly close for all stakeholders in the Group.

It is well documented how difficult, expensive and time consuming it is to explore, discover and refine exploration programmes to ultimately bring a mining project into production. I am proud to advise that FCF Minerals Corporation's Runruno Gold-Molybdenum project will be in a position to begin commercial operations during 2015 after an immense amount of planning and construction work which commenced on 1 December 2012. Returning shareholder value has been my mission and goal since joining the Group in 2007.

The most significant event in 2014 was signing a Facility Agreement to secure US \$83 million of debt funding which fully financed the Project and allowed us to finalise the construction of the Gold Process Plant and the RSI. Partnering with two of the world's leading resource banks, Hongkong and Shanghai Banking Corporation ("HSBC") and BNP Paribas, was particularly pleasing and a strong endorsement of the Project and its fundamentals. A considerable amount of work went into securing this debt facility but it was pleasing that the lenders considered the due diligence process was one of the quickest they had been involved in for a mining project, reflecting the quality of the project and the work undertaken by the Group. There is a strong business relationship with the lenders and it is pleasing to consider this as a partnership for the medium term at least.

Project construction continued apace in 2014 and is now nearing finalisation. The Runruno Process Plant site is a small footprint and careful planning and training has allowed construction to advance without a single major work incident. This is extremely satisfying and over 1.2 million man-hours have been achieved by the construction group without a lost time incident and I applaud the efforts of our Project construction team and their commendable approach to health and safety.

The build schedule slipped on two occasions during 2014 resulting in the commencement of commissioning planned in late June 2015 and gold production shortly thereafter. The legal and commercial documentation stage of the funding process took longer than first anticipated. Primarily this was due to the complex Philippine land and property ownership laws which made finalising a security package very complicated. During these discussions the project build was slowed down as a defence against over committing the Group financially, and it unfortunately pushed back commissioning by three months. A further three months was added to the build schedule towards the end of 2014 after a period of design drawing delays out of the design consultant.

These issues are now in the past and the Process Plant construction team is confident of entering the commissioning phase at the end of June 2015 and has introduced a construction night shift crew to try and achieve this. Most of the remaining construction works require effort to be focused on the electrical and piping installations of which there is a significant amount of this in the Process Plant.

## **METALS EXPLORATION PLC**

### **Chairman's Statement (continued)**

#### **Board changes**

In December 2014 Mr Chris Whitehouse stepped down from the Board of Directors as a Non-Executive Director and was replaced by Mr Lucian Eduard Simovici in January 2015. Earlier in 2014 the Company appointed an independent Non-Executive Director to compliment the Board of Directors, Mr Jeremy Ayre. Mr Ayre brings over 25 years relevant financial and technical experience to the Board and is a qualified mining engineer. I welcome Edi and Jeremy onto the Board and both gentlemen are joining at a very exciting time in the Company's development. Their help and experience in technical, financial and commercial areas will be very welcome.

#### **A year of major developments**

In preparing the Annual Report, it always affords me a chance to reflect on the past year. 2014 was a year of significant achievements at both Corporate and Project level. The Strategic Report outlines these in greater detail but I would like to highlight some of the major items to you at this point as they are worthy of being singled out.

In previous results statements and market updates I have outlined the investment in infrastructure and it is extremely pleasing to update you on what this provides the Project. Our workforce grew considerably reflecting the personnel demands of the construction phase of the Project and our camp and messing facilities have performed admirably. The camp can accommodate 700 people and it has been at capacity for some time. On average over 2,000 meals are served daily. Like most of our operations our choice has been to service these facilities ourselves without contracted labour or support services.

Our road networks into and out of the Project site over the last couple of years have improved the quality of lives of everyone in the surrounding areas. Most of the road to the national highway is now concreted providing a faster, safer and better experience for all users. A phenomenal amount of equipment of differing weights, shapes and sizes has been conveyed from Manila port to site and we are pleased to report that the Company has not been involved in a single road accident.

The major investment in the infrastructure which allows the site to benefit from electricity from the national grid has proven to be very successful. In December 2014, the Philippine Energy Regulatory Commission certified the switchyard at site which enabled the National Grid Corporation of the Philippines to successfully commission and energise the lines at 69KV on full capacity on 12 February 2015. In October 2014 a power supply agreement was signed with one of the major electricity providers in the Philippines, SN Aboitiz Power-Res Inc. I am delighted with achieving this milestone and it is a great achievement economically and for commissioning into operations.

Ordinarily a corporate group reorganisation which is well planned, thought out and executed with precision should take a few months in controlled conditions. The reorganisation of the MTL Group, required under the Facility Agreement, spanned over 12 months from start to finish, and involved an inordinate amount of time from management and our retained Philippines legal advisory firm. The exercise involved unforeseen amendments to Articles of Incorporation and payment of taxes which the Group believes should not have been payable. That said, the process was ultimately successful and the end result is a tax neutral position for the Group.

Taking on the risk of self-managing the construction and commissioning of a Process Plant is not an every-day decision that a Board of Directors of a mining company has to take, but to also include self-managing of the construction of a RSI in addition to this and at the same time is unusual. This decision was not taken without a great amount of introspection and deliberation involving various specialist consultants with relevant dam and civil construction experience. Various factors conspired to make this undertaking appear to be misplaced; late delivery of a tree cutting permit to allow the works to commence, several attempts at re-engineering the project pursuant to increasing demands from

**Chairman's Statement (continued)**

government offices, a period of excessive and unexpected inclement weather. These have all added cost to the dam project which was fully funded from Project contingency. Fortunately the dam build project has benefited from various economics through recycling of mine pre-strip materials. The mine construction team are confident the dam will be ready to take the initial tailings from commissioning and ramp up while continuing with construction for the next stages of operations.

The construction of the Process Plant has exceeded my initial expectations and natural reticence. In retrospect the decision to self-manage has been a blessing in disguise, particularly as we have suffered up to six months slippage in the build schedule without involving material financial penalties which we would have been exposed to if the build project was contracted out. Our construction team have performed exceedingly well in a highly regulated jurisdiction which imposes many challenges to the mining industry. Permits have been applied for timeously and obtained as a matter of course; the team have driven a culture of safe working practices since the inception of construction, and they are attentive to the social and environmental aspects surrounding the Project. The experience the team has built up and the progress made is in my view quite remarkable and extremely noteworthy for the future.

**Cash position and project finance**

As at 31 December 2014 the Group's cash at bank position was £12,251,994. As a result of the Facility Agreement, the Project is fully funded through its construction phase with sufficient working capital for operations through commissioning and into operational commencement. The utilisation of the debt facility is based on forecasts provided to the lenders each month with the lenders' independent technical expert reviewing proposed utilisation draw-downs. To date this has worked seamlessly with no issues that have impacted on any utilisation requests raised.

**Corporate responsibility and environment**

The Group takes significant satisfaction in its role as a major promoter of community programmes and responsible environmental activities in the mining sector. This is evidenced by:

- The significant number of environmental and safety awards it has achieved over a number of years;
- Skills enhancement, training, education and health programmes that it runs and supports throughout the barangay of Runruno and greater Municipality of Quezon;
- Actively fostering a genuine equal opportunity employment regime by employing and training women into non-traditional professional, skilled and semi-skilled roles;
- Supporting community programmes to develop economically sustainable projects that will continue beyond the life-of-mine;
- Support the local communities through direct employment and supply of goods and services to the project;
- Active reforestation and continuous rehabilitation programmes;
- Continuous environmental monitoring; and
- Providing and ensuring a safe working environment for all staff and contractors.

**Summary**

2014 and Q1 2015 was a tumultuous period of advancement, achievement and learning for our Group. The Project is in a great position and I am confident the shareholders will begin to realise value in 2016 provided the price of gold does not retreat excessively.

I would also take the opportunity to formally recognise the dedication, competence and hard work of our operations and construction teams through an extremely demanding and busy year. In the Philippines we continue to enjoy the support of the local communities, authorities, Government Departments and all levels of Government. The Group works very closely with the Mines and

**METALS EXPLORATION PLC**

**Chairman's Statement (continued)**

Geosciences Bureau, our principal regulator, in the undertaking of our work. I take this opportunity to express my appreciation for the continued support of these stakeholders.

In closing I would like to thank my co-directors for their contributions during the year, all our loyal and dedicated staff and all of our Shareholders for your continued support.

A handwritten signature in black ink, appearing to read 'I R Holzberger', written in a cursive style.

**I R Holzberger**

**Executive Chairman**

**1 June 2015**

## 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.

### Directors

For most of the year ended 31 December 2014 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, who were nominated to the Board by the major shareholder Solomon Capital Limited (and after a corporate restructure is now renamed as MTL Luxembourg Sarl Pte Ltd) and Mr G.R. Walker who was nominated to the Board by a significant shareholder, Runruno Holdings Limited. Mr J.W.D. Ayre, an independent director, was appointed on 6 March 2014. Mr C.G. Whitehouse (resigned 5 December 2014) and was replaced by Mr L.E. Simovici (appointed 19 January 2015), a nominee to the board by MTL Luxembourg Sarl Pte Ltd.

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

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

The Directors have delegated some of their responsibilities to various Committees, which operate within specific terms of reference. In the event of a proposal to appoint a new Director, this would be discussed at a Board meeting, with each Director being given the opportunity to meet the candidate prior to any formal decision being taken. Due to the small size of the Group in 2014, no Nomination Committee has been established.

### Audit, Remuneration and Hedging Committees

During the year ended 31 December 2014, the Audit Committee consisted of two Directors, Mr. C.G. Whitehouse and Mr. G.R. Walker. Mr. T.J. Dean has joined the Audit Committee following the resignation of Mr. C.G. Whitehouse. There is no independent Director on the Board of the Audit Committee. Mr. C.G. Whitehouse, 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, 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 2014, the Remuneration Committee mainly consisted of three Directors, Mr. I.R. Holzberger, Mr. T.J. Dean and Mr. G.R. Walker. The Remuneration Committee is responsible for remuneration policy and setting remuneration for Directors. Directors' remuneration has historically consisted of a package of basic salary and share options and warrants linked to corporate and individual performance achievements. At the time of writing this report no current directors have any warrants in their remuneration package. The Committee meets when necessary.

## **METALS EXPLORATION PLC**

### **Corporate Governance Statement (continued)**

A hedging committee was established in April 2014 comprising four directors Mr. I.R. Holzberger, Mr. J.W.D. Ayre, Mr. T.J. Dean and Mr. G.R. Walker and management represented by Mr. I.R. Holzberger, Mr. L.A. Ruddy, Mr. J.A. Stubbs and when required to include a specialist hedging consultant. The committee is quorate with any three of the four directors present. The committee has delegated powers for evaluating and setting the Group's hedging policy and opining on management's hedging recommendations. The committee met on one occasion during 2014 and on three occasions in 2015 to date.

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

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

### **Internal controls**

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

### **Incorporation**

The Company was incorporated in the UK as a public limited company on 8 April 2004 under the Companies Act 1985 (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.

### **Going concern**

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

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



**I R Holzberger**  
*Executive Chairman*

1 June 2015

## STRATEGIC REPORT

Metals Exploration plc (“MTL” or the “Company”) is a holding company of a group of companies (collectively the “Group”) engaged in exploration, mining and associated activities, which has in construction a single gold mining asset in the Philippines (the “Project”). Throughout this report references to the Project or the mine-site are specific references to FCF Minerals Corporation’s (“FCF”) Runruno Gold project. FCF is MTL’s wholly owned Philippine subsidiary company. MTL’s gold mining activities are carried out solely in the Philippines at its mine site at Runruno in the province of Nueva Vizcaya, Northern Luzon. The Runruno gold mine is not yet producing gold doré but it is expected to be operational ready in H2 2015.

2014 was a successful year for the Group closing out a US \$83.0 million debt facility which provided the balance of funding required to bring the mine to a state of operational readiness in 2015. The Hongkong and Shanghai Banking Corporation Limited and BNP Paribas banks provided the facility after undertaking a comprehensive due diligence exercise followed by a period of commercial and legal documentation. It is a testimony to the Project that two of the world’s major resource banks chose to partner with the Group and the Project. A Facility Agreement was signed with FCF, the banks (the “lenders”) and their Security Agents on 28 May 2014, to include a structured security package for the benefit of the lenders. The facility terminates on 31 December 2018 and includes gold hedging of up to 35% of planned production over the term of the loan and hedging of 40% of the interest rate exposure based on an agreed US \$73.0 million cash flow projection. The capital construction costs including contingency have been estimated and are reported to be US \$182.8 million. Shareholders’ equity contributions were US \$121.1 million. The facility comprises three elements; US \$75 million senior debt of which US \$70 million is available for construction and US \$5m for bank interest and costs during construction, and a cost overrun facility of US \$8.0 million. The Project build is forecast to be within budget which will be a major achievement.

The Group underwent a major restructuring of its Philippine investments to perfect a security package for the benefit of the Project’s lenders. It involved transferring the shares MTL held in each of its Philippine entities to a wholly owned intermediate holding company incorporated in Singapore. This undertaking commenced November 2013 and completed in November 2014 becoming a complicated exercise due to unforeseen requirements and restrictions in the Philippines. The ultimate beneficial ownership of all of the assets of the Group was not affected by the restructure.

Throughout 2014 and into 2015 FCF has been disallowed to avail of several fiscal incentives provided in its Financial or Technical Assistance Agreement (“FTAA” or “the Agreement”) which are specific to import VAT, customs duties and fees. The FTAA provides that FCF is entitled to import capital mining goods and equipment without payment of import value added tax (currently 12%) or customs duties or fees. The Bureau of Internal Revenue (“BIR”) has denied FCF and other mining companies this incentive and designed Revenue Memorandum Circular No 17-2013 to this effect. FCF has challenged that the scope of the memorandum can be extended to nullify incentives provided by a contract in law (i.e. the FTAA). The challenge is currently in process through the Court of Tax Appeals.

During 2013 management with the approval of the Board of Directors terminated discussions with a major construction contractor in favour of self-managing the execution of the construction activities at Runruno. This decision was unusual for a company of FCF’s size and would call upon the mining, construction and commercial acumen of a small management team and involved recruiting a specialist team of experienced expat personnel with current relevant mining construction experience.

## **METALS EXPLORATION PLC**

### **Strategic Report (continued)**

With the mining industry being in a downturn cycle at the time of the decision this provided a more liquid and available skill base to choose from but did not lessen any of the risks involved.

2014 was a year of major events for the Group and FCF restructured its corporate profile to be a major recruiter of Filipino construction personnel and become a quasi-construction company with emphasis on procurement and contracts, civil and construction works, construction planning and scheduling. The undertaking was on a large scale and required management achieving its deadlines and deliverables in a highly bureaucratic and regulated environment. Attention to detail was tantamount for management to deliver a mine-site and processing plant capable of delivering stakeholders' expectations. The challenge has not been without its fair share of twists and turns, upsides and downsides but during H2 2015 the mine will deliver ore, the processing plant will be commissioned to provide gold doré, ramp up will have occurred and it is expected FCF will normalise production in early 2016.

