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**METALS EXPLORATION PLC**

**DIRECTORS AND ADVISERS**

<b>Directors</b>	I R Holzberger J P B Beardsworth T J Dean E Parsons G R Walker R S Williams	(Executive Chairman) (Non-Executive Director) (Non-Executive Director) (Non-Executive Director) (Non-Executive Director) (Non-Executive Director)
<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 Chartered Accountants 25 Moorgate London EC2R 6AY	
<b>Nominated Advisor</b>	Westhouse Securities Limited One Angel Court London EC2R 7HJ	
<b>Broker</b>	Renaissance Capital Limited One Angel Court Cophall Avenue London EC2R 7HJ	
<b>Solicitors</b>	Kerman & Co LLP 200 Strand London WC2R 1DJ	
<b>Registrars</b>	Capita Registrars Limited 34 Beckenham Road Beckenham Kent BR3 4TU	
<b>Company's registered number</b>	5098945	

## CHAIRMAN'S STATEMENT

I am pleased to present this Annual Report for the financial year ended 31 December 2010.

Last year I reported that the timing of this Report was auspicious, as the Company had just announced the completion of the Runruno feasibility study. This year once again the timing of this Report is auspicious in that your Company is well funded to move ahead in pursuit of its objectives following the endorsement last month of the Subscription and Shareholders' Agreement (SSA) between Solomon Capital Limited (Solomon), certain of the Company's independent shareholders and the Company, which provided the resolution to Solomon's long running offer for the Company announced last July.

As a result of the SSA the Company raised £19.25 million (before costs) after all related party debt was retired. The Agreement was unanimously ratified by those shareholders who voted at the General Meeting.

A summary of the key elements of the SSA include:

- £12 million raised by placing 92,307,692 shares at 13p with Runruno Holdings Limited (RHL) and Williams de Broë Limited.
- A further £7.25 million contributed by Shelfco 724 Limited (a Solomon associate) by virtue of the Company drawing down the remaining balance of the £13 million convertible loan facility in exchange for converting the full facility at 13p per share into 100,000,000 shares in the Company.
- Solomon provided those shareholders who had accepted its offer at 13p with the opportunity to rescind their acceptances. This offer was taken up by shareholders representing 33,112,981 shares.
- Solomon closed its offer for all the Company's shares it did not own on 19 April 2011.

At the date of this report, the ownership of the Company is as follows:

- Solomon (and Shelfco 724 Limited): 247,604,617 shares, 53.55% of the issued capital.
- RHL (and Graham Edwards): 95,924,996 shares, 20.75% of the issued capital.
- Williams de Broë Limited: 37,661,445 shares, 8.14% of the issued capital.
- Baker Steel: 19,267,654 shares, 4.17% of the issued capital.
- Others: 61,915,324 shares, 13.39% of the issued capital.

Under the terms of the SSA the Company issued options at 13p to Solomon and RHL sufficient to maintain the Solomon group at 65%, and the RHL group at 18% following the rescission of shares by accepting shareholders. Neither Solomon nor RHL has been able to exercise any of their options while the Company has been in a close period pending the announcement of these results, nor has the Company received any firm indication to date of either Solomon's or RHL's intentions in this regard.

Should Solomon and RHL exercise their options to the limit of their rights it would result in the Company receiving a further £30.8 million before costs and the Company issuing a further 236,967,162 shares. In that event the resulting shareholdings would be:

- Solomon (and Shelfco 724 Limited): 454,571,779 shares, 65.00% of the issued capital
- RHL (and Graham Edwards): 125,924,996 shares, 18.00% of the issued capital
- Williams de Broë Limited: 37,661,445 shares, 5.39% of the issued capital
- Baker Steel: 19,267,654 shares, 2.76% of the issued capital
- Others: 61,915,324 shares, 8.85% of the issued capital

Solomon's and RHL's right to exercise their options expires on 19 August 2011.

## METALS EXPLORATION PLC

### Chairman's Statement (continued)

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

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

Finally, the SSA set the strategic direction of the Company, being the "development of a mine at Runruno" and provided that the Company will review whether to apply for the cancellation of its admission to trading on the AIM and re-register as a private limited company within three months from completion, or 5 July 2011.

I direct shareholders to our announcement dated 8 March 2011 for a more complete summary of the SSA.

By any measure the last year has been a checkered one for the Company. The nine month period commencing with Solomon's takeover offer on 23 July 2010 and ending on the completion of the SSA on 5 April 2011 was a period of considerable uncertainty as to the future direction and funding of the Company. This was manifest when trading in the Company's shares was temporarily suspended between 1 October and 16 November 2010 due to the Company being unable to publish its Interim Results for the six months ended 30 June 2010 by 30 September 2010 in accordance with the AIM Rules for Companies, as a result of uncertainty over the Company's future funding position. For much of the Solomon offer period the Company was funded by short and medium term loans made available by either Solomon or its associate Shelfco 724 Limited.

Whereas at the corporate level the attention was focused on the dispute between Solomon and certain independent shareholders, real progress was achieved on the ground with major milestones having been met in the finalisation of the full Feasibility Study on Runruno, the issue of the Runruno Environmental Compliance Certificate, further upgrading of the Runruno ore reserve by drilling, and continued strong progress in the permitting of the proposed development.

We continue to believe wholeheartedly in the potential of the Runruno project. The latest project study has further confirmed the technical and commercial viability of a mine producing approximately 100,000 ounces of gold a year. With the recent strength in the gold price the Project's commercial attraction has been further enhanced and we are fortunate to have this project established as "development ready".

Year 2010 and the recent completion of the SSA also saw a significant restructuring in the Executive and Board of the Company. In October 2010 Mr. Jonathan Beardsworth stepped down as Managing Director and Chief Executive Officer but remains on the Board as a Non Executive Director. Earlier in the year Mr. Tim Wheeler and Mr. Jonathan Pearson both left the Board. I take this opportunity to thank Jonathan, Tim and Jonathan for their contribution to the Company.

Following the completion of the SSA three new directors were appointed to the Board, two representing the Company's major shareholder Solomon, and one representing its new significant shareholder RHL.

**Chairman's Statement (continued)**

The Board now comprises six directors; Mr. Ian Holzberger as Executive Chairman, Mr. Jonathan Beardsworth as a Non Executive Director, Messrs Tim Dean, Richard Williams and Edward Parsons as Non Executive Directors representing Solomon, and Mr. Guy Walker as a Non Executive Director representing RHL.

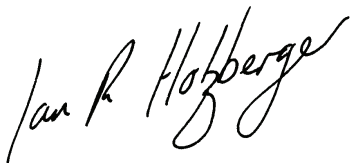
The completion of the SSA on 5 April 2011 provided both ongoing direction and funding to the Company. The Agreement commits the parties to "continue working towards the construction of the mine at the Runruno Project with limited step out drilling" to be undertaken in the surrounding area.

On the ground, we continue to work closely with the local communities amongst whom we operate and are involved in a variety of health, education, nutrition, skills development and infrastructure projects, as well as providing direct employment for a substantial number of the families in our immediate area.

In previous reports we have noted our pride and pleasure in our community efforts being recognised by both international and domestic agencies. This year continued to build on this desirable reputation with the Company receiving four major awards for its work in the areas of education, environment and reforestation, community programs and health and safety, culminating in a Platinum Award for the "Presidential - Mineral Industry Environment Award" and first runner up in the "Mining Forest Program", Additionally twenty three other awards or certificates of recognition were presented to the Company recognising its social and environment work programs.

Management is now focused on delivering the Company's strategy of developing the Runruno mine with activities being ramped up on several fronts, including the approval of the Runruno Declaration of Mining Feasibility by the Mines and Geosciences Bureau of the Department of Environment and Natural Resources, establishing a Fixed Lump Sum Price for an Engineering Procurement and Construction delivery mechanism for the process plant component of the Project, determining the financing options to fund the construction, and recruiting a team with the appropriate skills and experience to manage the construction phase of the development. Meanwhile we continue with resource and step-out drilling, and with molybdenum recovery testwork.

I look forward to being able to commence the construction of the Runruno project in the foreseeable future.



**I R Holzberger**  
*Executive Chairman*

20 May 2011

## CORPORATE GOVERNANCE STATEMENT

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

### **Directors**

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

For most of the year ended 31 December 2010, the Board mainly consisted of two executive Directors and one non-executive Director. The executive Director in office throughout the whole of the year was I R Holzberger. The non-executive Director in office throughout the whole of the year was T J Dean. J P B Beardsworth was an executive Director during the year up to 27 October 2010, and a non-executive Director from 27 October 2010 to the end of the year.

T G Wheeler resigned as executive Finance Director on 8 January 2010 and J M K Pearson left the Board on 18 March 2010, leaving I R Holzberger, the Chairman of the Board and J P B Beardsworth, the Managing Director, as the remaining two executive Directors

On 27 October 2010 J P B Beardsworth resigned as Managing Director and Chief Executive Officer but continues to sit on the Board as a non-executive Director.

On 4 April 2011, pursuant to the Subscription & Shareholders agreement of 8 March 2011, ratified on 4 April 2011, two non-executive Directors were appointed; Mr R S Williams and Mr E Parsons.

On 9 May 2011 and pursuant to the Subscription & Shareholders agreement of 8 March 2011, ratified on 4 April 2011, a further non-executive director was appointed, Mr G R Walker.

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

All Directors are subject to the re-election provisions of the Articles of Association, which requires one third of the Board to retire by rotation at every annual general meeting and Directors 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 2010, no Nomination Committee had been established.

### **Audit and Remuneration Committees**

During the year ended 31 December 2010, the Audit Committee mainly consisted of one Director, T J Dean pending the appointment of at least one independent non-executive Director. T J Dean has 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 2010, the Remuneration Committee mainly consisted of two Directors, I R Holzberger, and T J Dean, pending the appointment of at least one independent non-executive Director. The Remuneration Committee is responsible for remuneration policy and setting remuneration for Directors. Directors' remuneration consists of a package of basic salary and share options and warrants linked to corporate and individual performance achievements. The Committee meets when necessary.

**Corporate Governance Statement (continued)**

**Communication with shareholders**

The annual general meeting, annual report and accounts and the interim financial statements at each half-year 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.

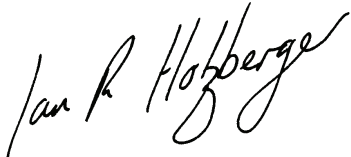
**Internal controls**

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.

**Going concern**

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

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

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

**I R Holzberger**  
*Executive Chairman*

20 May 2011

## **OPERATIONS REVIEW**

The period from 1 January 2010 has been mixed for the Company. Early in the period the Feasibility Study was finalised confirming the commercial and technical viability of a project producing around 100,000 ounces of gold per year at Runruno. Since that time technical activities have continued to refine and enhance the Project. Permitting for the development is now at an advanced state. However, on the corporate front the nine month period commencing with Solomon Capital Limited's (Solomon) takeover offer and ending on the completion of the Subscription and Shareholder Agreement (SSA) was a period of considerable uncertainty.

On 23 July 2010, Solomon the Company's major shareholder announced a cash offer for the entire issued and to be issued share capital of the Company at 13p per Ordinary Share. On 20 August 2010, Solomon published its offer document setting out the formal terms of its offer, and on 6 September 2010, Solomon declared its offer wholly unconditional, holding (together with persons acting in concert with it) approximately 53.6 per cent of the entire issued share capital of the Company at that time.

On 17 September 2010, the Independent Director made a statement that he had been informed that certain Independent Shareholders had made a written submission to the Takeover Panel (Panel) expressing concerns relating to Solomon's offer. Pending the outcome of its review of the matter, the Panel required Solomon to make no purchases of the Company's shares (save in relation to valid acceptances of its offer) and that its offer should remain open for acceptances until further notice.

Pending the review and investigations of the shareholders submission by the Panel, discussions between Solomon, the representatives of the independent shareholders and the Company were held with a view to resolving the dispute. On 8 March 2011 the Company announced it had entered into the SSA with Solomon, Runruno Holdings Limited (RHL) and certain of the Company's independent shareholders which on completion would resolve the dispute between the shareholders and re- fund the Company. The Agreement was put to a vote at a general meeting of shareholders on 4 April 2011 and unanimously ratified by the voting shareholders. The SSA completed on 5 April 2011.

As a result of the SSA the Company raised £19.25 million (before costs) after all related party debt was retired.

A summary of the key elements of the SSA include:

- £12 million raised by placing 92,307,692 shares at 13p with RHL and Williams de Broë Limited.
- A further £7.25 million was contributed by Shelfco 724 Limited (a Solomon associate) by virtue of the Company drawing down the remaining balance of a £13 million convertible loan facility provided by Shelfco 724 Limited in exchange for converting the full facility at 13p per share into 100,000,000 shares in the Company.
- Solomon provided those shareholders who had accepted its 23 July 2010 offer at 13p the opportunity to rescind their acceptances. This offer was taken up by shareholders representing 33,112,981 shares.
- Solomon closed its offer for all the Company's shares it did not own on 19 April 2011.

In satisfaction of the SSA, the Company issued 192,307,692 new Ordinary Shares at 13p to Shelfco 724 Limited, RHL and Williams de Broë Limited and 236,967,162 options over Ordinary Shares to Solomon and RHL exercisable at 13p on or before 19 August 2011. The reader is referred to the Chairman's statement, which forms part of this report, for a more comprehensive breakdown of the SSA and the current and possible future capital structure of the Company should all of the options be issued.

**Operations review (continued)**

Management is now focused delivering the Company’s strategy of developing the Runruno mine and looks forward to creating value for shareholders by commencing the construction of the Runruno project.

**Runruno Mineral Resource and Mining Reserve Estimate**

Both the Mineral Resource and the Mining Reserve were updated by Mining Associates to include 13,400 metres of infill drilling completed during the year post the finalisation of the feasibility study. This work was designed to increase the portion of the mineral resource reporting in the 2P Reserve which required for the majority of the drilling to be undertaken within the proposed pit boundary and at the western edge of the resource area adjacent to the pit.

In March 2011 the Company released an updated resource and reserve statement to include the results of the drilling and the impact of a pit optimisation undertaken to determine the 2P Reserves. The current estimates show a substantial increase in the 2P Mining Reserves which is now estimated to contain 900,000 ounces of gold, a substantial increment from the 780,000 previously estimated. This currently represents 85% of the contained gold scheduled to be mined. The Mining Reserve and Mineral Resource estimates are shown below.

The JORC categorised Mineral Resources for the Runruno Project has been classified in the measured, indicated and inferred confidence categories on a spatial, areal and zone basis. The measured resource is generally based on 25 metre spaced drilling, indicated on 50 metre and inferred beyond this to the limit of the geology model. The strong statistical measures, close comparison with informing raw drill data and close drill spacing support the robust nature of the estimates.

**Runruno Resource Estimate – March 2011**

Resource Category	Ore Mt	Gold		Molybdenum	
		g/t	M Oz	ppm	M lbs
measured	11.2	1.88	0.68	604	14.9
indicated	7.0	1.64	0.37	425	6.5
inferred	7.5	1.44	0.35	253	4.2
<b>Total</b>	<b>25.7</b>	<b>1.69</b>	<b>1.39</b>	<b>470</b>	<b>25.6</b>

Notes to accompany the resource estimate:

1. The tenement holder is FCF Minerals Corp (“FCF”).
2. Metals Ex currently holds 85% of FCF, with an option to purchase the remaining 15% at its sole discretion and at any time it chooses, therefore the current net attributable resource to Metals Ex is 85%.
3. Resource estimate based on all drill holes completed and assays returned by 31 December 2010. The resource was estimated on the basis of 807 drill holes (110,427 metres) consisting of 485 diamond drill holes (65,517 metres) and 322 RC drill holes (45,911 metres).
4. All analyses undertaken by Intertek, an internationally accredited independent laboratory.
5. Gold analysis by classical 1kg screen fire assay analysis.
6. Molybdenum analysis by mixed acid digest and ICP-OES.
7. Block model block sizes selection of XYZ 20x20x5m is based on Kriging Neighbourhood Analysis as reported in November 2009. Sub-blocking for volumes only to 5x5x1.25m. Screened for topography by sub-block.
8. Geological resource constrained by sub-block with 86 wireframes in 13 domains based on lithology, structure, alteration, artisanal surface workings and a minimum sample grade of 0.3 g/t Au, includes minor internal dilution. Each sub-block can only belong to one domain.