The Group is keenly aware of its social and environmental responsibilities and throughout the construction activities has been monitored and guided by the Mines and Geosciences Bureau ("MGB") of the Philippines. It is with great satisfaction to highlight that FCF has met all of the exacting standards it is obliged to observe, obtained all required permits and provided adhoc and periodic reporting on activities. The effort required to achieve all of the above cannot be accurately measured or underestimated and is to be commended, because without which the construction and mining activities could not proceed. Mining operations in the Philippines are highly regulated with more and more demands continually being encountered which could not be known in advance but which FCF continues to manage diligently. Compliance and regulatory reporting will continue to add to the burden of the Corporate Governance code in the Philippines throughout the life of the mine. However, FCF recognises the growing importance of this administrative work and has planned to include an additional team with balanced skills to manage this varied and widespread workload.

FCF prides itself as being a responsible mining company having won many awards for its efforts in reforestation, social programmes, training programmes and other initiatives. It recognises these cannot be taken for granted and strives to achieve the highest level of attainment at every level. The awards are testimony to this enduring conviction and will never be perceived as token reward but as a standard which must be maintained and surpassed which will enable it to become a benchmark for all mining operations in the Philippines.

Procurement activities during the year were conducted professionally and undertaken to world class standards with FCF now in possession of a meaningful database of suppliers and pricing of a vast array of mining equipment and commodities. The Group policy disallowed for commodity hedging and FCF contracted with secure counterparties throughout the construction phase. A standard series of engagement contracts known as 'Federation Internationale Des Ingenieurs-Conseils' ("FIDIC") or the International Federation of Consulting Engineers, were consistently applied; depending on the level of contract materiality FIDIC has a set of standard construction or consulting/service contracts which can be adapted in a prescriptive format to be fit for purpose. In general most contractors or manufacturers embraced the FIDIC paradigm and it has proven to be a robust and reliable method of contracting. The FIDIC framework allows the 'Employer', FCF, to receive staged performance and warranty bonds from the contractors and to date not one has been called. Most of the performance bonds have naturally lapsed and the warranty bonds continue post commencement of commissioning for up to twelve months.

**Strategic Report (continued)**

Construction progress of the Process Plant throughout 2014 and 2015 averaged a rate of 1.73% per week in a relatively small construction site footprint. Its construction is currently **82%** complete and on schedule for commissioning to commence late June 2015 with all construction activity planned to cease by end of August 2015. Commissioning will commence in stages and has challenged the processing team to redesign their gold production strategy. There have been no material health and safety incidents throughout the build programme and a tribute to the construction team's approach to health and safety.

The construction team is confident that first commissioning of equipment and processes can commence at the end of June 2015 followed by staged commissioning of the rest of the plant. The construction team has re-planned their strategy to include a night shift crew to advance installation of piping and electrical wiring around the plant. During February 2015 the site commenced drawing electrical power from the national grid after the site's electrical switchyard was commissioned by the National Grid Corporation of the Philippines ("**NGCP**"). The site had previously been provided electricity from a local independent power provider, Nuvelco ("**IP**"). The IP had reached its maximum supply capacity and did not have the capability of providing the electrical power required for commissioning and into operations. Drawing power from the national grid is less expensive than the power supplied by the IP and has material savings over the cost of diesel generated electricity. The switch over to the national grid supply has been successful and FCF has not encountered any brown outs since the switch, but more importantly this is a prerequisite milestone to allow commissioning of the plant to commence.

Stage 1 of the Residual Storage Impoundment ("**RSI**") is planned to be ready for operations and pre commissioning with the other stages progressively constructed during the first 4 years of operations. Progress on the RSI construction to the end of March 2015 is 70% complete with commissioning of stage 1 expected by the end of June 2015. This construction has suffered from several periods of inclement weather, extended Philippine holiday periods over the 2014 festive holidays and a January 2015 Papal visit. The combined effect was a reduction in the number of productive days spent on constructing the RSI. The main wall of the RSI requires humid rather than wet weather for the correct quality of clay plasticity and the compression of clay to be successfully laid in layers of 150 millimeters. Almost all of the month of December 2014 and January 2015 was nonproductive in this area due to weather and holidays. The waste material from the mine pre-strip is of a high quality to undertake this construction and is offering several different grades of clay and fill, providing a cost benefit in its construction. When completed, the materials sourced to construct the RSI will all have been sourced from the mine pre-strip providing a low environmental footprint. Design specifications had taken a greater length of time to establish during 2014 with the MGB having a large input to design and construction philosophy. A tree cutting permit expected in early 2013 was finally approved during January 2014 which allowed construction activities to eventually commence and ultimately impacted on when the storage facility would be ready.

The Runruno mine site is nearing operational readiness and in various degrees of completion. The camp site, national grid electricity related infrastructure and on-site switchyard, heavy and light vehicles equipment maintenance facilities, diesel fuel farm, back up diesel power generators, access road networks, administration buildings, emergency response facilities and laboratory all constructed, commissioned and fully operational. Ongoing works include final preparations of the gold recovery Process Plant, the RSI, Run of Mine ore pad ("**ROM**"), and various access roads and pre-stripping of early stages of the mine.

## METALS EXPLORATION PLC

### Strategic Report (continued)

#### Project Funding

On 28 May 2014 and following a comprehensive period of due diligence and documenting commercial and legal terms FCF Minerals Corporation (in its capacity as Borrower), Metals Exploration Plc (as the Parent), and Metals Exploration Pte Ltd (as an Obligor) entered into a Facility Agreement with:

- (i) The Hongkong and Shanghai Banking Corporation Limited ("HSBC") and BNP Paribas ("BNP") as Original Lenders,
- (ii) The Hongkong and Shanghai Banking Corporation Limited acting as Facility Agent, Offshore Security Trustee, Account Bank and Original Hedging Bank,
- (iii) BNP Paribas as an Original Hedging Bank, and
- (iv) the Philippine National Bank - Trust Banking Group as Onshore Security Agent

#### Commercial Terms

The facility is a US \$83.0 million project finance debt facility comprising (i) US \$75.0 million senior debt facility which includes a US \$5.0 million provision for rolled up capitalised interest and fees during construction, and (ii) US \$8.0 million cost overrun facility.

The lenders are participating in equal proportion in providing the facility.

The term of the facility covers a 54 month period maturing on 31 December 2018 and bears a competitive commercial rate of interest consistent for a project financing of this nature. The base interest rate is six months US Libor plus a margin of 4.75% during construction and at project completion the margin reduces by 50 basis points to 4.25%.

Interest payments are biannually commencing 30 June 2015 and principal repayments of the US \$75.0 million senior facility are scheduled as follows:

Repayment date	Amount US \$m
31 December 2015	13.0
30 June 2016	13.0
31 December 2016	13.0
30 June 2017	13.0
31 December 2017	8.0
30 June 2018	8.0
31 December 2018	7.0
<b>Total</b>	<b>75.0</b>

The terms of the US \$8.0 million cost overrun facility provide for repayments to be made on six month intervals from a 50% cash sweep of free cash flow. The interest rate margin on the overrun facility attracts 100 basis points premium over the interest rate applicable to the senior loan facility at 5.75% with a base interest rate of six months US Libor.

**Strategic Report (continued)****Hedging**

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.

FCF entered into a series of gold forward sales contracts which will equate to 35% of the annual forecast gold production for the Project, as set out in the company forecast, for the following three years on a rolling quarterly basis. The initial sales orders which were placed totalled 90,000 ounces of gold at twelve quarterly intervals of 7,500 ounces per 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, but only after the first two quarterly contacts are cash settled in early October 2015 and early January 2016.

All forward sales contracts are cash settled instruments.

The fixed average weighted forward price achieved on the forward sales contracts for 90,000 ounces of gold is US \$1,287.36 comprising:

The following table provides a summary of the forward gold price swap contracts outstanding as at 31 December 2014 maturing in:

**Forward Gold Sales contracts maturing in .....**

	2015	2016	2017	2018	Total
- ounces of gold	15,000	30,000	30,000	15,000	90,000
- average price US \$	\$1,290.47	\$1,287.45	\$1,285.81	\$1,287.19	\$1,287.36

*Table1: Maturing forward gold sales contracts*

The interest rate swap and forward gold sales hedge contracts are based on the ISDA schedule to the 2002 Master Agreement and are for the purposes of prudent treasury management to cover genuine commercial exposure and, in any event, not for speculative purposes or for the purposes of raising finance.

**Utilising the facility**

To 5 May 2015 a total of nine utilisation requests have been made on the facility totaling \$72,842,986 with a balance of \$2,157,014 still available and undrawn from the US \$75.0 million senior facility. It is expected the funds will be fully drawn by the end of June 2015.

The US \$8.0 million cost overrun facility remains undrawn and available for the project.

An offshore Project Contingency account is fully funded to the amount of US \$13.4 million and available for use in the construction project. It is expected that usage of the contingency account will commence in June 2015 after the US \$70.0 million senior loan facility available for construction has been fully utilised.

## METALS EXPLORATION PLC

### Strategic Report (continued)

As announced on 11 March 2014, the forecast capital expenditure programme for Runruno is US\$182.8 million to practical completion, inclusive of project contingency. At the end of March 2015, the remaining capital expenditure committed or yet to be incurred is US\$20.8m million which will be funded by way of project cash at bank (equivalent of US \$2.45m at 31 March 2015), the project contingency account (US \$13.4 million) and the senior loan facility residual funds (US \$12.16m).

The current status of the project's capital expenditure programme is summarised below:

As at 31 March	2015 US \$m	2014 US \$m
capital expenditure incurred	162.02	52.5
capital commitments outstanding	9.98	14.6
capital commitments yet to be placed	10.8	115.7
<b>Total forecast project cost</b>	<b>182.8</b>	<b>182.8</b>

Table2: project capital expenditure status 31 March 2015

### Security

#### a. Mortgage Agreement

FCF and Philippine National Bank - Trust Banking Group, acting as Onshore Security Agent, entered into a Mortgage Agreement on 28 May 2014 for the term of the facility, which constitutes a first ranking lien in favour of the Onshore Security Agent for the benefit of the Lenders, over the real assets of FCF.

The mortgage also takes security over FCF's current and future chattels for the term of the facility.

The Mortgage Agreement terminates at Project Completion.

#### b. Shares Pledge Agreement

A Share Pledge Agreement was entered into on 28 May 2014 between FCF as Borrower, Metals Exploration Pte Ltd as Pledgor and the Philippine National Bank-Trust Banking Group in its capacity as Onshore Security Agent, for the term of the facility.

The Pledge constitutes a lien of first rank in favour of the Onshore Security Agent for the paripassu benefit and security of the Lenders and to the shares pledged as collateral.

The shares pledged to the Onshore Security Agent contemplated the Group structure post restructuring which would be held by Metals Exploration Pte Ltd and are summarised as follows:

PHILIPPINE ENTITY	SHARES PLEDGED	TYPE	PAR VALUE	% PLEDGED
FCF MINERALS CORPORATION	150,000,000	ordinary shares	1peso	86.21%
MTL PHILIPPINES INC	333,995	ordinary shares	1peso	100.00%
CUPATI HOLDINGS INC	9,998	ordinary shares	100peso	39.99%
WOGGLE CORPORATION	99,998	ordinary shares	100peso	39.99%

Table3: Philippine entities shares pledged as of 28 May 2014

The Shares Pledge Agreement terminates at Project Completion.

**Strategic Report (continued)**

***Group Restructuring***

During early discussions with potential lenders and also from previous funding negotiations it became evident the Group organisation structure was not conducive for providing a satisfactory security package for a lender's benefit. The Company proposed moving its Philippine assets to an offshore holding company and effecting a security over the shares of its Philippine investments through a share pledge. This was accepted at an early stage of discussions and to facilitate this proposal, on 3 December 2013 the Company incorporated an intermediary holding and investment company in Singapore which is wholly owned by MTL.

In a series of structured stages each of the Philippine company investments held by MTL would be transferred to the Singapore entity, Metals Exploration Pte Ltd ("**MEPL**"). The change in structure would be tax neutral for the Group once complete and when the Philippine's mine is in operation. It was expected the structure would be completed before entering legal documentation with the lenders but this could not be achieved and the restructuring was completed in November 2014.

***Restructuring FCF Minerals Corporation***

MTL held 99.99% of the shares in FCF or 59,999,995 ordinary shares (the other 5 shares are held by directors and compliant with Philippine law). After it became known the strategy adopted for moving FCF to become 100% owned by MEPL directly would take longer than anticipated, the lender's required corporate control of FCF to reside with MEPL prior to execution of legal documentation (a condition precedent). This required more than 70% of the voting shares to be held by MEPL. FCF had an authorised share capital of 210,000,000 ordinary shares of which 60,000,000 were issued and fully paid up. On 23 April 2014 150,000,000 ordinary shares were issued to MEPL satisfying the corporate control requirement for the lenders.

The next step involved converting 59,999,994 ordinary shares into redeemable preferred shares, redeeming them and immediately cancelling them. This investment would be replaced by an equal monetary amount invested in shares in MEPL. The Securities and Exchange Commission ("**SEC**") in the Philippines required FCF amend its seventh article in its Articles of Incorporation to allow FCF to create two new classes of shares; convertible shares and redeemable preferred shares. The changes in the articles were applied for in late May 2014 and the certificate authorising the changes was approved on 31 October 2014.

A new class of shares requires 25% to be subscribed for on authorising the class of shares. 80,000,000 redeemable preferred shares were authorised and MEPL subscribed for and fully paid up 20,000,000 redeemable preferred shares.

On receipt of the SEC certificate approving changes to the Articles of Incorporation, FCF proceeded to give notice to MTL and converted 59,999,994 ordinary shares into redeemable preferred shares and immediately cancelled these shares on 4 November 2014.

## **METALS EXPLORATION PLC**

### **Strategic Report (continued)**

#### ***Restructuring MTL Philippines Inc***

MTL held 99.99% of the shares in MTL Philippines Inc or 111,995 ordinary shares fully paid up (the other 5 shares are held by directors and compliant with Philippine law).

The DENR issued Memorandum Order No. 2013-01 dated 21 February 2013, which requires that for a company to be awarded or to hold an exploration license it must have a minimum authorised share capital of 100,000,000 pesos and that the minimum paid-up share capital is 6,250,000 pesos. To satisfy these requirements MTL Philippines Inc amended its seventh article in its Articles of Incorporation enabling the company to increase its authorised share capital to be 100,000,000 Pesos divided into 1,000,000 shares with a par value of 100 Pesos per share. On 14 May 2014 the SEC approved the increase in capital stock.

On 11 April 2014, MTL entered into a subscription agreement with MTL Philippines Inc to subscribe for 25% of the increased authorised share capital of the company once the approval to the increase had been received. The subscription was for a further 222,000 ordinary shares and increasing the subscribed share capital to 334,000 ordinary shares. The shares were issued and fully paid up on 27 May 2014.

On 7 October 2014 333,995 ordinary shares held by MTL were cancelled and 333,995 ordinary shares were issued to MEPL. The receipt of a 'Certificate Authorizing Registration' was received on 11 October 2014 from the BIR confirming exemption from capital gains tax, receipt of payment of documentary stamp taxes and the final authority acknowledging the shares had been registered and issued to MEPL.

#### ***Restructuring Cupati Holdings Inc***

MTL held 39.99% of the shares in Cupati Holdings Inc ("**Cupati**") or 9,998 ordinary shares partly paid up (2 other shares are held by directors and compliant with Philippine law). The debt funding package required all issued shares to be fully paid up and MTL satisfied this requirement on 27 May 2014.

The transfer of the shares to MEPL involved a fair value of the company's assets and liabilities and with the balance sheet containing a negative net assets position, no capital gains tax was computed. However, the BIR imputed a donor's tax of 30% on the transaction on the basis that the company was a land owning entity transferring ownership to an offshore jurisdiction.

On 7 October 2014 9,998 ordinary shares held by MTL were cancelled and 9,998 ordinary shares were issued to MEPL. The receipt of a 'Certificate Authorizing Registration' ("**CAR**") was received on 24 October 2014 from the BIR confirming exemption from capital gains tax, payment of documentary stamp taxes and payment of donor's tax on the transaction. The CAR is the final authority acknowledging the shares had been registered and issued to MEPL.

**Strategic Report (continued)**

**Restructuring Woggle Corporation**

MTL held 39.99% of the shares in Woggle Corporation ("Woggle") or 9,998 ordinary shares fully paid up (2 other shares are held by directors and compliant with Philippine law).

The DENR issued Memorandum Order No. 2013-01 dated 21 February 2013, which requires that for a company to be awarded or to hold an exploration license it must have a minimum authorised share capital of 100,000,000 pesos and that the minimum paid-up share capital is 6,250,000 pesos. To satisfy these requirements Woggle amended its seventh article in its Articles of Incorporation enabling the company to increase its authorised share capital to be 100,000,000 Pesos divided into 1,000,000 shares with a par value of 100 Pesos per share. On 25 April 2014 the SEC approved the increase in capital stock.

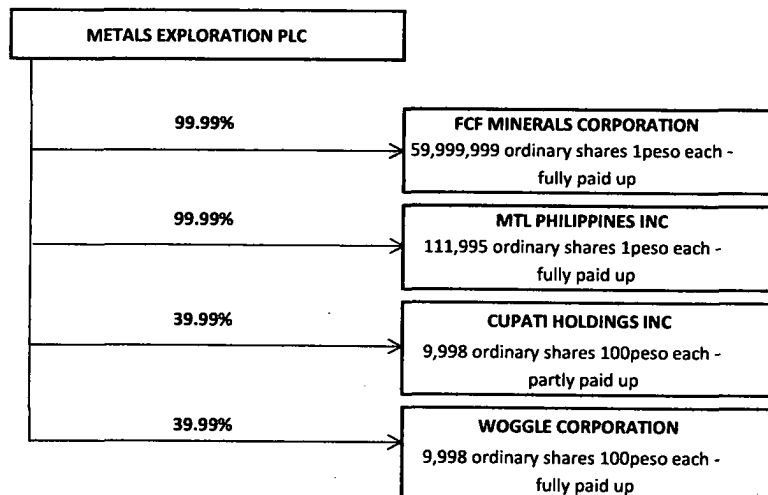
On 27 January 2014 MTL entered into a subscription agreement with Woggle to subscribe for 25% of a future increase in the authorised share capital of the company once the approval to the increase had been received. The subscription was for a further 90,000 ordinary shares and increasing the subscribed share capital to 99,998 ordinary shares. The shares were issued and fully paid up on 27 May 2014.

On 7 October 2014 99,998 ordinary shares held by MTL were cancelled and 99,998 ordinary shares were issued to MEPL. The receipt of a 'Certificate Authorizing Registration' was received on 26 September 2014 from the BIR confirming exemption from capital gains tax, receipt of payment of documentary stamp taxes and the final authority acknowledging the shares had been registered and issued to MEPL.

**Metals Exploration Pte Ltd**

The restructuring advice received contemplated replacing the investment in FCF on MTL's balance sheet with an investment in MEPL in an equal monetary amount to the 60 million pesos divestment in FCF.

On 21 May 2014 MTL entered into a subscription agreement with MEPL for a future issue of 1,331,283 ordinary shares of US \$1 each and advanced US \$1,331,283 to MEPL. On 10 November 2014 MEPL issued 1,331,283 ordinary shares to MTL.



*Table4: Metals Exploration plc shareholding investment in Philippine entities before restructuring*

# METALS EXPLORATION PLC

## Strategic Report (continued)

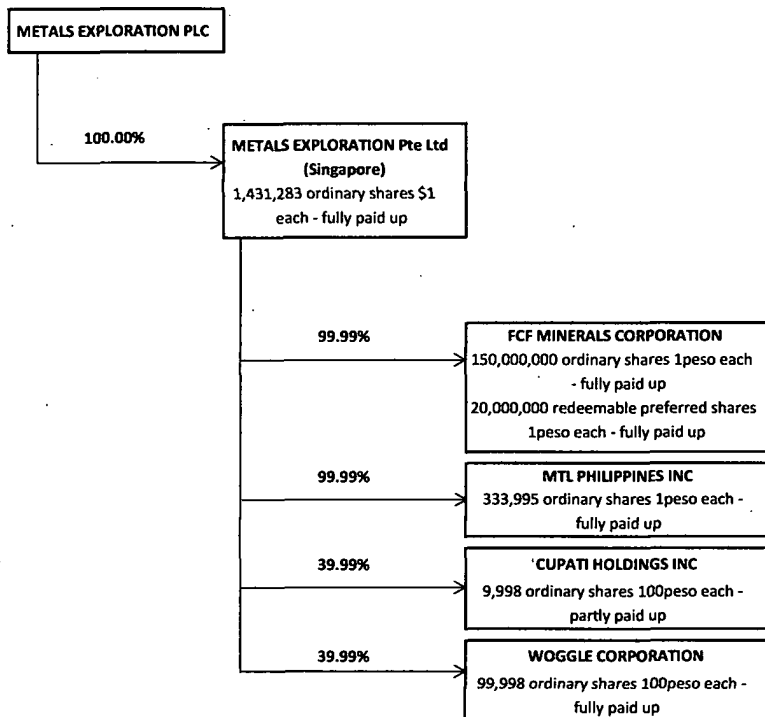


Table 5: Metals Exploration plc shareholding investment in Philippine entities after restructuring

### Taxation Payments Made Under Protest

Throughout 2014 and into 2015 FCF consistently challenged the Department of Finance (“DoF”), Bureau of Internal Revenue (“BIR”) and Bureau of Customs (“BoC”) on dis-application of the VAT and customs duties incentives applicable to importation of capital mining equipment. This challenge extends to include Documentary Stamp Tax paid in the period under which the FTAA provides FCF an exemption. This includes FCF actively challenging BIR’s Revenue Memorandum Circular 17-2013 (“RMC 17-2013”) that unilaterally denies the fiscal incentives provided to FTAA counter-parties and revokes past BIR rulings which uphold the same incentives.

During this period FCF has continued to pay to the BoC assessed VAT and duties to ensure the clearance of capital importations through Manila port and thereafter to the Project site. Failure to settle customs duties and costs within 30 days would have rendered the equipment abandoned and title passes to the state allowing the goods to be sold in liquidation sales. FCF had no alternative but to make several ‘payments under protest’ but this allows the tax payer recourse to challenging the authority to make payment.

During January 2014 FCF received notification that the BoC rejected FCF’s first five payment under protest challenges on the basis that the DoF had not endorsed the exemptions. FCF has a total of 148 shipments subject to payments under protest in the appeals system.

In August 2014 FCF received a response from the DoF regarding its February 2013 original correspondence challenging the validity of RMC 17-2013. The DoF upheld the BIR’s position that effectively denies the VAT and customs duties tax holidays under the FTAA.

**Strategic Report (continued)**

Under the appeals process FCF lodged a Notice of Appeal through the Customs District Collector who forwarded the decision onto the Commissioner of Customs. This was subsequently denied by the Commissioner of Customs and FCF has continued through the appeals process to a submission to the Court of Taxation Appeal ("CoTA"). FCF's evidence has been submitted to the CoTA and it is expected arguments and hearings will commence in Q2 2015.

FCF submitted an appeal letter to the Office of the President in October 2014 which remains unanswered and wherein FCF's lines of reasoning for its challenge include:

- the FTAA being a contract in law between FCF and the Office of the President,
- the FTAA contractual obligations which FCF upholds and continues to uphold,
- the errors by the BIR in the interpretation of the Mining Act and its lack of authority in interpreting the Act,
- the erroneous interpretation and use of a specific legal precedent cited in the DoF's defense of RMC 17-2013 which in fact supports the position of FCF,
- the consistency of the applicability of the FTAA with respect to provisions and incentives of Executive Order 226,
- the protected rights of Metals Exploration plc (as FCF's parent) under the bilateral trade agreement between the UK and Philippines governments, and
- the reliance of the FTAA by FCF's financing banks on the enforceability of the FTAA.

In February 2015 FCF's legal advisors received notification from the Office of The President it had assigned the appeal to a handling lawyer for review which is the current status of FCF's ongoing challenge.

To 31 March 2015 FCF has made payments totaling US \$5.2 million for import VAT, US \$0.6 million for customs duties and \$0.8m for documentary stamp tax. FCF contends that under the FTAA these taxes should not have been paid or payable and is actively seeking to recover these costs. In commercial operations FCF will have no domestic sales and therefore no output VAT against which it could offset the input VAT incurred on imports of capital mining equipment. FCF's only recourse is through the legal system of the Philippines and this will take several years to resolve.

## METALS EXPLORATION PLC

### Strategic Report (continued)

The FTAA number 04-2009-II is a contract in law for a period of twenty five years between FCF and the Government of the Philippines. This Agreement was signed and enshrined into law on 19 September 2009 enabling FCF to act as the 'Contractor' for the Philippines Government and to have exclusive rights to conduct mining operations in its contract area as delineated in the FTAA. The then President of the Philippines authorised the Agreement and the constitution of the Philippines "*provides that the President may, for the Government, enter into agreements involving either technical or financial assistance for large-scale exploration, development and utilization of minerals and mineral oils according to the general terms and conditions provided by law, based on real contributions to the economic growth and general welfare of the Republic of the Philippines*". A particular caveat of the FTAA was the attractiveness to the Philippines government to avail itself of the financial resources (including access to international sources of financing), technical competence, managerial, environmental and other skills which the Contractor is capable of applying to mining operations and which FCF systematically proved it could provide.

The twin principles of the FTAA are:

- I. the Government expects real contributions to the economic growth and general welfare of the country from the large-scale exploration, development and utilization of mineral resources under its national sovereignty and patrimony; and
- II. the Contractor expects that the terms of the Agreement shall enable it to plan, obtain and commit large scale financial and technical resources to the mining operations in order to realise a return on its investment which takes into account the high risks of exploration, the requirements of financiers, the high cost and long term nature of mining activities, the terms and conditions prevailing internationally and domestically in the mining industry, and any enhanced return achieved as a result of the Contractor's performance.

FCF is committed to these values and everything contained within the FTAA to which it has an obligation. The decision to pursue mining in the Philippines under the FTAA rather than the alternative Mineral Production Sharing Agreement ("**MPSA**") was primarily premised upon the values and commitments contained within the FTAA which provided the most comprehensive framework to undertake mining operations in the Philippines. The FTAA was endorsed by the highest office responsible for mining in the Philippines, the Department of Natural Resources ("**DENR**"). The FTAA outlines various parameters within which FCF can conduct its operations and provides a clear and concise set of commercial terms. The Group has defined its business model encompassing these commercial terms taking into account the costs it is obligated to fulfill, confirmed through independent financial and taxation advice.

On signing the FTAA FCF agreed to take the risk that if no minerals in commercially viable quantities were developed and produced it would not be entitled to reimbursement of exploration costs.

#### **Runruno Project Construction**

The Process Plant facility at the Runruno mine consists of conventional crushing, grinding and flotation equipment, a gravity recovery circuit, a BIOX<sup>®</sup> recovery circuit and waste neutralisation, and construction activities are well advanced. The facility has continued to be progressed under a 'self-manage' strategy using the owner's construction team to manage the activities on a day to day basis and direct the various activities of the on-site subcontractors.

**Strategic Report (continued)**

This decision to self-manage construction works has been an overwhelmingly positive experience for the Group to date as delays to the construction timetable due to design slippage have not incurred contractual extensions of time penalties. Regardless of the delay in the delivery of the Process Plant designs, the capital cost of the project currently remains within the original budget estimate of US \$182.8 million.

All areas of infrastructure and support facilities to facilitate the construction of the Process Plant were materially completed by Q3 2013. Procurement of the long lead time items occurred in parallel and by the start of 2014 most key packages had been awarded to successful vendors include the SAG Mill, mill reliner, large and small agitators, mineral sizer, and gravity circuit including an intensive leach reactor, CCDs, flotation cells, BIOX<sup>®</sup> blowers, limestone mill, elution circuit, flocculent plant, reinforcing steel supply and cooling towers. Key equipment was mobilised and arrived onsite throughout the reporting period ready for construction and installation.

***Design***

The Group appointed specialist contractors and sub-contractors to provide engineering design, detailing procurement services and commissioning assistance for the Project. Contromation Energy Services (“CES”), a specialist design engineer based in Jakarta, was appointed prior to the start of the reporting period to undertake such design work and provide the Company with detailed drawings which integrated and identified the specific equipment requirements. Some specialised areas of the design were outsourced by CES to other reputable engineering firms with the experience and expertise to provide the design standard required by the Company.

Plant & Infrastructure Engineering Pty Ltd (“PIE”), a Perth based company providing engineering, project management and commissioning services, was also engaged by the Group before the start of the reporting period to help manage CES on a day to day basis and to provide strategic input and direction on procurement and construction. The Group has continued to receive significant support and advice from PIE to contract suppliers, manufacturers and contractors throughout the construction of the Process Plant facility.