## METALS EXPLORATION PLC

### Operations review (continued)

9. Drill intercepts within each domain flagged in a database table and composited to 2m downhole giving 6,439 informing samples from 687 drill holes.
10. A gold grade cap was applied to informing composites to remove minor outliers. Of the 20 composites capped to 12 g/t Au the maximum uncapped grade was 39.14 g/t Au. No grade cap was applied to molybdenum grades.
11. Routine bulk density measurements show little variation within rock types. An average bulk density based on rock type and oxidation state was assigned to resource model based on interpreted geological units and oxidation state.
12. Grade interpolated into a constrained block model by domain using Ordinary Kriging estimation in 4 passes with parameters based on variography by domain. Estimates validated against informing samples and with nearest neighbour and inverse distance squared block estimation.
13. Resources have been classified in compliance with the JORC Code as Measured, Indicated and Inferred. Categories allocated by block by domain, based on drill spacing and type, number of informing samples, fill pass and Kriging estimate confidence.
14. Lower cut off grade of 0.3g/t gold applied to blocks in reporting the resource estimates.
15. Molybdenum grades are reported along with the gold grades by resource categories but a consistent laboratory bias low in molybdenum assay standards of about 20% is recognised by FCF but has as yet not been addressed.

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

#### Runruno Reserve Estimate - March 2011

Category	Tonnes	Gold		Molybdenum	
		g/t	Moz	ppm	Mlb
<b>Proven</b>	10.2	1.90	0.62	616	13.9
<b>Probable</b>	4.8	1.77	0.27	415	4.4
<b>Total Reserve</b>	15.0	1.85	0.9	603	18.3
<b>Additional Inferred Resource in-pit1</b>	2.9	1.73	0.16	258	1.7

Notes to accompany ore reserve statement:

1. Stated Inferred Resource is not included in reserves and is in addition to reserves within the defined pit limits and is included in the planned production schedule with a 5% mining loss applied.
2. The tenement holder is FCF Minerals Corp ("FCF"). Metals Ex currently holds 85% of FCF, with an option to purchase the remaining 15% at its sole discretion and at any time it chooses. This option has not been exercised so the current net attributable reserve to Metals Ex at the time of writing is 85%.
3. Reserve estimate are derived from the March 2011 MA Resource Estimate by application of Modifying Factors.
4. Cut-off grade of 0.3 g/tAu
5. Optimisation for final pit selection using Whittle Global Optimiser and following parameters.
  - a. Maximum material movement of 13Mtpa
  - b. Target of 1.75Mtpa delivered to mill
  - c. Mining Ore loss of 5%, Mining Dilution included in the resource estimates.
  - d. Mining costs varied by region from US\$1.11 to US\$1.22/tonne
  - e. Processing Costs of US\$14.45/tonne milled

**Operations review (continued)**

- f. Period Costs (including mining period costs) of US\$2.25/t milled
  - g. Gold recovery of 90.4%
  - h. Gold Price used of US\$1,000/ ounce
  - i. No value or process costs attributed to the Molybdenum
  - j. A discount rate of 10% pa for DCF and NPV
6. Scheduling of production using Gemcom Minesched within final Pit Shell.

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

**Mineral Resource and Mining Reserve Grade Reconciliation**

Gold grades determined from the extensive metallurgical testwork undertaken on the mining reserve sub-area of the mineral resource and the secondary composite sampling of ore intervals in the Runruno deposit have consistently demonstrated a gold grade uplift of between 7-10% when compared against the calculated sample grades determined from the primary 1 metre drill interval assays. This is found in both diamond drill core and reverse circulation drill chip samples alike. It is a very unusual characteristic as the interval assay work has been completed using the screen fire assay technique which is regarded in the industry as "best practice" and all quality control / quality assurance checks have been within permissible ranges.

It has been shown from the metallurgical testwork and associated mineral petrography and deportment studies that a significant proportion of the gold at Runruno reports as free gold in a 10-70 µm grain size range, which in itself is uncommon. This is considered to be the likely cause of the apparent underestimation of the primary sampling. However, this must be considered empirical data and as such it is not permissible to incorporate it into the Mineral Resources and Mining Reserves estimations.

**Resource Potential**

The Company continues to believe that there is significant potential to expand the resource at Runruno. Similarities with the Cripple Creek gold mine complex in Colorado were explored in detail by Dr Eric Jensen PhD during a site visit in early 2008 and reinforced by other work since that time.

The completion of resource and reserve drilling activities in December 2010 has now freed up resources to undertake a structured "step-out" drill programme and other geological activities to test the identified potential. A review of the existing geological, geochemical, and geophysical data within the rest of the FTAA has commenced under the management of a geologist, well experienced in similar geological systems, and additional geochemical sampling initiated. A preliminary interpretation has been received of the aeromagnetic and radiometric survey previously flown over the tenement.

Two diamond drill rigs have been assigned to regional exploration activities. One rig is testing for extensions to the resource area south of a fault which was previously interpreted to have cut-off the main Runruno mineralisation. The first line being tested by two drill holes is 100m south of the planned Runruno pit. The initial drill hole MXD 831 collared at 108 mN, 567 mE, 445 m RL (local grid) returned a 17m intersection grading 1.59 g/t Au and 1,319 ppm Mo from 114m down hole.

## **METALS EXPLORATION PLC**

### **Operations review (continued)**

In the Tulingan area approximately 750m south east of the planned Runruno pit the second drill rig has commenced testing a gold soil geochemical anomaly in an area of structural complexity. Previous drilling to the east, reported in December 2009, returned promising intersections of gold-molybdenum mineralisation with similarities to the Runruno mineralisation. The first hole returned a 6.9 m intersection grading 2.81 g/t Au and 383 ppm Mo from 241 m down hole. The significance of this deep intersection will be tested by further drilling.

Elsewhere, several anomalous areas within the FTAA have been selected for follow-up exploration by ground geological mapping, geochemistry and diamond drilling.

Work is initially focused on the Magnetite Creek area, south-east of Runruno, where rock chip sampling has returned values of up to 2.04ppm Au and 0.72% Cu in potassic-altered monzonite rocks. The anomalous area is near the centre of a strong positive aeromagnetic anomaly and is believed to be highly prospective for porphyry Cu-Au style mineralisation.

At Bocboc, east of the Runruno resource area, further mapping and sampling is planned prior to drilling in the vicinity of an Au-Mo soil geochemical anomaly hosted by argillically-altered alkaline igneous rocks close to the contact with intrusive monzonites, a similar setting to the mineralisation at the Runruno deposit.

### **Runruno Development Project**

#### **Feasibility Study**

The definitive feasibility study was reported on 4 May 2010. The study confirmed the technical and economic viability of a project producing an average of 96,700 ozs of gold per annum over a mine life of 10.4 years, with an average forecast operating cost of \$477/oz gold before any molybdenum credits. The capital cost was forecast to be US\$149.3 million, giving payback within 3.5 years at US\$1,000 gold and producing an ungeared, post-tax project IRR of 20% at \$1,000/oz gold. Further details are available on the Company website; [www.metalsexploration.com](http://www.metalsexploration.com).

The study which was estimated in Q4 2009 in US\$ is currently undergoing a revision to reflect the present world economic environment, equipment and commodity prices, exchange rates and manpower costs.

Since the finalisation of the Study, work has been undertaken to optimise the potential mine development with considerable success.

As reported above the Mining Reserve has been increased by drilling to now contain 900,000 ounces of gold representing 85% of the gold planned to be extraction in the initial operation.

#### **Pit and Mining Schedule Optimisation**

GEMCOM Professional Services was retained to review and optimise both the Runruno Pit and mine schedule using the March 2011 Mineral Resource and Whittle 4D optimisation studies as a base with a positive outcome. Both the overall size and strip ratio of the pit were reduced by around 10% with a minimal impact on the Mining Reserve. This is expected to positively impact the economics of the Project.

**Operations review (continued)**

The key pit parameters between the March 2011 pit and the feasibility study pit are compared in the table below.

<b>Description</b>	<b>March 2011 Pit</b>	<b>Feasibility Study Pit</b>
<b>Total Material to be moved</b>	119.5 Mt	130.9 Mt
<b>Ore</b>	17.9 Mt	18.0 Mt
<b>Waste</b>	101.6 Mt	112.9 Mt
<b>Operational strip ratio</b>	5.2:1	5.9:1
<b>Total strip ratio</b>	5.7:1	6.3:1
<b>TSF starter embankment</b>	8.2 Mt	8.3 Mt
<b>Average Mining Rate</b>	10.9 Mtpa	12.2 Mtpa
<b>Scheduled Mine Life</b>	10.3 years	10.3 years

**Metallurgical Testwork**

The overall gold recovery circuit remains as it was defined in the Feasibility Study with only optimisation testwork being undertaken to provide information for design. This work allowed the flotation circuit, a component of the overall planned processing plant, to be simplified to a “rougher” circuit only with no “cleaner” circuit required. Simplifying this circuit will provide operational benefits.

Molybdenum testwork has been focused on an electro-winning and resin recovery process. The electro-winning and resin recovery work completed to date based on synthetic solutions is returning positive results. Testwork is ongoing.