Detailed engineering design work was completed by CES post the reporting period in March 2015. This late delivery did adversely impact the overall Process Plant construction schedule by approximately three months. However as the design work ran in parallel with construction of the Process Plant facility the overall impact was much reduced and the Group is confident commissioning should commence by the end of June 2015.

***Procurement and Contracts – Civils and Plant & Equipment***

Procurement of long lead time items and major mechanical packages got underway before the reporting period with many major equipment packages awarded in 2013. Mechanical equipment including the CCD package, first SAG mill shipment, stainless steel and gravity packages began arriving at site during the first quarter of the reporting period. Civil, tank and structural, mechanical and piping packages were tendered and awarded during the same period. An important part of the procurement strategy has been to contract in the domestic currency of the vendor and also where possible in the vendor's purchasing currency where this differs from its domestic currency. The adopted strategy is to minimise foreign currency translation risk as much as possible.

## METALS EXPLORATION PLC

### Strategic Report (continued)

The procurement, scheduling and import team have performed diligently with no reported incidents transporting equipment from the port in Manila to the Project site. To date there has only been one insurance claim associated with the Project for a damaged cabin of the Komatsu PC1250 excavator. This damage occurred at sea and was a claim under the marine cargo policy of the manufacturer. The liability is not associated with FCF but nevertheless it was an insurance claim upon a damaged piece of equipment belonging FCF as it did not reject the goods at the time of delivery. The excavator was assembled and with the agreement of the insurers used for training purposes only, until a replacement was installed. The insurers, Sumitomo, provided a replacement cabin and the costs of dismantling and installation were borne by the insurer. During the second half of 2014 and into the first quarter of 2015, the port of Manila experienced significant congestion difficulties which conspired to affect all imports to the country. Fortunately, all of the major equipment packages had been received at site prior to this congestion but FCF suffered delays to smaller and sometimes critical equipment supplies. The procurement strategy executed by FCF has been a major successful contribution to the Project, with the tireless efforts of the team providing significant tangible benefits.

All major packages for equipment, services and civil construction works have been awarded and the table below summarising the overall status of the packages explains that procurement for the Project is drawing to a close. FCF has benefited from the efforts of a professional team and has established a very strong relationship with many of the companies it has contracted with.

Procurement Contract Status	USD \$m	%
Packages installed on site	74.8	78.32%
Equipment delivered to site	4.8	5.03%
Work in progress on site	15.2	15.92%
Equipment being manufactured	0.1	0.10%
Equipment in transit	0.2	0.21%
Packages still to be awarded	0.4	0.42%
<b>Total</b>	<b>95.5</b>	

*Table7: Overall status of procurement contracts*

The team has now turned their attention to procuring commissioning and insurance spares and establishing a supply chain relationship for the various chemicals and consumables required for operations, and securing the supplies by contracts.

### **Construction**

Considerable progress occurred in all critical areas of construction with the facility changing beyond recognition over the course of 2014. At the end of the reporting period in December 2014 construction of the Process Plant stood at 49.5% complete and is currently 82.0% complete and on schedule for commissioning to commence late June 2015. All construction activities are forecast to cease by end of August 2015. Commissioning of the Process Plant will commence in stages and has challenged the processing team to redesign their gold production strategy.

Between December 2013 and April 2015 over nine thousand (>9,000) cubic metres of concrete have been poured on the Process Plant site and this has been entirely supplied from FCF's own batch and aggregate plant, with raw materials being sourced from within the mine or RSI areas. This has provided a real cost benefit in construction with only cement being sourced externally. Destructive pressure tests are carried out on each batch of concrete and the results have proven the concrete to be of a very high quality. With several tonnes of reinforcing bar being included in each pour this will augur well for years to follow.

**Strategic Report (continued)**

Independent experts reviewing the construction at various intervals have consistently applauded the quality of the build with particular emphasis on the foundations and safety bunding. Steel construction of tanks, walkways, handrails, climbing ladders, agitators, cooling coils, cable trays and support infrastructure is coming to a finish, allowing free and secure access around the plant. The SAG mill is installed and a formidable structure on site. Electrical and piping works have been delayed due in part to some of the issues at Manila port but the construction efforts have moved to include a night shift to claw back most of the slippage.

***Health and Safety***

There have been no material health and safety incidents throughout the build programme and a great compliment to the construction team's approach to health and safety. A culture of safe working practices pervades.

***Commissioning Plan Summary***

Commissioning planning has been undertaken since Q4 2014, with the development of a commissioning plan and supporting commissioning documentation for each area and system.

The commissioning team will be led by a Commissioning Manager and supported by electrical, mechanical and processing engineers. The engineers will have their own support services for their specific engineering discipline to include vendor and specialists support. The operations team involved in commissioning will comprise the Process Plant Manager, Process Plant Operating team, Process Plant Maintenance Manager and his team. There will be a compliment of construction personnel on hand led by a construction manager and with the help of a small group of site contractors.

The planned sequence for commissioning is as follows:

- All contractors conduct a joint inspection with the Construction Superintendent to produce the close out and acceptance punchlist;
- As an area becomes completed a joint pre-commissioning inspection is conducted by the commissioning engineers and the construction team;
- A pre-commissioning checklist is compiled as a product of this inspection;
- This represents the official handover from construction to commissioning;
- Vendor equipment pre-commissioning procedures and checklist is also followed, under the direction of the vendor representative for the major vendor items; the dry commissioning procedure is executed and supported by vendor representatives as required;
- Once these steps are completed for an area, the services commissioning programme is conducted for all services to that area;
- In sequence the next step is conduction water commissioning. This will be undertaken in complete stages with one system discharging to the next (grinding system discharges to the flotation circuit, which discharges to the BIOX<sup>®</sup> feed, and tailings areas);
- Finally ore commissioning is conducted throughout its various stages;
- As an area is fully ore commissioned that area becomes productive/operative; and
- The system is operated until it establishes an acceptable level of stability and moves towards ramp up and into normal operating conditions.

## **METALS EXPLORATION PLC**

### **Strategic Report (continued)**

The phasings by area groups can be identified as follows:

- Crushing, grinding, flotation, tails disposal, and BIOX® feed units operating sequentially for water commissioning and ore commissioning first.
- This allows the BIOX® primary area, CIL, cyanide destruction, ASTER™, elution and gold room to commence ore commissioned thereafter.
- The BIOX® bacterial cultures will have commenced build-up (multiplication) in the BIOX® Primary several weeks before.
- The remainder areas of the processing plant will then be ore commissioned; the BIOX® Secondary, CCD and Neutralization.

Commissioning is planned to commence as areas become available in June 2015 and first ore commissioning occurring in July 2015. The site will have access to sufficient electrical power loading due to the signing of the power supply contract with SN Aboitiz Power – Res Inc in November 2014 and the site switchyard being energized (fully commissioned) 12 February 2015.

#### ***Preparing for Operations***

A mini operations plant has been constructed and commissioned on site which has been designed to include and replicate two processing circuits on a smaller scale; (i) milling & flotation, and (ii) inoculums build up circuit. The plant is primarily for in-house training purposes and bridges the time frame between construction and commercial operational activity. During this time period the cultures required for the BIOX® liberation process are being tested in the mini plant and from which a programme of inoculums build up has been undertaken. The initial stock of bacteria to be used in the commissioning and then ramp up of the BIOX® plant is being produced by the mini-lab.

Test samples of ore have been reduced to concentrate through the milling and flotation test circuit and this facilitates build up in the inoculums circuit. This has enabled the operations team to develop operational procedures, screen potential process operators, and fast track training of operators in understanding the operation of the Process Plant during its construction. 18 personnel from the local Runruno area have been recruited and trained through the mini-plant where 140 kilograms of BIOX® feed concentrates have been produced. The training programme has elevated the skills of the trainees to a level where they can be employed within the permanent operation once this commences.

Discussions have commenced with refineries and secure transport companies for the trans-shipment of doré from the gold room to the place of treatment, producing 99.9% fine gold. These discussions are progressing well and it is hoped to be in a position to award this as a single contract in June 2015. From an initial contact list of fourteen refineries there are currently four refineries being assessed and two secure transport companies. The main criteria used to contact the refineries were they had to be London Bullion Market Association accredited.

#### ***Community and Social Development***

The Company has specific obligations under the FTAA to assist in the development of the community and promote the general welfare and quality of life of the residents. The Company has embraced these responsibilities and Board direction is to support self-sustaining, income-generating activities in the community, thus providing a positive ongoing legacy within the barangay of Runruno and Province of Nueva Vizcaya.

**Strategic Report (continued)**

Key activities for 2014 and continuing into 2015 included but were not limited to:

*Health*

- Much-improved and expanded delivery of health services for 7,387 residents and community members within the barangay and other direct impact communities.
- Continuing investments for health workers' training and services.
- Family health care education and advocacy services.
- Implementation of a comprehensive immunization program, exceeding targeted participation rates.
- Continuing operations to cater for the needs for over-the-counter medicines in the barangay Runruno.
- Provision of an ambulance, health equipment, improvements to and accreditation of the Health Clinic achieving additional prenatal support, assistance for breast feeding mothers, a significant reduction in malnourished children, eye care and much more.
- Honorariums to 16 health professionals to expand delivery of basic health services to far flung communities.

*Education*

- Almost 1,500 students are benefitting from the Company's support to education in the form of grants for full scholarships including tuition fees, matriculation and miscellaneous expenses, transportation and meal allowances, expenses to cover the costs of thesis and on the job training.
- 10 full scholarships in 2014.
- 46 scholarships prior to 2014, with 6 later employed by the Company and 22 continuing with studies.
- Honorariums for 60 personnel across the Municipality of Quezon covering day care workers, literacy facilitators, elementary and high school teachers, administration staff and security guards.
- Construction, improvements and renovation of school building and day care buildings.
- Grants for the general improvement of the learning systems.

*Skills Enhancement, Training and Employment*

- 2,169 trained since 2006 in various skills in partnership with the Technical Education and Skills Development Authority.
- 1,243 regular and spot hire staff employed either directly by the FCF or its sub-contractors.
- An equal opportunity employer providing training and employment in non-traditional operations including 45 women in masonry, plumbing and tile setting, 2 female heavy truck drivers with another 8 candidates in training, 7 women recruited as specialist plant operators, with a total of 159 female employees.

*Livelihood Programmes*

- Assistance to 14 associations to establish their own economically sustainable livelihood projects.
- This has resulted in an improvement in the economic classification of the Municipality of Quezon, a growth in business establishments and improved mobility through improved transport services.

## **METALS EXPLORATION PLC**

### **Strategic Report (continued)**

#### ***Environment***

Similarly the Company has specific obligations under the FTAA for environmental activities. The Company's 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.

Permitting requirements within the Philippines are onerous, comprehensive and is almost an industry in itself. It is a significant cost within the Company requiring significant and specific resourcing to meet standard monthly, quarterly, semi-annual and annual reporting requirements as well as adhoc reporting that is requested frequently from a myriad of government agencies.

#### ***Reforestation***

FCF Minerals Corporation commenced its Mining Forest Programme (MFP) in January 2007 and has continued to implement the programme up to the present. This programme aims to re-green barren lands, offset deforestation, establish protection forest and provide habitat for wildlife within the FTAA area.

- Planted an aggregate area of 157.58 hectares with about 86,350 seedlings planted.
- Seedlings production is a continuous process to cover up replanting and donations requirement in the Programme. Fruit bearing, endemic and fast growing forest trees seedlings species are produced from the Company's nurseries. Coffee seedlings is also produced from Nursery entered into an agreement with the Nueva Vizcaya State University.
- The Biodiversity Offsetting (Bio-offsetting) Programme, a joint project of the MGB, FCF and NVSU, has implemented a number of continuing activities such as the conduct of the flora and fauna survey for the analog/reference site at the RSI, passage of a resolution through the Barangay Council for environmental protection and conservation relative to the bio-offsetting programme, and household survey and information campaign for those who are located within the three (3) established bio-offset areas.
- The implementation of the Mining Forest Programme has generated employment opportunities to the Community members. The initiative of the Company to restore forest vegetation was able to achieve a nationwide recognition garnering the 1st Runner-up award for 2014 Best Mining Forest Programme during the Mine Safety Week held in November 2014 at Camp John Hay in Baguio City.

#### ***Rehabilitation***

To reduce the potential environmental impacts open areas subject to rehabilitation or remediation through mitigation activities including:

- The implementation of slope stabilisation measures such as installation of coconut matting reinforced with bamboo stakes, installation of silt fences and revegetating the slopes with napier grass and vetiver grass. These rehabilitated slopes are regularly maintained. Appropriate drainage systems were also provided to prevent water accumulation that may cause erosion.
- Siltation ponds and silt traps were constructed strategically at the Residual Storage Impoundment, Malilibeg waste dump, Process Plant, batching plant and crushing plant. These are designed to contain run-off water especially during heavy rains and prevent a build-up of siltation in the Sulong River.

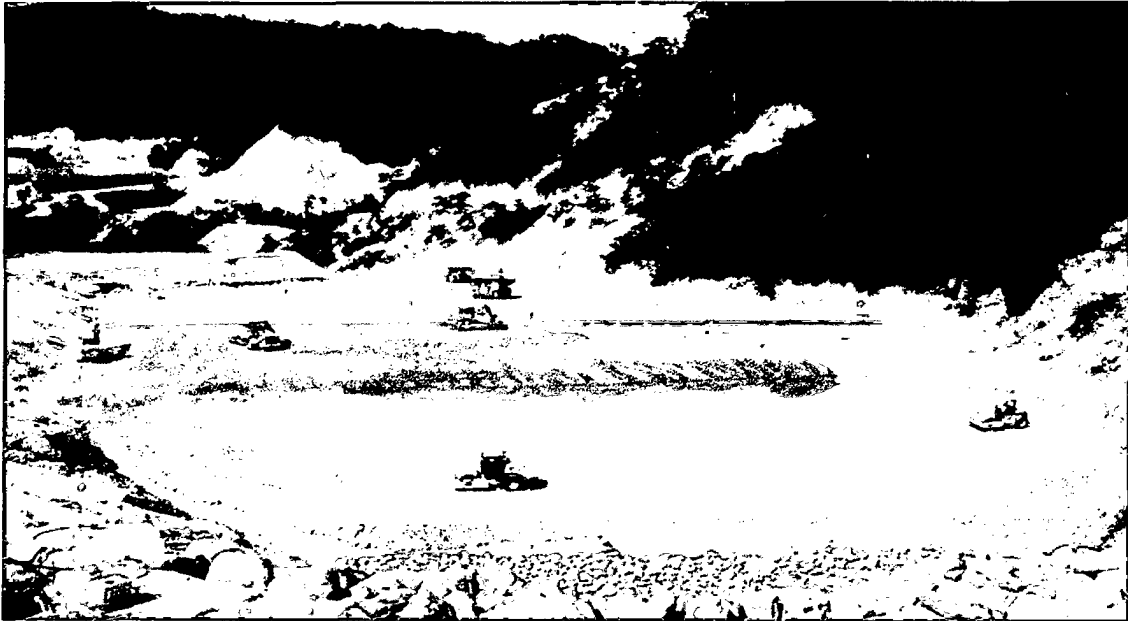
**Strategic Report (continued)**

*Environmental Monitoring*

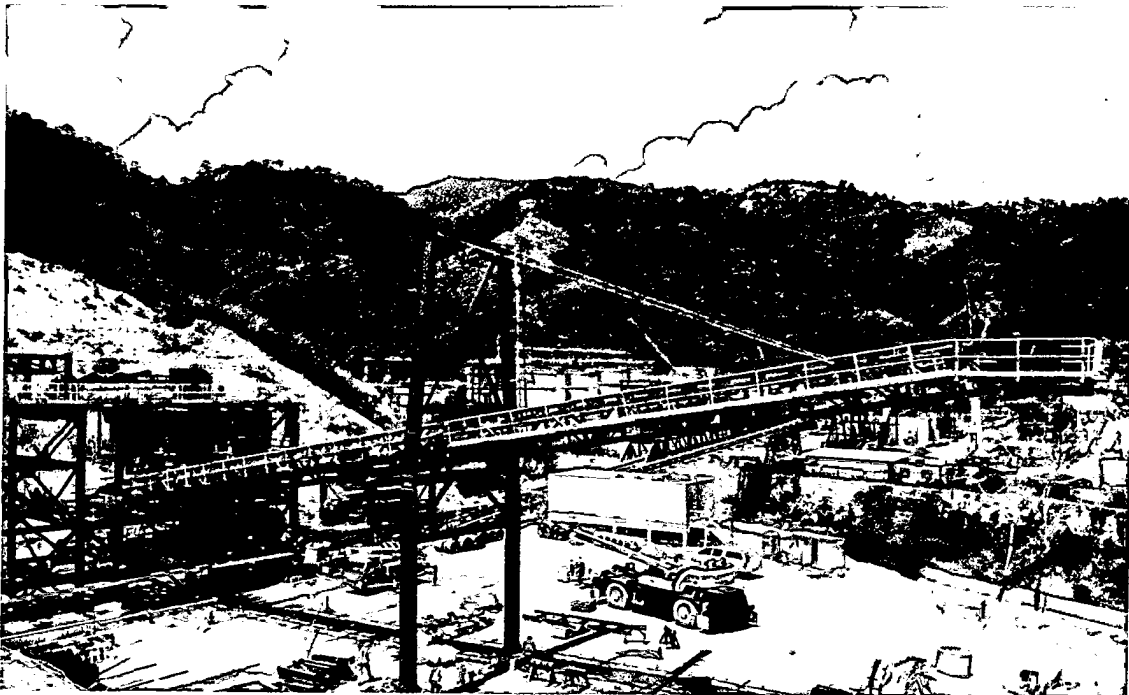
- Environmental monitoring is regularly conducted at the site by FCF in-house monitoring group and AECOM, a commissioned third-party entity providing environment monitoring services.
- Water quality, air and noise quality, and aquatic biota monitoring are measured on a monthly, quarterly, and semi-annual basis to determine if there are significant changes in the measured environmental parameters. The stream flow and discharge measurements for surface water and groundwater respectively are also continuously monitored.
- The water sampleresults are compared to the Department of Environment and Natural Resources Administrative Order (“DAO”) 34 and DAO 35 water quality parameters, World Health Organisationguidelines and Austlian and New Zealand Environment Conservation Council (“ANZECC”) criteria.
- Meteorological data monitoring is done daily for use at the mine area and for safety.
- Solid wastes are stored at a materials recovery facility and disposed at a local ecological landfill. The hazardous wastes generated such as used oil, wasted fluorescent bulbs, empty chemical containers, and batteries, are stored at a hazard waste depot. These wastes are collected by an accredited hazard waste transporter and treated.

*Legal Compliances*

- All legal requirements of the construction phase were secured from various government agencies concerned.
- All major facilities, including the processing plant, were issued a ‘Permit to Install’ and ‘Permit to Operate’.
- Permits from the Philippine Drug Enforcement Agency, Philippine Nuclear Research Institute, and Environmental Management Bureau were secured.
- On 16 December 2014 a second tree cutting permit was issued by the Regional Executive Director of the regional DENR allowing FCF to cut a total of 2,258 trees of various species or a volume of 475.32 cubic meters within the 122.279 hectares applied. The number of trees to be earth-balled is 157.
- The Mine Rehabilitation Fund Committee meets quarterly to discuss and resolve issues arising from the development of the Project.
- The multi-partite monitoring team led by the MGB monitors all FCF compliances of the conditions stipulated in the Environmental Compliance Certificate and the approved Annual Environmental Protection and Enhancement Programme.



*Construction works in the Residual Storage Impoundment – May 2015*



*Stockpile conveyor – May 2015*

## 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 2014.

### PRINCIPAL ACTIVITIES

The principal activity of the Group is to identify, acquire 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 are set out in Note 14 of the financial statements.

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

### RESULTS AND DIVIDENDS

For the year ended 31 December 2014 the loss on ordinary activities of the Group was £4,773,442 (2013: loss of £5,234,995).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2014 (2013: £nil).

### BUSINESS REVIEW

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

The Company's nominated advisor is Westhouse Securities Limited

### 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:

## **METALS EXPLORATION PLC**

### **Directors' Report (continued)**

#### **Plant commissioning risks**

Integrating each of the individual components and related infrastructure and utilities into a consolidated and fully workable single gold recovery processing plant, capable of meeting the output design criteria cannot be guaranteed as an immediate result. Commissioning failure in any single component may have a significant impact on start-up of commercial production. Included in these risks is the robustness of warranties provided by overseas equipment suppliers and the time period within which any warranty issue may be cured.

#### **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 constants 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, 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 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.

#### **Mining regulatory risk**

Poor performance of the governance structures in the Philippine mining sector is behind the high level of regulatory risk for foreign mining investors. 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
- the Mines and Geosciences Bureau ("MGB"), accountable to the DENR with responsibility for management, development and proper use of the country's mineral resources

**Directors' Report (continued)**

- 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
- various local government units (LGUs), at provincial, municipal and barangay levels, and
- various other house and senate committees some with overlapping jurisdiction.

It is a complex web of regulators and governing rules which foreign investment mining companies are faced with to be compliant. To date the Company has complied with every department, rule, obligation and permit and although the past is a good guideline, the Company is not in control of what challenges it may face in this field in the future. The regulatory environment is a myriad of increasing bureaucracy and is potentially the greatest risk faced by the Company as it progresses the development of the operations in the Philippines. However, management is cognisant of the law and is respectful of its obligations.

**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 operations 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.

**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.

## **METALS EXPLORATION PLC**

### **Directors' Report (continued)**

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. The Philippine peso:US dollar currency exposure requires careful management to maximise shareholder value but the exposure cannot be diversified away altogether. It is unlikely there will be other material currency exposures when the company is in commercial operations.

### **Political and Country Risk**

The Philippines is one of the most challenging places in Asia for foreign mining companies to succeed. During the early 70's mining accounted for nearly 20% of GDP of the country but after several decades of neglect by successive governments, mining now accounts for less than 2% of GDP. Political and country risk issues continue to hold back the development of a serious mining industry in the country. 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 confident of obtaining permits when and where required; particularly with respect to its construction project. The Group is also confident of its compliance obligations imposed in maintaining and renewing permits.
- 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.

**Directors' Report (continued)**

- 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 and projected costs to complete are re-forecast. The Directors have confidence in the current value of the project and in the foreseeable future.
- Cash flow forecast versus actual expenditure. The Group's actual expenditure has been largely consistent with forecast and includes completion of early works building infrastructure and ancillary buildings, and also includes several months of extensive capital works. Forecast project costs to complete, including key milestone and forecast delivery schedules, are used to project monthly cash forecasts to the end of the construction phase. This informs Directors of the level of commitments that the project can meet and to forecast future funding drawdown requirements to the end of the project construction. The Directors have confidence in the current forecasts.

**DIRECTORS**

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)	appointed 6 March 2014
T. J. Dean	(Non-Executive Director)	
G. R. Walker	(Non-Executive Director)	
C. G. Whitehouse	(Non-Executive Director)	resigned 5 December 2014
J. G. Wilson	(Non-Executive Director)	
L. E. Simovici	(Non-Executive Director)	appointed 19 January 2015

There are no female members of the Board of Directors.

**EVENTS AFTER THE BALANCE SHEET DATE**

There were no material events after the balance sheet date to report.

**FINANCIAL RISK MANAGEMENT**

Details of the Group's policies with respect to financial risk management are given in Note 28 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.

## **METALS EXPLORATION PLC**

### **Directors' Report (continued)**

#### **CORPORATE RESPONSIBILITY AND ENVIRONMENTAL POLICY**

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

#### **DISCLOSURE OF INFORMATION TO THE AUDITORS**

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

- so far as the Director is aware, there is no relevant audit information of which the 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.

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

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



**L. A. Ruddy**  
Company Secretary

1 June 2015

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; 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.

# Nexia Smith & Williamson

## 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 2014 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 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted in the European Union and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, 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](http://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 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

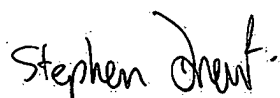
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent auditor's report (continued)**

**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

1 June 2015

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

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

**METALS EXPLORATION PLC**

**CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME for the year ended 31 DECEMBER 2014**

	Notes	2014 £	2013 £
<b>Continuing Operations</b>			
Revenue		-	-
Cost of sales		-	-
<b>Gross loss</b>		-	-
Administrative expenses		(6,784,385)	(5,263,532)
<b>Operating loss</b>	3	(6,784,385)	(5,263,532)
Finance income and similar items	7	33,400	21,974
Finance costs	7	(26,829)	(20,819)
Fair value gain on forward sales contracts	20	3,974,040	-
Fair value loss on interest rate swaps	20	(154,819)	-
Share of (losses)/gains of associates	15	(62,668)	27,382
<b>Losses before tax</b>		(3,021,261)	(5,234,995)
Taxation	8/9	(1,752,181)	-
<b>Losses from continuing operations</b>		(4,773,442)	(5,234,995)
<b>Other comprehensive income:</b>			
<b>Items that may be re-classified subsequently to profit or loss:</b>			
Exchange differences on translating foreign operations		6,056,858	(7,539,789)
<b>Total comprehensive income/(loss) for the period</b>		<b>1,283,416</b>	<b>(12,774,784)</b>
<b>Loss for the period attributable to:</b>			
Equity holders of the parent		(4,773,442)	(5,234,995)
		<b>(4,773,442)</b>	<b>(5,234,995)</b>
<b>Total comprehensive income/(loss) attributable to:</b>			
Equity holders of the parent		1,283,416	(12,774,784)
		<b>1,283,416</b>	<b>(12,774,784)</b>
<b>Loss per share:</b>			
Basic and diluted	10	(0.347)p	(0.489)p

The Company has taken advantage of the exemption provided under section 408 of Companies Act 2006 not to publish an income statement. The loss for the year ended 31 December 2014 dealt with in the financial statements of the Company was £1,696,290 (2013: £2,212,100). The Company made no gains or losses which would be reported in other comprehensive income in the year ended 31 December 2014 (2013: £nil) and therefore the Company has not published its statement of total comprehensive income.

## CONSOLIDATED BALANCE SHEET as at 31 DECEMBER 2014

	Notes	2014 £	2013 £
<b>Non-current assets</b>			
Property, plant and equipment	11	114,929,223	65,202,837
Goodwill	12	1,010,816	1,010,816
Other intangible assets	13	7,460,210	6,827,711
Derivative asset	20	3,717,266	-
Investment in associate companies	15	124,187	54,428
Trade and other receivables	16	1,818,508	1,987,684
		<u>129,060,210</u>	<u>75,083,476</u>
<b>Current assets</b>			
Derivative asset	20	462,581	-
Trade and other receivables	17	1,172,991	1,632,201
Cash and cash equivalents	18	12,251,994	31,947,096
		<u>13,887,566</u>	<u>33,579,297</u>
<b>Non-current liabilities</b>			
Loans	21	(19,330,771)	-
Derivative liability	20	(162,837)	-
Deferred tax liabilities	9	(1,866,624)	-
Provision for mine rehabilitation	22	(1,262,391)	-
		<u>(22,622,623)</u>	<u>-</u>
<b>Current liabilities</b>			
Trade and other payables	19	(4,298,510)	(2,296,214)
Loans - current portion	21	(8,376,668)	-
		<u>(12,675,178)</u>	<u>(2,296,214)</u>
<b>Net assets</b>		<u>107,649,975</u>	<u>106,366,559</u>
<b>Equity</b>			
Share capital	23	13,749,721	13,749,721
Share premium account		124,591,071	124,591,071
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		3,352,574	(2,704,284)
Profit and loss account		(33,910,469)	(29,137,027)
<b>Equity attributable to equity holders of the parent</b>		<u>107,649,975</u>	<u>106,366,559</u>

The financial statements were approved by the Board of Directors on 27 May 2015 and were signed on its behalf by:

  
**Ian R. Holzberger**  
 Executive chairman

1 June 2015

**METALS EXPLORATION PLC**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2014**

	<i>Share capital</i>	<i>Share premium account</i>	<i>Shares to be issued reserve</i>	<i>Translation reserve</i>	<i>Acquisition of non-controlling interest reserve</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	£	£	£	£	£	£	£
Balance at 1 January 2014	13,749,721	124,591,071	3,652,155	(2,704,284)	(3,785,077)	(28,137,027)	108,386,559
Exchange differences on translating foreign operations	-	-	-	6,056,858	-	-	6,056,858
Loss for the year	-	-	-	-	-	(4,773,442)	(4,773,442)
Total comprehensive income for the year	-	-	-	6,056,858	-	(4,773,442)	1,283,416
Balance at 31 December 2014	13,749,721	124,591,071	3,652,155	3,352,674	(3,785,077)	(33,910,469)	107,649,976

**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
- Profit and loss account; being the cumulative loss attributable to equity shareholders

METALS EXPLORATION PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2013

	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 2013	8,247,431	92,363,807	3,652,155	4,835,505	(3,785,077)	(23,902,032)	81,411,569
Exchange differences on translating foreign operations	-	-	-	(7,539,789)	-	-	(7,539,789)
Loss for the year	-	-	-	-	-	(5,234,995)	(5,234,995)
Total comprehensive loss for the year	-	-	-	(7,539,789)	-	(5,234,995)	(12,774,784)
Issue of equity share capital	5,502,290	33,013,736	-	-	-	-	38,516,026
Share issue expenses	-	(786,272)	-	-	-	-	(786,272)
Balance at 31 December 2013	13,749,721	124,591,071	3,652,155	(2,704,284)	(3,785,077)	(29,137,027)	106,366,659