**Process Plant Construction Contract**

In November the Company appointed Leighton Contractors (Asia) (Leighton) to develop a fixed lump sum priced (FLSP) in an “Open Book” environment for an engineering, procure and construct (EPC) delivery mechanism for the process plant component of the Runruno project.

Leighton has a strong track record of delivering projects on time and on budget.

At the date of this report this work is ongoing but is expected to be completed before mid year.

**BIOX® Licence**

In November 2010 the Company entered into a licence agreement with Biomin which provides for the use of the BIOX® technology at Runruno for the recovery of gold from refractory gold rich sulphide bearing ores. Biomin, a wholly owned subsidiary of Gold Fields Limited (“Gold Fields”) is the legal and beneficial owner of the BIOX® Process, and the licence agreement sets out the basis on which the Company may use BIOX® intellectual property

The precise terms of the licence are confidential, but are consistent with other agreements of this nature. The agreement manages the commercial relationship between the companies, protects Biomin’s intellectual property, provides various warranties and process guarantees, and obliges Biomin / Gold Fields to provide fee based technical support as required.

## **METALS EXPLORATION PLC**

### **Operations review (continued)**

#### **Permitting**

##### **Financial or Technical Assistance Agreement**

The Runruno project is held under a Financial or Technical Assistance Agreement. Under the 1995 Philippine Mining Act the FTAA system provides a stable investment regime for the future development of the Project.

Under the FTAA, FCF Minerals Corporation (“FCF”) is granted the exclusive right for 25 years, renewable for a further period of up to 25 years, to explore, mine, process and export minerals and by-products from the project area. In exchange for this right, FCF is required to commit a minimum investment of USD 50 million in project development, much of which will be spent on local infrastructure benefiting local communities. In addition, the FTAA also grants other rights over the area, such as access, water use, occupation of the land as well as use of other natural materials within the contract area such as timber and limestone.

The FTAA sets out the rights and obligations of both parties with regard to reporting, expenditure requirements, project development phases and operation, work programmes, environmental and reclamation procedures, community development, repatriation of profits, termination, and other provisions normal for an agreement of this type.

It also defines the fiscal regime whereby FCF benefits from a tax holiday for a maximum of 5 years following the commencement of production until it has recovered its pre-operating expenses and investment. Thereafter the Government will receive a “Government Share” consisting of all direct taxes, withholding taxes, royalties, fees, and related payments (the FTAA lists 15 qualifying tax categories). If the resulting Government Share falls short of 50% of “Net Mining Revenue”, calculated after deduction of all mining, processing, administrative, environmental, community, royalty, sustaining capital and interest expenses, then the Government Share shall be increased until it represents 50% of Net Mining Revenue (the “Additional Government Share”).

In the event of a dispute that cannot be settled amicably between the Parties acting in good faith, both Parties have agreed to submit to binding arbitration in Singapore at the Singapore International Arbitration Centre (SIAC) under the United Nations Commission for International Trade Law (UNCITRAL) Arbitration Rules, or The Convention on the Settlement of Investment Disputes Between States and Nationals of Other States (the “Convention”) and the Rules of Procedure for the Institution of Conciliation and Arbitration Proceedings issued by the International Centre for the Settlement of Investment Disputes (“ICSID”) plus the Rules of Procedure for Arbitration Proceedings issued by ICSID.

##### **Declaration of Mining Project Feasibility**

Under the terms of the FTAA the Company is required to submit a “Declaration of Mining Project Feasibility” (DMF) to the Mines and Geosciences Bureau (MGB) of the Department of Environment and Natural Resources MGB demonstrating by means of the feasibility study and other requirements listed in the FTAA that the project is viable using “internationally accepted sound mining practices”. To secure approval of the DMF a number of subsidiary plans must be prepared and approved which include but are not limited to:

- The Mining Feasibility Study.
- A three year work programme for the period following the grant of the DMF.
- Environmental Compliance Certificate.
- An Environment Protection and Enhancement Programme.
- Final Mine Rehabilitation and / or Decommissioning Plan.
- Social Development and Management Programme.
- Project approval / endorsement of two of the three Sanggunian (Local Level Governments, Barangay, Municipal and Provincial) concerned.
- Mineral Resource Validation - undertaken by the MGB.

**Operations review (continued)**

The Company has made strong progress in having satisfied all of the requirements including achieving a positive endorsement for the project by the Boards of the three tiers of Local Level Government and a positive referral from the Region II office of the MGB to its Central Office in Manila.

The Company believes that it has satisfied all of the requirements for a positive determination of its application by the MGB.

**Environmental Compliance Certificate**

The Runruno Environmental Compliance Certificate (ECC) was awarded to FCF in February 2010 for the Runruno project. The ECC is a document issued jointly by the DENR and the Environmental Management Bureau (EMB) after a positive review of an ECC application, certifying that the proposed project will not cause significant negative environmental impact.

The ECC also certifies that the project has complied with all the requirements of the Philippine Environmental Impact Statement (“EIS”) System and that the Company has committed to implement its approved Environmental Management Plan. The EIS System is concerned primarily with assessing the direct and indirect impacts of a project on the biophysical and human environment and ensuring that these impacts are addressed by appropriate environmental protection and enhancement measures. Under the ECC the Company has committed to undertake the measures presented in the EIS to protect and mitigate against any adverse impacts on the health and welfare of community and on the environment.

The support the Company has enjoyed in advancing the Project to its current “near fully permitted” status demonstrates continued support from the Philippine Government and its agencies, the LLG’s and the local community for the project. This further confirms that the permitting and regulatory process in the Philippines is an effective process, and that the Company is able to operate effectively within it.

**Environment & Community Relations**

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

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

Across the year FCF was the recipient of 24 awards, citations or Certificates of Recognition for the work it undertakes in the areas of education, environment and reforestation, community programs and health and safety, culminating in a Platinum Award in the “Presidential - Mineral Industry Environment Award” and first runner up in the “Mining Forest Program”. A selection of these awards includes:

- Certificate of Commendation for meritorious commitment and laudable participation as a partner of the Department of Education in the implementation of the Alternative Learning System programmes.
- Certificate of Commendation for the initiation and exemplary implementation of the Plant or Life Program particularly in engaging the participation of the academe, the LGUs and other government agency partners towards environmental enhancement, protection and development.
- Best Literacy Program Implementer in the Regional Level and 3rd place in the National Search.
- First mining company accredited as auxiliary member of the Provincial Disaster Coordinating Council Rescue Team 933.
- Award for achieving 1,000,000 man hours without a lost time industry, awarded by the Mining and Geosciences Bureau.

## **METALS EXPLORATION PLC**

### **Operations review (continued)**

- Technical Education and Skills Development Authority awarded a Certificate of Recognition for continued participation in the establishment, promotion and sustainability of the Out of Work Youth's Skills Development and Placement Program. Over 1,000 youths have now been through this program with many finding employment in industry on completion.
- The prestigious Platinum Award in the “Presidential - Mineral Industry Environment Award”
- First runner up in the “Mining Forest Programme”.

### **Other Projects**

#### **Dupax**

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

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

Drill targets have been defined on this project.

#### **Sulong**

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

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

#### **Other Exploration Permit Applications**

The Company also has an Exploration Permit Application (“EPA”) covering the Worldwide project. Recently, applications that the Company had made over the Capaz, Puray areas were refused by the MGB as part of its current programme to “cleanse” its register of 2,000 dormant applications out of a current 2,700 applications. The MGB has also placed a 12 month moratorium on the application for new Exploration Permits.

#### **Worldwide**

The Worldwide project is located in the district of Northern Luzon, Philippines, adjoining the historic Santa Nino copper-gold producer. The permit application covers an area of approximately 5,845 hectares and is located about ten kilometres to the northeast of Baguio City. The property is underlain by quartz diorite and andesite rock types and was previously the subject of extensive exploration for copper-gold-molybdenum porphyry mineralization during the 1970's.

#### **Waigeo Island, Indonesia**

In August 2007 the Company acquired rights to various nickel laterite properties on Waigeo Island, Indonesia. Historical drilling in the 1970s had identified nickel laterite deposits of some 35 Mt at grade of 1.5% Ni, 0.13% Co and 37% Fe within the area (non-JORC compliant).

**Operations review (continued)**

**Financing**

On 12 November 2010, the Company announced that it had entered into a £13 million convertible facility agreement with Shelfco 724 Limited, a related company of Solomon. Under the terms of the Loan Facility, Shelfco 724 Limited agreed to make available to the Company, subject to the terms therein, a convertible facility of up to £13 million, £2 million of which was to be used to repay a bridging loan facility provided by Solomon on 19 August 2010.