**METALS EXPLORATION PLC**


**CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 DECEMBER 2014**

		2014 £	2013 £
<b>Net cash used in operating activities</b>	Notes 25	<u>(4,206,343)</u>	<u>(4,773,452)</u>
<b>Investing activities</b>			
Purchase of intangible assets		(340,776)	(817,300)
Purchase of property, plant and equipment		(44,962,271)	(22,346,530)
Investment on associates		<u>(132,427)</u>	-
<b>Net cash used in investing activities</b>		<u>(45,435,474)</u>	<u>(23,163,830)</u>
<b>Financing activities</b>			
Proceeds from issue of share capital		-	38,516,026
Share issue costs incurred		-	(786,272)
Proceeds from borrowings	21	27,707,439	-
<b>Net cash arising from financing activities</b>		<u>27,707,439</u>	<u>37,729,754</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(21,934,378)	9,792,472
Cash and cash equivalents at beginning of year		31,947,096	26,275,022
Foreign exchange difference		2,239,276	(4,120,398)
<b>Cash and cash equivalents at end of year</b>		<u><u>12,251,994</u></u>	<u><u>31,947,096</u></u>

## COMPANY BALANCE SHEET as at 31 DECEMBER 2014

	Notes	2014 £	2013 £
<b>Non-current assets</b>			
Property, plant and equipment	11	-	-
Other intangible assets	13	-	-
Investment in subsidiaries	14	6,057,046	6,023,886
Investment in associate companies	15	-	30,174
Trade and other receivables	16	<u>115,582,142</u>	<u>87,144,349</u>
		<b>121,639,188</b>	<b>93,198,409</b>
<b>Current assets</b>			
Trade and other receivables	17	541,975	407,006
Cash and cash equivalents	18	<u>568,379</u>	<u>30,904,301</u>
		<b>1,110,354</b>	<b>31,311,307</b>
<b>Current liabilities</b>			
Trade and other payables	19	(177,550)	(241,434)
		<u>122,571,992</u>	<u>124,268,282</u>
<b>Net assets</b>			
<b>Equity</b>			
Share capital	23	13,749,721	13,749,721
Share premium account		124,591,071	124,591,071
Shares to be issued reserve		3,652,155	3,652,155
Profit and loss account		(19,420,955)	(17,724,665)
		<u>122,571,992</u>	<u>124,268,282</u>
<b>Equity attributable to equity holders of the parent</b>		<b>122,571,992</b>	<b>124,268,282</b>

The financial statements were approved by the Board of Directors on 27 May 2015 and were signed on its behalf by:



Ian R Holzberger

Executive Chairman

1 June 2015

**METALS EXPLORATION PLC**

**COMPANY STATEMENT OF CHANGES IN EQUITY for the year ended 31 DECEMBER 2014**

	<i>Share capital</i>	<i>Share premium account</i>	<i>Shares to be issued reserve</i>	<i>Profit and loss account</i>	<i>Total equity</i>
	£	£	£	£	£
Balance at 1 January 2013	8,247,431	92,363,607	3,652,155	(15,512,565)	88,750,628
Loss for the year	-	-	-	(2,212,100)	(2,212,100)
Total comprehensive loss for the year	-	-	-	(2,212,100)	(2,212,100)
Issue of equity share capital	5,502,290	33,013,736	-	-	38,516,026
Share issue expenses	-	(786,272)	-	-	(786,272)
Balance at 31 December 2013	<b>13,749,721</b>	<b>124,591,071</b>	<b>3,652,155</b>	<b>(17,724,665)</b>	<b>124,268,282</b>
Loss for the year	-	-	-	(1,696,290)	(1,696,290)
Total comprehensive loss for the year	-	-	-	(1,696,290)	(1,696,290)
Balance at 31 December 2014	<b>13,749,721</b>	<b>124,591,071</b>	<b>3,652,155</b>	<b>(19,420,955)</b>	<b>122,571,992</b>

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
- Profit and loss account; being the cumulative loss attributable to equity shareholders

**METALS EXPLORATION PLC**

**COMPANY CASH FLOW STATEMENT for the year ended 31 DECEMBER 2014**

	<i>Notes</i>	<b>2014</b> £	<b>2013</b> £
<b>Net cash used in operating activities</b>	25	(29,032,841)	(31,772,312)
<b>Investing activities</b>			
Investment in subsidiary		(1,170,654)	(6,318)
Investment in associates		(132,427)	-
<b>Net cash used in investing activities</b>		<b>(1,303,081)</b>	<b>(6,318)</b>
<b>Financing activities</b>			
Proceeds from issue of share capital		-	38,516,026
Share issue costs incurred		-	(786,272)
<b>Net cash from financing activities</b>		<b>-</b>	<b>37,729,754</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(30,335,922)</b>	<b>5,951,124</b>
Cash and cash equivalents at beginning of year		30,904,301	24,953,177
<b>Cash and cash equivalents at end of year</b>		<b><u>568,379</u></b>	<b><u>30,904,301</u></b>

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014

#### 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. 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.

##### **Changes in accounting policies and disclosures**

In the current year, the following new and amended Standards and Interpretations have been adopted by the Group:

- *IFRS 10 Consolidated financial statements*
- *IFRS 12 Disclosures of interests in other entities*
- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance: Amendments to IFRS 10, IFRS 11 and IFRS 12*
- *Revisions to IAS 27 Separate Financial Statements*

The adoption of IFRS 10 and the other standards listed above has not had a material impact on the reported results or financial position of the Group and has not given rise to any additional material disclosure requirements.

##### **New standards and interpretations**

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

*Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation*, for periods beginning on or after 1 January 2016 (not yet endorsed by EU). The amendments ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortisation of items of property, plant and equipment or intangible assets. This is because a revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset.

*Amendments to IAS 1 Presentation of Financial Statements*, for period beginning on or after 1 January 2016 (not yet endorsed by EU). The amendments address some of the concerns expressed about existing presentation and disclosure requirements relating to the use of judgement when preparing their financial statements. The amendments;

- Clarify the materiality requirements in IAS 1;
- Clarify that specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- Add requirements for how an entity should present subtotals in the above statements;
- Clarify that entities have flexibility as to the order in which they present the notes; and
- Remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

## 1. Accounting policies (continued)

## New standards and interpretations (continued)

*IFRS 15 Revenue from Contracts with Customers*, for period beginning on or after 1 January 2017 (not yet endorsed by EU). The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 11 Construction Contracts and IAS 18 Revenue. The core principle of the Standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The Standard also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts.

*IFRS 9 Financial Instruments*, for period beginning on or after 1 January 2018 (not yet endorsed by EU). This is part of a project to replace IAS 39 Financial Instruments: Recognition and Measurement and deals with the classification and measurement of financial assets and financial liabilities. In November 2009, the IASB published IFRS 9 Financial Instruments which covered the classification and measurement of financial assets. In October 2010 the requirements for classifying and measuring financial liabilities were added to IFRS 9. In November 2013 the IASB has issued hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39 covering general hedge accounting requirements. The requirements use a principles-based model which will more closely align hedge accounting with an entity's risk management activities when hedging financial and non-financial risk exposures. The requirements also include enhanced presentation and new disclosure requirements. Further amendments have been issued relating to the introduction of a fair value through other comprehensive income (FVOCI) measurement category for debt instruments that would be based on an entity's business model and expected credit losses are to be recognised on all financial instruments within the scope of the amendment from when they are originated or purchased. Full lifetime expected credit losses are recognised when a financial instrument deteriorates significantly in credit quality.

**Basis of consolidation**

The Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2014. 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.

## **METALS EXPLORATION PLC**

### **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

#### **1. Accounting policies (continued)**

##### **Business combinations and goodwill (continued)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

1. Accounting policies (continued)

**Share based payments**

The Company enters into equity-settled share based compensation plans for the employees of its subsidiaries and enters into 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 taken into account.

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

For equity instruments granted that vest immediately and the counterparty is unconditionally entitled to the equity instruments, the expense is recognised in full on the grant date.

**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.

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

#### 1. Accounting policies (continued)

##### Property, plant and equipment (continued)

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 over the useful life of the mine at the point of commissioning the mining process plant applying the units of production method.	
Mining properties	these costs are depreciated over the useful life of the mine at the point of commissioning the mining process plant applying the units of production method.	

Mining Properties costs have arisen entirely as a result 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 straight 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, 2013 and 2014.

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, and the Company's ability to raise sufficient debt funding to build a processing plant, supporting infrastructure and ancillary buildings.

Mining Property costs will be depreciated over the useful life of the mine once the process plant has been commissioned and the process of recovery of gold from mineral ore has commenced.

Construction in Progress costs will be appropriately identified and allocated to a particular Property, Plant and Equipment tangible asset category, once the processing plant has been commissioned and the process of recovery of gold from mineral ore has commenced. 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

1. Accounting policies (continued)

**Provision for mine rehabilitation and decommissioning (continued)**

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.

**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. Capitalization 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 capitalized 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 capitalized borrowing cost. All other borrowing costs are recognized 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.

## **METALS EXPLORATION PLC**

### **NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

#### **1. Accounting policies (continued)**

##### **Derivative assets and liabilities (continued)**

As at 31 December 2014, 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.

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 2014

#### **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**

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 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 2014 was £115,582,142 (2013: £87,144,849) which excludes an amount of £1,981,180 (2013: £2,078,107) as a result of impairment reviews performed on all Group entities in the year. This reflects the impairment of the amounts due from MTL Philippines, Inc. and PT Cupati.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

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

**Impairment of intangible assets and tangible assets**

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 2014.

**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.

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

	2014	2013
	£	£
Depreciation of property, plant and equipment	1,742,854	441,951
Amortisation	62,244	48,382
Foreign exchange losses	684,254	1,144,049
Staff costs (see note 6)	1,051,927	1,295,440
Auditors remuneration (see note 4)	<u>80,950</u>	<u>67,998</u>

4. Auditor's remuneration

	2014	2013
	£	£
Fees payable to the Group and Company's auditor for the audit of the Group and Company's accounts	43,050	35,250
Fees payable to the Company's auditor and its associates for audit related services	4,500	2,900
Taxation compliance services	6,250	5,950
Taxation advice services	<u>27,150</u>	<u>23,898</u>
	<u><u>80,950</u></u>	<u><u>67,998</u></u>

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

#### 5. Segmental analysis

Operating segments have been identified on the basis of the Group's internal reporting to the Chief Operating Decision Maker ('CODM') and in particular the components of the Group which are regularly reviewed by the CODM. The operating segments included in internal reports are determined on the basis of their significance to the Group. The CODM has been determined to be the Board of Directors as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The primary segments have been identified into three geographic areas of the UK, Philippines and Indonesia. The CODM uses 'Loss before tax' and 'Cash & cash equivalents' as the key measures of the segments' results and these measures reflect the segments' underlying performance for the period under evaluation. Major customers are not identifiable or reported as the Group's mining operations are not yet operating in a production capacity. Mining construction commenced in 2013 and it is expected that mining production will commence in H2 2015. It is because of this status that most expenditure is of a capital nature.

The segment results for the year ended 31 December 2014, for the year ended 31 December 2013 and the reconciliation of the segment measures to the respective statutory items in the consolidated financial information are as follows:

<i>Year ended 31 December 2014</i>	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
<b><u>Segment results</u></b>					
Group operating (loss)/gain	(1,617,446)	(5,180,868)	(19,770)	33,699	(6,784,385)
Finance income & similar items	29,363	1,371	11	2,655	33,400
Finance costs	(4,266)	(21,876)	(120)	(567)	(26,829)
<b>Operating (loss)/gain</b>	<b>(1,592,349)</b>	<b>(5,201,373)</b>	<b>(19,879)</b>	<b>35,787</b>	<b>(6,777,814)</b>
Fair value gain on forward sales contracts	-	3,974,040	-	-	3,974,040
Fair value loss on interest rate swaps	-	(154,819)	-	-	(154,819)
Share of losses of associates	-	(62,668)	-	-	(62,668)
<b>(Losses)/ gains from continuing operations</b>	<b>(1,592,349)</b>	<b>(1,444,820)</b>	<b>(19,879)</b>	<b>35,787</b>	<b>(3,021,261)</b>
<i>Year ended 31 December 2013</i>	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
<b><u>Segment results</u></b>					
Group operating loss	(2,221,106)	(3,020,451)	(21,975)	-	(5,263,532)
Finance income & similar items	20,612	1,351	11	-	21,974
Finance costs	(11,606)	(9,072)	(141)	-	(20,819)
<b>Operating loss</b>	<b>(2,212,100)</b>	<b>(3,028,172)</b>	<b>(22,105)</b>	<b>-</b>	<b>(5,262,377)</b>
Share of gains of associates	-	27,382	-	-	27,382
<b>Losses from continuing operations</b>	<b>(2,212,100)</b>	<b>(3,000,790)</b>	<b>(22,105)</b>	<b>-</b>	<b>(5,234,995)</b>

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

5. Segmental analysis (continued)

<i>Year ended 31 December 2014</i>	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
<b><u>Segment assets</u></b>					
Segment tangibles & intangibles	-	123,398,132	2,117	-	123,400,249
Segment trade & other receivables	152,579	2,838,920	-	-	2,991,499
Segment cash	568,379	11,373,996	4,793	304,826	12,251,994
Segment derivative assets	-	4,179,847	-	-	4,179,847
<b>Total segment assets</b>	<b>720,958</b>	<b>141,790,895</b>	<b>6,910</b>	<b>304,826</b>	<b>142,823,589</b>
<b><u>Segment liabilities</u></b>					
Segment loans	-	(27,707,439)	-	-	(27,707,439)
Segment trade & other payables	(177,550)	(5,979,863)	(5,288)	(2,433)	(6,165,134)
Segment provisions	-	(1,262,391)	-	-	(1,262,391)
Segment derivative liabilities	-	(162,837)	-	-	(162,837)
<b>Total segment liabilities</b>	<b>(177,550)</b>	<b>(35,112,530)</b>	<b>(5,288)</b>	<b>(2,433)</b>	<b>(35,297,801)</b>
Equity-accounted investees	-	124,187	-	-	124,187
<b>Total segment net assets</b>	<b>543,408</b>	<b>106,802,552</b>	<b>1,622</b>	<b>302,393</b>	<b>107,649,975</b>

<i>Year ended 31 December 2013</i>	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
<b><u>Segment assets</u></b>					
Segment tangibles & intangibles	-	73,039,309	2,055	-	73,041,364
Segment trade & other receivables	222,887	3,396,998	-	-	3,619,885
Segment cash	30,910,618	1,033,046	3,432	-	31,947,096
<b>Total segment assets</b>	<b>31,133,505</b>	<b>77,469,353</b>	<b>5,487</b>	<b>-</b>	<b>108,608,345</b>
<b><u>Segment liabilities</u></b>					
Segment trade & other payables	(241,434)	(2,049,713)	(5,067)	-	(2,296,214)
<b>Total segment liabilities</b>	<b>(241,434)</b>	<b>(2,049,713)</b>	<b>(5,067)</b>	<b>-</b>	<b>(2,296,214)</b>
Equity-accounted investees	-	54,428	-	-	54,428
<b>Total segment net assets</b>	<b>30,892,071</b>	<b>75,474,068</b>	<b>420</b>	<b>-</b>	<b>106,366,559</b>

Segment net assets are analysed net of intercompany transactions.