In April 2011, pursuant to the Subscription and Shareholder Agreement, the Company raised £19.25 million before costs through an issue of new ordinary shares at a price of 13 pence per share to raise £12.0 million and the drawdown of the unutilised £7.25 million balance of the Shelfco 724 Limited £13 million convertible facility, following which Shelfco 724 Limited immediately served notice on the Company to convert the entire loan into ordinary shares at 13p. In total 192,307,692 new ordinary 1p shares were issued pursuant to this agreement.

## METALS EXPLORATION PLC

### Operations review (continued)

#### Glossary of Terms

**JORC:** the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2004 (the “JORC Code” or “the Code”). The Code sets out minimum standards.

**Inferred Mineral Resource:** is that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

**Indicated Mineral Resource:** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

**Measured Mineral Resource:** is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

**Mining Reserve:** the part of a mineral resource which is economically and technically feasible to extract.

**2P Mining Reserve:** Proven and Probable Reserves.

## DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements of the Group for the year ended 31 December 2010.

### PRINCIPAL ACTIVITIES

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

The principal activity of the Company was that of a holding Company for its' subsidiary undertakings, which is set out in Note 13 of the financial statements.

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

### RESULTS AND DIVIDENDS

The loss on ordinary activities of the group for the year ended 31 December 2010 was £4,526,872 (year ended 31 December 2009 loss of £4,296,209).

The Directors do not recommend the payment of a dividend for the year ended 31 December 2010 (year ended 31 December 2009: nil).

### BUSINESS REVIEW

A review of the current and future development of the Group's business is given in the Chairman's Statement and the Operations Review on pages 3 to 18.

### RISKS AND UNCERTAINTIES

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

#### **Requirement for Additional Funding**

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

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

#### **Estimation risk**

The figures for potential resources are estimates and no assurance can be given that the anticipated tonnage and grades will be achieved. The exploration of mineral rights is speculative in nature. Therefore, the Group may not define resources that can be economically exploited.

#### **Licenses, leases and consents**

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

## METALS EXPLORATION PLC

### Directors' Report (continued)

#### Independent resource analysis

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

#### Market risk

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

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

#### Political and Country Risk

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

### KEY PERFORMANCE INDICATORS

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

- Progression of the Runruno project through permitting according to pre-determined milestones.
- The outcome of technical work undertaken on the Company's projects measured against forecasts, expectations and industry benchmarks.
- The share price has under-performed comparable AIM listed mining companies in the last year as a result of the uncertainty surrounding the future of the Company arising from the Solomon Offer, and which has now been resolved.
- Resource measurement in compliance with JORC standards. The Group's latest resource update in March 2011 was JORC compliant.
- Project value based on dollar values of resource. Dollar values of resource have not fallen to levels at which the economic viability of the Group's projects is threatened.
- Peer group comparisons of dollar per ounce values, resource composition and rebased share price movements. The Group's performance has under-performed other AIM companies in the mining sector as a result of the uncertainty surrounding the future of the Company arising from the Solomon Offer, and which has now been resolved.
- Cash flow forecast versus actual expenditure. The Group's actual expenditure has been largely consistent with forecast.

**Directors' Report (continued)****DIRECTORS**

The Directors of the Company during the year were:

I R Holzberger	<i>(Executive Chairman)</i>	
J P B Beardsworth	<i>(Non-Executive Director)</i>	Appointed 27 October 2010
	<i>(Managing Director)</i>	Resigned 27 October 2010
T J Dean	<i>(Non-Executive Director)</i>	
T G Wheeler	<i>(Finance Director)</i>	Resigned 8 January 2010

The following resignation and appointments were made subsequently to the year end:

J M K Pearson	<i>(Non-Executive Director)</i>	Resigned 18 March 2010
E Parsons	<i>(Non-Executive Director)</i>	Appointed 4 April 2011
G R Walker	<i>(Non-Executive Director)</i>	Appointed 9 May 2011
R S Williams	<i>(Non-Executive Director)</i>	Appointed 4 April 2011

**EVENTS AFTER THE BALANCE SHEET DATE**

Details of events after the balance sheet date of the Group are given in note 30 to the financial statements.

**CHARITABLE DONATIONS**

During the year, the Group made charitable donations to the Runruno Livelihood Foundation in the Philippines totalling £35,275 (year ended 31 December 2009: £68,607).

**SUPPLIER PAYMENT POLICY**

The Group's policy is to make payments to suppliers in accordance with those terms and conditions agreed between the Group and its suppliers. At the year-end, the Group's trade creditors represented 20 days of annual purchases (year ended 31 December 2009: 17 days).

**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.

**CORPORATE RESPONSIBILITY AND ENVIRONMENTAL POLICY**

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

## METALS EXPLORATION PLC

### Directors' Report (continued)

#### DISCLOSURE OF INFORMATION TO THE AUDITORS

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

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

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

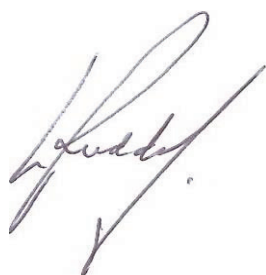
A resolution to reappoint Nexia Smith & Williamson will be proposed at the forthcoming Annual General Meeting.

Company's registered number 5098945

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

**L A Ruddy**  
Company Secretary

20 May 2011

A handwritten signature in black ink, appearing to read 'L A Ruddy', with a stylized flourish at the end.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and 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 auditors' report to the members of Metals Exploration plc**

We have audited the Group and Parent Company financial statements (“the financial statements”) of Metals Exploration plc for the year ended 31 December 2010 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 31. 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 auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB’s website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 December 2010 and of the Group’s loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

**Independent auditors' report (continued)**

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

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

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



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

25 Moorgate  
London  
EC2R 6AY

20 May 2011

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

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

**METALS EXPLORATION PLC**

**CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME for the year ended 31 DECEMBER 2010**

	<i>Notes</i>	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
		£	£
<b>Continuing Operations</b>			
Revenue		–	–
Cost of sales		–	–
		<hr/>	<hr/>
<b>Gross loss</b>		–	–
Administrative expenses		(4,270,826)	(4,319,534)
		<hr/>	<hr/>
<b>Operating loss</b>	3	(4,270,826)	(4,319,534)
Finance income and similar items	7	37,882	215,257
Finance costs	7	(293,928)	(191,932)
		<hr/>	<hr/>
<b>Loss before taxation</b>		(4,526,872)	(4,296,209)
Taxation	8	–	–
		<hr/>	<hr/>
<b>Loss for the period</b>		(4,526,872)	(4,296,209)
		<hr/>	<hr/>
Other comprehensive income:			
Exchange differences on translating foreign operations		820,987	487,479
		<hr/>	<hr/>
<b>Total comprehensive loss for the period</b>		(3,705,885)	(3,808,730)
		<hr/>	<hr/>
<b>Loss for the period attributable to:</b>			
Equity holders of the parent		(4,289,219)	(4,049,549)
Non controlling interest		(237,653)	(246,660)
		<hr/>	<hr/>
		(4,526,872)	(4,296,209)
		<hr/>	<hr/>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the parent		(3,587,145)	(3,639,617)
Non controlling interest		(118,740)	(169,113)
		<hr/>	<hr/>
		(3,705,885)	(3,808,730)
		<hr/>	<hr/>
<b>Loss per share:</b>			
Basic and diluted	9	(1.59)p	(1.87)p
		<hr/>	<hr/>

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 2010 dealt with in the financial statements of the Company was £2,422,162 (year ended 31 December 2009: £2,060,106). The Company made no gains or losses which would be reported in other comprehensive income in the year ended 31 December 2010 (year ended 31 December 2009: nil) and therefore the Company has not published its statement of total comprehensive income.