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**5. Segmental analysis (continued)**

<i>Year ended 31 December 2014</i>	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
<i>Segment other information</i>					
Amortisation of intangible assets	-	(62,244)	-	-	(62,244)
Depreciation of property, plant and equipment	-	(1,742,854)	-	-	(1,742,854)
Additions to non-current assets	-	48,088,969	-	-	48,088,969

<i>Year ended 31 December 2013</i>	UK	Philippines	Indonesia	Singapore	Total
	£	£	£	£	£
<i>Segment other information</i>					
Amortisation of intangible assets	-	(48,382)	-	-	(48,382)
Depreciation of property, plant and equipment	-	(441,793)	(158)	-	(441,951)
Additions to non-current assets	-	30,093,429	-	-	30,093,429

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

**6. Staff numbers and costs**

	<b>2014</b>	<b>2013</b>
<b>The average number of persons, including Directors, was:</b>	<i>Number</i>	<i>Number</i>
Administration	27	33
Exploration	2	111
Construction & development	613	453
	<b>642</b>	<b>597</b>
	<b>2014</b>	<b>2013</b>
<b>Staff costs of the above persons were:</b>	£	£
Wages and salaries	1,029,071	1,213,129
Social security costs	5,493	4,190
Pension costs	17,363	15,877
Termination benefits	-	62,244
	<b>1,051,927</b>	<b>1,295,440</b>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**6. Staff numbers and costs (continued)**

<b>Directors' emoluments:</b>	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
<b>Directors</b>		
I.R. Holzberger	397,893	356,055
<b>Sums paid to third parties in respect of directors</b>		
Solomon Capital Limited/ MTL Luxembourg Sarl Pte Ltd – T.J. Dean	24,000	24,000
Solomon Capital Limited – E.F. Parsons	-	16,000
Solomon Capital Limited/ MTL Luxembourg Sarl Pte Ltd – C.G. Whitehouse	22,000	24,000
Solomon Capital Limited / MTL Luxembourg Sarl Pte Ltd– J.G Wilson	24,000	8,000
J.W.D. Ayre	20,000	-
Runruno Holdings Limited – G.R. Walker	41,000	40,000
	<u>131,000</u>	<u>112,000</u>
	<u><b>528,893</b></u>	<u><b>468,055</b></u>

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. Chris Whitehouse, Mr. Julian Wilson and Mr. Tim Dean. Runruno Holdings Limited is represented on the board of directors by Mr Guy Walker.

**Share options held by Director:**

<i>Option holder</i>	<i>Grant date</i>	<i>Number of options</i>	<i>Exercise price</i>	<i>Earliest vesting date or rate per month</i>	<i>Expiry date</i>
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 27 to the financial statements.

**7. Finance costs and income**

	<b>2014</b>	<b>2013</b>
	<b>£</b>	<b>£</b>
Loan interest payable	(17,640)	(6,165)
Bank interest and charges payable	(9,189)	(14,654)
<b>Finance costs</b>	<u><b>(26,829)</b></u>	<u><b>(20,819)</b></u>
Bank interest receivable	33,400	21,974
<b>Finance income and similar items</b>	<u><b>33,400</b></u>	<u><b>21,974</b></u>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**8. Taxation**

The charge for taxation comprises the following

	2014 £	2013 £
Current year corporation tax charge	-	-
Current year deferred tax charge	1,752,181	-
<b>Total tax charge for the year</b>	<b>1,752,181</b>	<b>-</b>

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

	2014 £	2013 £
Losses before tax	<u>(3,021,261)</u>	<u>(5,234,995)</u>
Tax on loss on ordinary activities at standard UK corporation tax rate of 21% (2013: 23%)	(634,465)	(1,204,049)
<i>Effects of:</i>		
Overseas expenses not taxable for tax purposes	1,318,878	965,712
Differing tax rates in different jurisdictions	525,654	-
Losses carried forward	462,278	159,223
Non taxable and non deductible items	30,366	67,046
Short-term timing differences	49,470	12,068
<b>Total taxation charge for the year</b>	<b>1,752,181</b>	<b>-</b>

On 5 December 2012 the Government confirmed the UK corporation tax rate is to be 21% with effect from 1 April 2014, previously 23% from 1 April 2013. This change of rate became substantively enacted for the purposes of IAS 12; Income Taxes, on 2 July 2013 by passing a resolution to this effect under the Provisional Collection of Taxes Act 1968.

**9. Deferred tax charge, liability and asset**

*Deferred tax charge*

	Deferred tax charge		Deferred tax Liability		Deferred tax Asset	
	2014	2013	2014	2013	2014	2013
	£	£	£	£	£	£
Derivative assets	1,177,074	-	1,253,954	-	-	-
Undepleted asset retirement obligation	355,498	-	378,717	-	-	-
Unrealised foreign exchange gain	174,119	-	185,492	-	-	-
Other short term timing differences	45,490	-	48,461	-	-	-
	<b>1,752,181</b>	<b>-</b>	<b>1,866,624</b>	<b>-</b>	<b>-</b>	<b>-</b>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**9. Deferred tax charge, liability and asset (continued)**

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 31 December 2014 whereas the foreign currency composition of the comprehensive income statement is translated using the average rate for the whole of the year.

*Deferred tax liability*

For the year ended 31 December 2014 the Company has an unprovided deferred tax liability of £740,033 (2013: £777,034) for the accumulated costs associated with share based payments through previous years' statements of comprehensive income.

*Deferred tax asset*

For the year ended 31 December 2014 the Group has net unused tax losses of £16,601,097 (2013: £14,584,363) 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 2014 the Group has net unused tax losses available for offset against future profits as follows:

	2014	2013
	£	£
UK	12,458,329	10,872,307
Philippines	4,142,768	3,712,056
Indonesia	-	-
<b>Group unused tax losses available</b>	<b><u>16,601,097</u></b>	<b><u>14,584,363</u></b>

The losses arising in PT Cupati (Indonesia) have been impaired in the financial statements and are not recognised in calculating deferred tax.

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 20% (2013: 21%), and the deferred tax asset is estimated to be £2,482,064 (2013: £2,273,103).

**10. Loss per share**

	2014	2013
	£	£
<b>Loss</b>		
Net loss attributable to equity shareholders for the purpose of basic and diluted loss per share	<u>(4,773,442)</u>	<u>(5,234,995)</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>1,374,972,025</u>	<u>1,070,031,076</u>
Basic and diluted loss per share	<u>(0.347)p</u>	<u>(0.489)p</u>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**10. Loss per share (continued)**

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.

	2014	2013
Weighted average number of potential ordinary shares that are not currently dilutive	<u>9,775,000</u>	<u>15,013,333</u>

**11. Property, plant and equipment – Group**

	Leasehold improvements	Motor vehicles	Fixtures, fittings & equipment	Land & buildings	Drilling equipment	Construction in progress	Mining properties	Total
	£	£	£	£	£	£	£	£
<b>Cost</b>								
As at 1 January 2013	237,340	385,884	1,295,711	-	934,180	9,818,241	28,056,308	40,727,664
Additions	-	317,066	8,166,293	6,575	102,610	11,733,563	9,767,322	30,093,429
Foreign exchange differences	(26,864)	(34,361)	(117,065)	-	(83,187)	(874,291)	(2,498,345)	(3,634,113)
As at 31 December 2013	210,476	668,589	9,344,939	6,575	953,603	20,677,513	35,325,285	67,186,980
Additions	-	33,092	2,425,954	1,298,677	59,318	23,602,935	20,668,995	48,088,971
Foreign exchange differences	10,641	34,661	483,892	341	49,437	1,071,976	1,831,357	3,482,305
As at 31 December 2014	<u>221,117</u>	<u>736,342</u>	<u>12,254,785</u>	<u>1,305,593</u>	<u>1,062,358</u>	<u>45,352,424</u>	<u>57,825,637</u>	<u>118,758,256</u>
<b>Depreciation</b>								
As at 1 January 2013	(198,874)	(197,936)	(504,824)	-	(799,012)	-	-	(1,700,646)
Charge for the period	(25,986)	(74,334)	(224,496)	-	(117,135)	-	-	(441,951)
Foreign exchange differences	23,260	17,625	46,419	-	71,150	-	-	158,454
As at 31 December 2013	(201,600)	(254,645)	(682,901)	-	(844,997)	-	-	(1,984,143)
Charge for the period	(8,109)	(119,765)	(1,482,014)	(126,660)	(6,306)	-	-	(1,742,854)
Foreign exchange differences	(10,189)	(13,201)	(34,839)	-	(43,807)	-	-	(102,036)
As at 31 December 2014	<u>(219,898)</u>	<u>(387,611)</u>	<u>(2,199,754)</u>	<u>(126,660)</u>	<u>(895,110)</u>	<u>-</u>	<u>-</u>	<u>(3,829,033)</u>
<b>Net book value</b>								
As at 31 December 2014	<u>1,219</u>	<u>348,731</u>	<u>10,055,031</u>	<u>1,178,933</u>	<u>167,248</u>	<u>45,352,424</u>	<u>57,825,637</u>	<u>114,929,223</u>
As at 31 December 2013	<u>8,876</u>	<u>413,944</u>	<u>8,662,038</u>	<u>6,575</u>	<u>108,606</u>	<u>20,677,513</u>	<u>35,325,285</u>	<u>65,202,837</u>
As at 1 January 2013	<u>38,466</u>	<u>187,948</u>	<u>790,887</u>	<u>-</u>	<u>135,168</u>	<u>9,818,241</u>	<u>28,056,308</u>	<u>39,027,018</u>

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

11. 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.

11. Property, plant and equipment - Company

	<i>Fixtures, fittings &amp; equipment</i>
	£
<b>Cost</b>	
As at 1 January 2013	8,825
Additions	-
As at 31 December 2013	<u>8,825</u>
Additions	-
As at 31 December 2014	<u>8,825</u>
<b>Depreciation</b>	
As at 1 January 2013	(8,825)
Charge for the period	-
As at 31 December 2013	<u>(8,825)</u>
Charge for the period	-
As at 31 December 2014	<u>(8,825)</u>
<b>Net book value</b>	
As at 31 December 2014	<u>-</u>
As at 31 December 2013	<u>-</u>
As at 1 January 2013	<u>-</u>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**12. Goodwill**

	<i>2014</i>	<i>2013</i>
	£	£
Cost and net book value	<u>1,010,816</u>	<u>1,010,816</u>

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 20%. 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.

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

13. Other intangible assets – Group

	<i>Cost of Exploration</i>	<i>Licences</i>	<i>Software</i>	<i>Total</i>
	£	£	£	£
<b><u>Cost</u></b>				
As at 1 January 2013	2,356,870	4,632,040	204,372	7,193,282
Additions	777,938	-	39,362	817,300
Foreign exchange differences	(209,874)	(412,472)	(18,199)	(640,545)
As at 31 December 2013	2,924,934	4,219,568	225,535	7,370,037
Additions	227,204	-	113,572	340,776
Foreign exchange differences	151,636	218,754	11,693	382,083
As at 31 December 2014	3,303,774	4,438,322	350,800	8,092,896
<b><u>Impairment</u></b>				
As at 1 January 2013	(196,104)	-	-	(196,104)
Foreign exchange differences	17,463	-	-	17,463
As at 31 December 2013	(178,641)	-	-	(178,641)
Foreign exchange differences	(9,261)	-	-	(9,261)
As at 31 December 2014	(187,902)	-	-	(187,902)
<b><u>Amortisation</u></b>				
As at 1 January 2013	-	(229,719)	(116,405)	(346,124)
Charge for the period	-	-	(48,382)	(48,382)
Foreign exchange differences	-	20,456	10,365	30,821
As at 31 December 2013	-	(209,263)	(154,422)	(363,685)
Charge for the period	-	-	(62,244)	(62,244)
Foreign exchange differences	-	(10,849)	(8,006)	(18,855)
As at 31 December 2014	-	(220,112)	(224,672)	(444,784)
<b><u>Net Book Value</u></b>				
As at 31 December 2014	3,115,872	4,218,210	126,128	7,460,210
As at 31 December 2013	2,746,293	4,010,305	71,113	6,827,711
As at 1 January 2013	2,160,766	4,402,321	87,967	6,651,054

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**13. Other intangible assets – Company**

	<i>Licences</i>
	<i>£</i>
<b><u>Cost</u></b>	
As at 1 January 2013	229,719
Foreign exchange differences	<u>(20,456)</u>
As at 31 December 2013	209,263
Foreign exchange differences	<u>10,849</u>
<b>As at 31 December 2014</b>	<b><u>220,111</u></b>
<b><u>Amortisation</u></b>	
As at 1 January 2013	(229,719)
Foreign exchange differences	<u>20,456</u>
As at 31 December 2013	(209,263)
Foreign exchange differences	<u>(10,849)</u>
<b>As at 31 December 2014</b>	<b><u>(220,111)</u></b>
<b><u>Net Book Value</u></b>	
<b>As at 31 December 2014</b>	<b><u>                    -</u></b>
As at 31 December 2013	<u>                    -</u>
As at 1 January 2013	<u>                    -</u>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**14. Investments in subsidiaries - Company**

	£
<b>Cost</b>	
As at 1 January 2013	6,594,168
Additions	6,318
	6,600,486
As at 31 December 2013	6,600,486
Further investment in existing subsidiaries	1,170,654
Share redemption under corporate reorganisation	(1,261,768)
<b>As at 31 December 2014</b>	<b>6,509,372</b>
<b>Impairment</b>	
As at 1 January 2013	(452,326)
Charge for the period	(124,274)
	(576,600)
As at 31 December 2013	(576,600)
Charge for the period	(301,697)
Share redemption under corporate reorganisation	425,971
<b>As at 31 December 2014</b>	<b>(452,326)</b>
<b>Net book value</b>	
<b>As at 31 December 2014</b>	<b>6,057,046</b>
As at 31 December 2013	6,023,886
As at 1 January 2013	6,141,842

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 the year 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.

The investments in subsidiaries are as follows:

<b>Company</b>	<b>Country of registration</b>	<b>Percentage holding</b>	<b>Nature of business</b>
PT Cupati	Indonesia	96%	Holder of mining rights
Metals Exploration Pte Ltd	Singapore	100%	Holding and investment company

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

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**15. Investments in associates – Group**

	2014	2013
	£	£
At 1 January	54,428	27,046
Further investment in existing associates	132,427	-
Share of (losses)/gains of associates	(62,668)	27,382
<b>At 31 December</b>	<b>124,187</b>	<b>54,428</b>

Associate company	Domicile	Assets £	Liabilities £	P&L reserves Deficit at 31 Dec 14 £	Sales £	Gains/(Losses) £	Ownership %
Cupati Holdings Corporation	Philippines	1,790,427	1,868,726	(74,444)	-	-	39.99%
Woggle Corporation	Philippines	245,027	43,561	191,546	-	-	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 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.

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

	2014	2013
	£	£
Amounts owed by associates	<b>1,818,508</b>	<b>1,987,684</b>

**16. Trade and other receivables due in more than one year– Company**

	2014	2013
	£	£
Amounts due from group undertakings	<b>115,582,142</b>	<b>87,144,349</b>

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

	2014	2013
	£	£
Other receivables	838,314	1,312,746
Prepayments	334,677	319,455
	<b>1,172,991</b>	<b>1,632,201</b>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

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

	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Other receivables	532,311	397,342
Prepayments	9,664	9,664
	<b>541,975</b>	<b>407,006</b>

**18. Cash and cash equivalents – Group**

	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Cash on hand	6,412	10,000
Current accounts	12,245,582	26,286,256
Time deposit and call accounts	-	5,650,840
	<b>12,251,994</b>	<b>31,947,096</b>

**18. Cash and cash equivalents – Company**

	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Current accounts	568,379	25,253,461
Time deposit and call accounts	-	5,650,840
	<b>568,379</b>	<b>30,904,301</b>

**19. Trade and other payables – Group**

	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Trade payables	2,724,842	1,425,852
Other payables	810,132	587,987
Other tax and social security payable	-	93,109
Accruals	763,536	189,266
	<b>4,298,510</b>	<b>2,296,214</b>

**19. Trade and other payables - Company**

	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Trade payables	90,170	122,039
Other tax and social security payable	-	57,692
Accruals	87,380	61,703
	<b>177,550</b>	<b>241,434</b>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**20. Derivative assets and liabilities**

In 2014, 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 due on 2 October 2015. As at 31 December 2014, derivative asset and the related unrealised gain on these derivative contracts recognised in the statement of comprehensive income amounted to £3,974,040.

	<i>Non-current assets</i>	<i>Current assets</i>	<i>Total 2014</i>	<i>Total 2013</i>
	£	£	£	£
At 1 January	-	-	-	-
Fair value gain	3,534,236	439,804	3,974,040	-
Foreign exchange differences	183,030	22,777	205,807	-
At 31 December	<u>3,717,266</u>	<u>462,581</u>	<u>4,179,847</u>	-

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

The following table provides a summary of the forward gold price swap contracts outstanding at 31 December 2014, maturing in:

	2015	2016	2017	2018	Total
Forward sales contracts					
Ounces of gold	15,000	30,000	30,000	15,000	90,000
Average price US\$	\$1,290.47	\$1,287.45	\$1,285.81	\$1,287.19	\$1,287.36

*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 2014, 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.

	<i>2014</i>	<i>2013</i>
	£	£
At 1 January	-	-
Fair value loss	(154,819)	-
Foreign exchange differences	(8,018)	-
At 31 December	<u>(162,837)</u>	-

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**21. Loans**

On 28 May 2014, 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:	US\$75,000,000
The senior facility includes rolled up capitalised interest and bank fees during the construction phase of US \$5,000,000 <sup>1</sup>	
Cost overrun facility:	US\$8,000,000

Note<sup>1</sup>: the capitalised interest period covers the construction period May 28, 2014 to June 30, 2015.

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 2014, the Group has successfully completed four (4) draw-downs totalling US\$40,355,670 against the US\$70,000,000 senior debt facility for construction works and two (2) draw-downs totalling US\$2,644,330 against the US\$5,000,000 facility available for capitalised interest and bank fees. It is estimated that all of the senior debt facility including all of the capitalised interest and bank fees will be drawn during 2015. As at 31 December 2014 the US\$8,000,000 cost overrun facility has not been drawn against but is available for the purposes of the Project.

	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Loans due with one year	<u>8,376,668</u>	<u>-</u>
	<i>2014</i>	<i>2013</i>
	<i>£</i>	<i>£</i>
Loans due after more than one year	<u>19,330,771</u>	<u>-</u>

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

#### 22. Provision for mine rehabilitation and decommissioning

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.

As at 31 December 2014, the recognised provision for mine rehabilitation and decommissioning and undepleted asset retirement obligation under "Mine development costs" classified under "Property, plant and equipment" amounted to £1,262,391 (2013: £nil).

#### 23. Called up share capital

	<i>2014</i>	<i>2013</i>
	£	£
Allotted, called up and fully paid at 1 January	13,749,721	8,247,431
Shares issued and fully paid during the year	-	5,502,290
Allotted, called up and fully paid at 31 December	<u>13,749,721</u>	<u>13,749,721</u>

#### 24. 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.

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

24. Share based payments (continued)

Details of the share options outstanding are as follows:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Number of share options	Weighted average exercise price <i>p</i>	Number of share options	Weighted average exercise price <i>p</i>
Outstanding at the beginning of the period	7,275,000	25.33	14,275,000	25.35
Exercised during the period			-	-
Expired during the period	(40,000)	40.00	(7,000,000)	25.36
<b>Outstanding at the end of the period</b>	<b>7,235,000</b>	<b>25.25</b>	<b>7,275,000</b>	<b>25.33</b>
Exercisable at the end of the period	7,235,000	25.25	7,275,000	25.33

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

	Year ended 31 December 2014			Year ended 31 December 2013		
	Number of share options	exercise price <i>p</i>	weighted average remaining contractual life <i>(months)</i>	Number of share options	exercise price <i>P</i>	weighted average remaining contractual life <i>(months)</i>
	150,000	12.00	15	150,000	12.00	27
	500,000	15.00	15	500,000	15.00	26
	6,000,000	25.00	14	6,000,000	25.00	38
	585,000	40.00	34	625,000	40.00	46
<b>Outstanding at the end of the period</b>	<b>7,235,000</b>	<b>25.33</b>	<b>30</b>	<b>7,275,000</b>	<b>25.33</b>	<b>43</b>

During the year, an expense of £nil was recognised in the statement of total comprehensive income (2013: £nil).

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**24. Share based payments (continued)**

**Warrants**

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

Details of the warrants outstanding are as follows:

	Year ended 31 December 2014		Year ended 31 December 2013	
	Number of warrants	Weighted average exercise price <i>p</i>	Number of warrants	Weighted average exercise price <i>p</i>
Outstanding at the beginning of the period	2,500,000	36.75	5,510,000	31.23
Exercised during the period	-	-	-	-
Granted during the period	-	-	-	-
Expired during the period	(2,500,000)	36.75	(3,010,000)	26.64
<b>Outstanding at the end of the period</b>	<b>-</b>	<b>-</b>	<b>2,500,000</b>	<b>36.75</b>
Exercisable at the end of the period	-	-	2,500,000	36.75

There are no warrants outstanding and in the previous year they had a range of exercise prices as follows:

	Year ended 31 December 2014			Year ended 31 December 2013		
	Number of warrants	exercise price <i>p</i>	weighted average remaining contractual life <i>(months)</i>	Number of warrants	exercise price <i>p</i>	weighted average remaining contractual life <i>(months)</i>
	-	-	-	-	20.00	-
	-	-	-	1,000,000	26.25	4
	-	-	-	1,000,000	39.38	4
	-	-	-	500,000	52.50	4
<b>Outstanding at the end of the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,500,000</b>	<b>31.23</b>	<b>4</b>

During the year, a £nil charge was recognised in the statement of total comprehensive income (2013: £nil).

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

25. Net cash used in operating activities – Group

	2014 £	2013 £
Loss before tax	(3,021,261)	(5,234,995)
Depreciation	1,742,854	441,951
Amortisation	62,244	48,382
Share of losses/(gains) of associates	62,668	(27,102)
Net interest receivable	(6,571)	(1,155)
(Increase)/decrease in receivables	(382,448)	439,151
Increase/(decrease) in payables	1,148,821	(440,839)
Fair value gain on forward sales contracts	(3,974,040)	-
Fair value loss on interest rate swaps	154,819	-
Cash used in operations	<u>(4,212,914)</u>	<u>(4,774,607)</u>
Interest received	33,400	21,974
Interest paid	(26,829)	(20,819)
Net cash used in operating activities	<u>(4,206,343)</u>	<u>(4,773,452)</u>

25. Net cash used in operating activities - Company

	2014 £	2013 £
Loss before tax	(1,696,290)	(2,212,100)
Impairment of investment in subsidiary	301,697	124,274
Net interest receivable	(25,097)	(14,446)
Increase in receivables	(27,574,364)	(29,764,513)
(Decrease)/increase in payables	(63,884)	80,027
Cash used in operations	<u>(29,057,938)</u>	<u>(31,786,758)</u>
Interest received	29,363	20,611
Interest paid	(4,266)	(6,165)
Net cash used in operating activities	<u>(29,032,841)</u>	<u>(31,772,312)</u>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**26. Capital commitments**

As at 31 December 2014 the Group had £9,178,725 of outstanding capital commitments (31 December 2013: £8,993,240) for the purchase of property, plant and equipment.

**27. 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 6, Directors' emoluments section. Other transactions with key management personnel are described below:

	<i>Number of key management personnel</i>	<i>Share Based payments charge</i>
		£
As at 31 December 2014	6	-
As at 31 December 2013	5	-

During the year to 31 December 2014, the Company recognised a provision of £21,275 in respect of a doubtful receivable balance owed by subsidiary company, PT Cupati (2013: £25,482).

During the year, the Company paid £28,437,793 to its subsidiaries to fund operations and purchase property, plant and equipment (2013: £29,105,862). At the year end, the Company was owed £115,582,091 by its subsidiaries (2013: £88,520,804).

During the year, the Company received £207,842 from Woggle Corporation, (2013: paid £148,647). At the year end, the Company owed £59,195 to its associates (2013: was owed £148,647).

**28. Financial instruments**

The Company's financial assets comprise cash & cash equivalents of £568,379 (2013: £30,904,301), and trade and other receivables of £116,124,117 (2013: £87,551,355).

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:

<b>Group</b>	<i>Cash and cash equivalents</i>	<i>Trade and other receivables</i>	<i>Derivative assets</i>	<i>Total</i>
	£	£	£	£
<b>As at 31 December 2014</b>	12,251,944	2,991,499	4,179,847	19,423,290
<b>As at 31 December 2013</b>	31,947,096	3,619,885	-	35,566,981

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

28. 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 2014	2,724,842	1,573,668	27,707,439	162,837	32,168,786
As at 31 December 2013	1,425,852	870,362	-	-	2,296,214

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 £90,170 (2013: £122,039), accruals of £87,380 (2013: £61,703), and other payables of £nil (2013: £57,692).

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 payables £	Accruals and other payables £	Loans £	Derivative liability £	Total £
<b>As at 31 December 2014</b>					
1 – 6 months	2,724,842	1,573,668	-	-	4,298,510
6 – 12 months	-	-	8,376,668	-	8,376,668
1 – 2 years	-	-	16,753,335	-	16,753,335
2 – 5 years	-	-	2,577,436	162,837	2,740,273
Total contractual cash flows	2,724,842	1,573,668	27,707,439	162,837	32,168,786
<b>As at 31 December 2013</b>					
1 – 6 months	1,425,852	870,362	-	-	2,296,214
6 – 12 months	-	-	-	-	-
1 – 2 years	-	-	-	-	-
2 – 5 years	-	-	-	-	-
Total contractual cash flows	1,425,852	870,362	-	-	2,296,214

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**28. Financial instruments (continued)**

Company	<i>Trade payables</i> £	<i>Accruals and other payables</i> £	<i>Loans</i> £	<i>Derivative liability</i> £	<i>Total</i> £
<b>As at 31 December 2014</b>					
1 – 6 months	90,170	87,380	-	-	177,550
Total contractual cash flows	90,170	87,380	-	-	177,550
<b>As at 31 December 2013</b>					
1 – 6 months	120,881	120,553	-	-	241,434
Total contractual cash flows	120,881	120,553	-	-	241,434

***Credit risk***

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

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

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

The Company is exposed to credit risk to the extent that amounts owed by its subsidiaries may not be recoverable in the future. PT Cupati, a subsidiary based in Indonesia, has incurred inter-company debts which the Group review for impairment each year. During 2014 it incurred debts of £21,275 (2013: £25,482) 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 £301,697 (2013: total investment of £124,274) and debt of £1,279,528 (2013: £1,376,455) with Metals Exploration plc were fully impaired in the Company in 2014 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 2014, none of the other receivables were found to be impaired (2013: £nil). No unimpaired other receivables are past due as at 31 December 2014 (2013: £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.

***Market risk and sensitivity analysis***

***Foreign currency exchange rate risk***

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

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)

28. Financial instruments (continued)

*Market risk and sensitivity analysis (continued)*

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 £3,376,333 (2013: (£2,704,284)).

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	2014	2013	2014 GBP loss £m	2013 GBP loss £m
USD	613,732	26,367,537	(0.02)	(0.68)
AUD	144,703	1,751,305	-	(0.05)
EURO	-	1,309,212	-	(0.05)
ZAR	-	34,195,999	-	(0.09)
PHP	-	501,866,734	-	(0.33)

*Interest rate risk*

The Group has no interest bearing assets (2013: comprising cash and cash equivalents which earn interest at a variable rate). The Company's deposit account cash balances earned interest at an annual rate in the year up to:

Currency	2014	2013
GBP	-	0.07%
AUD	-	0.50%
ZAR	-	2.85%

The impact on the reported loss for the year is net interest income on cash of £33,400 (2013: £21,974).

The Group has interest bearing liabilities on its overdraft facilities and the impact on the reported loss for the year is an interest expense of £26,829 (2013: £20,819). Interest payable on the loan facility is currently capitalised. The value of interest and bank fees capitalised during the year is £2,225,000 (2013: £nil).

29. Capital risk management

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

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

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

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2014 (continued)**

**30. Contingent liabilities**

The Group has no contingent liabilities identified as at 31 December 2014 (2013: £nil).

**31. Post balance sheet events**

There were no material post balance sheet events to report.

**32. Ultimate controlling party**

The Company has no ultimate controlling party.