METALS EXPLORATION PLC

CONSOLIDATED BALANCE SHEET as at 31 DECEMBER 2010

	Notes	As at 31 December 2010 £	As at 31 December 2009 £
<b>Non-current assets</b>			
Property, plant and equipment	11	963,596	1,211,672
Goodwill	10	1,010,816	1,010,816
Other intangible assets	12	24,871,456	18,798,427
Trade and other receivables	15	-	541,007
		<u>26,845,868</u>	<u>21,561,922</u>
<b>Current assets</b>			
Investments designated at fair value through profit and loss	14	-	405,396
Trade and other receivables	16	231,713	2,142,112
Cash and cash equivalents	17	1,192,667	3,403,812
		<u>1,424,380</u>	<u>5,951,320</u>
<b>Current liabilities</b>			
Trade and other payables	18	(823,788)	(755,730)
Short-term borrowings	19	(6,000,000)	-
		<u>(6,823,788)</u>	<u>(755,730)</u>
<b>Non-current liabilities</b>			
Long-term borrowings	20	-	(2,000,000)
		-	<u>(2,000,000)</u>
<b>Net assets</b>		<u>21,446,460</u>	<u>24,757,512</u>
<b>Equity</b>			
Share capital	21	2,697,163	2,697,163
Share premium account		28,783,007	28,783,007
Shares to be issued reserve		3,114,509	2,719,676
Translation reserve		3,860,032	3,157,958
Profit and loss account		(17,268,862)	(12,979,643)
Equity attributable to equity holders of the parent		<u>21,185,849</u>	<u>24,378,161</u>
Non controlling interest		260,611	379,351
		<u>21,446,460</u>	<u>24,757,512</u>

The financial statements were approved by the Board of Directors on 17 May 2011 and were signed on its behalf by:



**Ian R. Holzberger**

Executive chairman  
20 May 2011

**METALS EXPLORATION PLC**

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

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

**Equity is the aggregate of the following:**

- Share capital; being the nominal value of shares issued
- Share premium account; being the excess received over the nominal value of shares issued less direct issue costs
- Shares to be issued reserve; being the credit side of the entry relating to the expense recognised in the income statement for share based remuneration
- Translation reserve; being the foreign exchange differences on the translation of foreign subsidiaries
- Non controlling interest; being the net assets attributable to non controlling shareholders
- 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 2009**

	<i>Share capital</i>	<i>Share premium account</i>	<i>Shares to be issued reserve</i>	<i>Translation reserve</i>	<i>Profit and loss account</i>	<i>Non controlling interest</i>	<i>Total equity</i>
	£	£	£	£	£	£	£
<b>Balance as at 1 January 2009</b>	1,122,838	15,503,969	2,287,969	2,748,026	(8,930,094)	548,464	13,281,172
Exchange differences on translating foreign operations	-	-	-	409,932	-	77,547	487,479
Loss for the year	-	-	-	-	(4,049,549)	(246,660)	(4,296,209)
Total comprehensive income/(loss) for the year	-	-	-	409,932	(4,049,549)	(169,113)	(3,803,730)
Movement in share based payments	-	-	431,707	-	-	-	431,707
Issue of equity share capital	1,574,325	14,132,105	-	-	-	-	15,706,430
Share issue expenses	-	(853,067)	-	-	-	-	(853,067)
<b>Balance as at 31 December 2009</b>	2,697,163	28,783,007	2,719,676	3,157,958	(12,979,643)	379,351	24,757,512

**METALS EXPLORATION PLC**

**CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 DECEMBER 2010**

	<i>Notes</i>	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
		£	£
<b>Net cash used in operating activities</b>	23	(1,519,942)	(4,281,893)
<b>Investing activities</b>			
Purchase of intangible assets		(5,076,813)	(7,594,968)
Purchase of property, plant and equipment		(69,502)	(278,234)
Proceeds from sale of property, plant and equipment		-	30,571
Proceeds from sale of investment designated at fair value through profit or loss		442,753	-
<b>Net cash used in investing activities</b>		<u>(4,703,562)</u>	<u>(7,842,631)</u>
<b>Financing activities</b>			
Proceeds from issue of share capital		-	14,853,363
Proceeds from short-term borrowings		4,000,000	-
<b>Net cash from financing activities</b>		<u>4,000,000</u>	<u>14,853,363</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(2,223,504)	2,728,841
Cash and cash equivalents at beginning of period		3,403,812	731,313
Foreign exchange differences		12,359	(56,342)
<b>Cash and cash equivalents at end of period</b>		<u>1,192,667</u>	<u>3,403,812</u>

METALS EXPLORATION PLC

COMPANY BALANCE SHEET as at 31 DECEMBER 2010

		<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
<b>Non-current assets</b>			
Property, plant and equipment	11	1,955	2,130
Other intangible assets	12	81,568	80,307
Investments in subsidiaries	13	2,132,250	2,132,250
Trade and other receivables	15	26,885,802	22,184,687
		<u>29,101,575</u>	<u>24,399,374</u>
<b>Current assets</b>			
Investments designated at fair value through profit and loss	14	-	405,396
Trade and other receivables	16	74,133	84,969
Cash and cash equivalents	17	636,763	2,954,352
		<u>710,896</u>	<u>3,444,717</u>
<b>Current liabilities</b>			
Trade and other payables	18	(203,777)	(208,068)
Short-term borrowings	19	(6,000,000)	-
		<u>(6,203,777)</u>	<u>(208,068)</u>
<b>Non-current liabilities</b>			
Long-term borrowings	20	-	(2,000,000)
		<u>-</u>	<u>(2,000,000)</u>
<b>Net assets</b>		<u>23,608,694</u>	<u>25,636,023</u>
<b>Equity</b>			
Share capital	21	2,697,163	2,697,163
Share premium account		28,783,007	28,783,007
Shares to be issued reserve		3,114,509	2,719,676
Profit and loss account		(10,985,985)	(8,563,823)
		<u>23,608,694</u>	<u>25,636,023</u>

The financial statements were approved by the Board of Directors on 17 May 2011 and were signed on its behalf by:



**Ian R Holzberger**

*Executive Chairman*

20 May 2011

**METALS EXPLORATION PLC**

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

	<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>
	£	£	£	£	£
<b>Balance as at 1 January 2009</b>	1,122,838	15,503,969	2,287,969	(6,503,717)	12,411,059
Loss for the year	-	-	-	(2,060,106)	(2,060,106)
	_____	_____	_____	_____	_____
Total comprehensive income/(loss) for the year	-	-	-	(2,060,106)	(2,060,106)
Movement in share based payments	-	-	431,707	-	431,707
Issue of equity share capital	1,574,325	14,132,105	-	-	15,706,430
Share issue expenses	-	(853,067)	-	-	(853,067)
	_____	_____	_____	_____	_____
<b>Balance as at 31 December 2009</b>	2,697,163	28,783,007	2,719,676	(8,563,823)	25,636,023
Loss for the year	-	-	-	(2,422,162)	(2,422,162)
	_____	_____	_____	_____	_____
Total comprehensive income/(loss) for the year	-	-	-	(2,422,162)	(2,422,162)
Movement in share based payments	-	-	394,833	-	394,833
Issue of equity share capital	-	-	-	-	-
Share issue expenses	-	-	-	-	-
	_____	_____	_____	_____	_____
<b>Balance at 31 December 2010</b>	2,697,163	28,783,007	3,114,509	(10,985,985)	23,608,694
	_____	_____	_____	_____	_____

**Equity is the aggregate of the following:**

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

**METALS EXPLORATION PLC**

**COMPANY CASH FLOW STATEMENT for the year ended 31 DECEMBER 2010**

	<i>Notes</i>	<i>Year ended 31 December 2010 £</i>	<i>Year ended 31 December 2009 £</i>
<b>Net cash used in operating activities</b>	23	(6,717,925)	(12,365,313)
<b>Investing activities</b>			
Purchase of intangible assets		(40,346)	(39,085)
Purchase of property, plant and equipment		(2,072)	(3,066)
Proceeds from sale of investment designated at fair value through profit or loss		442,753	-
<b>Net cash used in investing activities</b>		<u>400,335</u>	<u>(42,151)</u>
<b>Financing activities</b>			
Proceeds from issue of share capital		-	14,853,363
Proceeds from short term borrowings		4,000,000	-
<b>Net cash from financing activities</b>		<u>4,000,000</u>	<u>14,853,363</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(2,317,590)	2,445,899
Cash and cash equivalents at beginning of period		2,954,352	560,350
Foreign exchange differences		-	(51,897)
<b>Cash and cash equivalents at end of period</b>		<u>636,763</u>	<u>2,954,352</u>

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010

#### 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 in accordance with International Financial Reporting Standards (“IFRSs”), as adopted by the European Union and as regards the parent company financial statements applied in accordance with the provisions of the Companies Act 2006.

#### New standards and interpretations

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

<i>New/Revised International Financial Reporting Standards</i>	<i>Effective Date: Annual periods beginning on or after:</i>	<i>EU adopted</i>	<i>Impact on Metals Exploration</i>
IFRS 7 (Amended) – Financial Instruments.	1 January 2011	Yes	Future disclosures only.
IAS24 (Revised) – Related Party Disclosures.	1 January 2011	Yes	Future disclosures only.
IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	Yes	Future exchange of financial liabilities for equity.
IFRS 9 Financial instruments - Classification and measurement of financial assets	1 January 2013	No	Classification of financial assets.

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

IFRS 8 Operating segments	IFRS 8 replaces IAS 14 Segmental Reporting, and requires management to define the Group’s operating segments in accordance with how its operations are managed in practice.  IFRS 8 also sets out requirements for related disclosures about products and services, geographical areas and major customers.
IFRS 3 Business Combinations (revised) and amendments to IAS 27 Consolidated and Separate Financial statements	The amendments to the two standards significantly change many aspects of accounting for business combinations, including: <ul style="list-style-type: none"><li>• Contingent consideration</li><li>• Step (piecemeal) acquisitions</li><li>• Increases and decreases in stake while the investment remains a subsidiary</li></ul>

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)****1. Accounting policies (continued)****Basis of consolidation**

The Group financial statements incorporate the financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2010. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Non controlling interest representing the net assets held by the Group but attributable to minority shareholders are presented separately in the statement of total comprehensive income and within equity in the consolidated balance sheet.

**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.

**Foreign currency**

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

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

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

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010 (continued)

#### 1. Accounting policies (continued)

##### **Taxation**

Current tax is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially 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 are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred income tax assets are recognised only to the extent that it is probable that future trading taxable profits will be available against which the temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to other comprehensive income in which case, the deferred tax is also dealt with in other comprehensive income.

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

##### **Share based payments**

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**1. Accounting policies (continued)**

**Intangible assets**

*Exploration costs*

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

Capitalised exploration costs will be amortised once technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The capitalised exploration costs are tested for impairment annually.

*Other Intangible assets*

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

**Property, plant and equipment**

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

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

Buildings	10 years	Straight-line
Drilling equipment	5 years	Straight-line
Motor vehicles	5 years	Straight-line
Leasehold improvements	5 years	Straight-line
Fixtures, fittings and equipment	3 years	Straight-line

Land is not a depreciable asset.

**Investments**

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

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010 (continued)

#### 1. Accounting policies (continued)

##### 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, other receivables and an investment in shares in a quoted company. The Group's financial liabilities comprise trade and other payables and long-term and short-term borrowings.

Cash and cash equivalents include cash in hand and short-term bank deposits with a maturity of one week or less. Other receivables are measured at fair value.

Investment in shares in a quoted company is classified as held-for-trading and is initially measured at fair value, which equates to cost excluding transaction costs. At subsequent balance sheet dates, assets held-for-trading are re-measured to fair value and any gains or losses arising from changes in fair value are recognised in the statement of total comprehensive income.

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

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

#### 2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

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.

##### Intangible assets

In determining whether the carrying values of goodwill and other intangible assets are recoverable, their carrying values are compared to the estimated current value of the Group's projects mainly based on current resource estimates and commodity prices.

##### Share based payments

In determining the fair value of equity-settled share based payment transactions, the Group estimates the number of equity instruments expected to vest. The fair value is determined by the Black Scholes model which is dependent on further estimates.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

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

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	£	£
Depreciation of property, plant and equipment	362,535	345,028
Impairment of intangible assets	200,630	-
Amortisation	57,534	62,534
Foreign exchange (gains)/losses	(121,917)	96,760
Staff costs (see note 6)	2,674,813	2,467,225
Share based payments	394,833	431,707
Operating leases	-	59,173
Auditors remuneration (see note 4)	52,000	45,000

**4. Auditors remuneration**

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	£	£
Fees payable to the Group and Company's auditor for the audit of the Group and Company's accounts	32,000	30,000
Fees payable to the Company's auditor and its associates for other services: Other services relating to taxation	20,000	15,000
	52,000	45,000

**5. Segmental analysis**

Operating segments have been identified on the basis of the Group's internal reporting to the Chief Operating Decision Maker ("CODM") and in particular the components of the Group which are regularly reviewed by the CODM. The operating segments included in internal reports are determined on the basis of their significance to the Group. The CODM has been determined to be the Board of Directors as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments. The primary segments have been identified into three geographic areas of the UK, Philippines and Indonesia. The CODM uses 'Loss before tax' and 'Cash & cash equivalents' as the key measures of the segments' results and these measures reflect the segments' underlying performance for the period under evaluation. Major customers are not identifiable or reported as the Group's mining operations are not yet operating in a production capacity, and it is expected that in 2011 the Group will begin mining construction and in 2012 it will commence mining production. It is because of this status that most expenditure is of a capital nature.

The segment results for the year ended 31 December 2010, for the year ended 31 December 2009 and the reconciliation of the segment measures to the respective statutory items in the consolidated financial information are as follows:

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

5. Segmental analysis (continued)

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

<i>Year ended 31 December 2009</i>	<b>UK</b>	<b>Philippines</b>	<b>Indonesia</b>	<b>Eliminations</b>	<b>Total</b>
<u><i>Segment results</i></u>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Group operating loss	(2,521,861)	(1,883,201)	(40,924)	126,452	(4,319,534)
Finance income & similar items	636,950	939	270	(422,902)	215,257
Finance costs	(190,842)	(1,090)	-	-	(191,932)
Loss before tax	(2,075,753)	(1,883,352)	(40,654)	(296,450)	(4,296,209)

<i>Year ended 31 December 2010</i>	<b>UK</b>	<b>Philippines</b>	<b>Indonesia</b>	<b>Total</b>
<u><i>Segment assets</i></u>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Segment tangibles & intangibles	83,524	26,742,061	20,283	26,845,868
Segment trade & other receivables	(180,669)	403,670	8,712	231,713
Segment cash	636,763	546,541	9,363	1,192,667
Total segment assets	539,618	27,692,272	38,358	28,270,248
Segment loans	(6,000,000)	-	-	(6,000,000)
Segment trade & other payables	(203,777)	(605,975)	(14,036)	(823,788)
Total segment liabilities	(6,203,777)	(605,975)	(14,036)	(6,823,788)
Total segment net assets	(5,664,159)	27,086,297	24,322	21,446,460

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

5. Segmental analysis (continued)

<i>Year ended 31 December 2009</i>	UK	Philippines	Indonesia	Total
<u>Segment assets</u>	£	£	£	£
Segment tangibles & intangibles	82,437	20,714,592	223,886	21,020,915
Segment investments in quoted company	405,395	-	-	405,395
Segment trade & other receivables	84,971	2,587,670	10,479	2,683,120
Segment cash	2,954,352	436,250	13,210	3,403,812
Total segment assets	3,527,155	23,738,512	247,575	27,513,242
Segment loans	(2,000,000)	-	-	(2,000,000)
Segment trade & other payables	(208,069)	(544,395)	(3,266)	(755,730)
Total segment liabilities	(2,208,069)	(544,395)	(3,266)	(2,755,730)
Total segment net assets	1,319,086	23,194,117	244,309	24,757,512

Segment net assets are analysed net of intercompany transactions.

<i>Year ended 31 December 2010</i>	UK	Philippines	Indonesia	Total
<u>Segment other information</u>	£	£	£	£
Amortisation of intangible assets	(39,085)	(18,449)	-	(57,534)
Depreciation of property, plant and equipment	(2,246)	(347,322)	(12,967)	(362,535)
Additions to non-current assets	42,418	5,664,902	-	5,707,320
<i>Year ended 31 December 2009</i>	UK	Philippines	Indonesia	Total
<u>Segment other information</u>	£	£	£	£
Amortisation of intangible assets	(43,852)	(18,682)	-	(62,534)
Depreciation of property, plant and equipment	(1,302)	(328,811)	(14,915)	(345,028)
Additions to non-current assets	42,151	7,831,050	-	7,873,201

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

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**6. Staff numbers and costs**

The average number of persons, including Directors, was:

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	<i>Number</i>	<i>Number</i>
Administration	64	30
Exploration	418	625
	<u>482</u>	<u>655</u>

Staff costs of the above persons were:

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	<i>£</i>	<i>£</i>
Wages and salaries	2,005,763	1,894,069
Social security costs	88,663	95,687
Pension costs	21,910	19,512
Termination benefits	163,644	26,250
	<u>2,279,980</u>	<u>2,035,518</u>
Share based payments	394,833	431,707
	<u>2,674,813</u>	<u>2,467,225</u>

Directors' emoluments:

<i>Director</i>	<i>Emoluments</i>	<i>Compensation for loss of office</i>	<i>Benefits</i>	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
IR Holzberger	135,204	-	-	321,868	247,673
JPB Beardsworth	132,374	112,500	2,892	247,766	150,000
TG Wheeler	-	39,914	-	39,914	125,000
TJ Dean	24,000	-	-	24,000	22,000
JMK Pearson	-	-	-	-	23,184
G Powell	-	-	-	-	117,777
	<u>291,578</u>	<u>152,414</u>	<u>2,892</u>	<u>446,884</u>	<u>685,634</u>

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

In addition to the emoluments above share based payments of £403,704 (2009: £355,694) were received, and employers national insurance contributions of £16,090 (2009: £18,468).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

6. Staff numbers and costs (continued)

Shares held by Directors:

<i>Shareholder</i>	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
I R Holzberger	-	305,000
J P B Beardsworth	750,000	750,000
G R Powell	-	1,050,000
T G Wheeler	-	1,000,000
J M K Pearson	-	255,000
T J Dean	-	-

Warrants held by Directors:

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

Share options held by Directors:

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

Further details relating to key management are given in note 27 to the financial statements.

7. Finance costs and income

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	<i>£</i>	<i>£</i>
Loan interest payable	(289,590)	(190,810)
Bank interest payable	(19)	(1,122)
Other interest payable	(4,319)	-
Finance costs	<u>(293,928)</u>	<u>(191,932)</u>
Revaluation of investment designated at fair value through profit/(loss)	37,357	204,177
Other interest receivable	-	7,403
Bank interest receivable	525	3,677
Finance income and similar items	<u>37,882</u>	<u>215,257</u>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**8. Taxation**

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	£	£
Loss before tax	(4,526,875)	(4,296,209)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28%	(1,267,525)	(1,202,939)
Effects of:		
Overseas expenses not taxable for tax purposes	590,322	538,722
Expenses not deductible for tax purposes	179,006	309,187
Short term timing differences	(1,615)	(3,031)
Depreciation in excess of capital allowances	308	223
Losses carried forward	499,504	357,838
Total tax expense for the period	-	-

For the year ended 31 December 2010 there is a potential deferred tax asset of £1,350,999 (year ended 31 December 2009: £1,262,738). However, due to the Company's on-going tax losses situation, the deferred asset has not been recognised on the Balance Sheet due to uncertainty over its future reversal.

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

On 22 June 2010 the Government announced its intention to propose to Parliament a staggered reduction in the corporate income tax rate of 1% every year culminating in a rate of 24% for the tax year 2014-2015. On 23 March 2011 the Budget accelerated the reduction in the tax rate from 1 April 2011 from 1% to 2% resulting in the staggered reduction of 1% in rates from 2012 culminating in a rate of 23% rather than 24% for the tax year ended 2014-2015.

As of 31 December 2010 the further 1% reduction in the tax rate for the tax year starting 2011 and the 1% changes relating the tax years starting 2012, 2013, and 2014 have not been substantively enacted. The unrecognised deferred tax asset at 31 December 2010 would have decreased by approximately £112,000 and the effective tax rate by approximately 1.41%, had the change of tax rate been substantively enacted as of 31 December 2010.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010**  
**(continued)**

**9. Loss per share**

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	£	£
<b>Loss</b>		
Net loss attributable to equity shareholders for the purpose of basic and diluted loss per share	<u>(4,289,218)</u>	<u>(4,049,549)</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>269,716,344</u>	<u>216,822,635</u>
Basic and diluted loss per share	<u>(1.59p)</u>	<u>(1.87p)</u>

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

Weighted average number of potential ordinary shares that are not currently dilutive	<u>34,926,904</u>	<u>26,123,946</u>
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**10. Goodwill**

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
<b>Cost and net book value</b>	<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.

Under IAS 36 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 14 years and a discount rate of 10%. The cash flow projections are based on the current resource estimate of 900,000 ounces of gold and include estimated capital expenditure and annual operating costs using externally sourced price forecasts for gold and molybdenum. 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.

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

11. Property, plant and equipment – Group

	<i>Leasehold Improvements</i> £	<i>Motor vehicles</i> £	<i>Fixtures, fittings &amp; equipment</i> £	<i>Land &amp; buildings</i> £	<i>Drilling equipment</i> £	<i>Total</i> £
<b>Cost</b>						
As at 1 January 2009	149,584	194,978	285,913	163,845	827,947	1,622,267
Additions	43,058	46,557	110,889	-	77,730	278,234
Disposals	-	(41,688)	-	-	-	(41,688)
Foreign exchange differences	1,003	(845)	(6,499)	(5,218)	(26,367)	(37,926)
As at 31 December 2009	193,645	199,002	390,303	158,627	879,310	1,820,887
Additions	23,120	8,822	37,560	-	-	69,502
Foreign exchange differences	7,505	7,356	14,324	5,865	32,503	67,553
As at 31 December 2010	224,270	215,180	442,187	164,492	911,813	1,957,942
<b>Depreciation</b>						
As at 1 January 2009	(35,564)	(64,864)	(119,387)	(4,012)	(56,633)	(280,460)
Charge for the period	(34,504)	(38,855)	(97,404)	(4,598)	(169,667)	(345,028)
Disposals	-	11,117	-	-	-	11,117
Foreign exchange differences	(183)	635	2,772	128	1,804	5,156
As at 31 December 2009	(70,251)	(91,967)	(214,019)	(8,482)	(224,496)	(609,215)
Charge for the period	(40,872)	(30,070)	(104,462)	(4,768)	(182,363)	(362,535)
Foreign exchange differences	(2,744)	(3,399)	(7,841)	(314)	(8,298)	(22,596)
As at 31 December 2010	(113,867)	(125,436)	(326,322)	(13,564)	(415,157)	(994,346)
<b>Net book value</b>						
As at 31 December 2010	110,403	89,744	115,865	150,928	496,656	963,596
As at 31 December 2009	123,394	107,035	176,284	150,145	654,814	1,211,672
As at 1 January 2009	114,020	130,114	166,526	159,833	771,314	1,341,807

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010**  
**(continued)**

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

	<i>Fixtures, fittings &amp; equipment</i> £
<b>Cost</b>	
As at 1 January 2009	3,688
Additions	3,066
As at 31 December 2009	<u>6,754</u>
Additions	2,071
As at 31 December 2010	<u>8,825</u>
<b>Depreciation</b>	
As at 1 January 2009	(3,322)
Charge for the period	(1,302)
As at 31 December 2009	<u>(4,624)</u>
Charge for the period	(2,246)
As at 31 December 2010	<u>(6,870)</u>
<b>Net book value</b>	
As at 31 December 2010	<u>1,955</u>
As at 31 December 2009	<u>2,130</u>
As at 1 January 2009	<u>366</u>

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

12. Other intangible assets - Group

	<i>Cost of Exploration</i>	<i>Licences</i>	<i>Software</i>	<i>Total</i>
	£	£	£	£
<b>Cost</b>				
As at 1 January 2009	6,951,523	4,694,374	57,482	11,703,379
Additions	7,481,784	93,398	19,786	7,594,968
Foreign exchange differences	(196,668)	(144,714)	(1,831)	(343,213)
As at 31 December 2009	14,236,639	4,643,058	75,437	18,955,134
<b>Additions</b>	5,538,931	87,805	11,082	5,637,818
Foreign exchange differences	519,147	164,627	2,788	686,562
As at 31 December 2010	20,294,717	4,895,490	89,307	25,279,514
<b>Impairments</b>				
Impairment to carrying value of investments	(200,630)	-	-	(200,630)
Foreign exchange differences	8,573	-	-	8,573
As at 31 December 2010	(192,057)	-	-	(192,057)
<b>Amortisation</b>				
As at 1 January 2009	-	(65,214)	(29,911)	(95,125)
Charge for the period	-	(43,852)	(18,682)	(62,534)
Foreign exchange differences	-	-	952	952
As at 31 December 2009	-	(109,066)	(47,641)	(156,707)
Charge for the period	-	(39,085)	(18,449)	(57,534)
Foreign exchange differences	-	-	(1,760)	(1,760)
As at 31 December 2010	-	(148,151)	(67,850)	(216,001)
<b>Net Book Value</b>				
As at 31 December 2010	20,102,660	4,747,339	21,457	24,871,456
As at 31 December 2009	14,236,639	4,533,990	27,796	18,798,427
As at 1 January 2009	6,951,523	4,629,160	27,571	11,608,254

The impairment adjustment in the year to 31 December 2010 is in respect of the exploration undertaken by PT Cupati (in the Indonesian segment in note 5). Management do not consider the cost of exploration to be recoverable through sale or via further exploration of the site and have therefore chosen to impair the cost in full.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010**  
**(continued)**

**12. Other intangible assets – Company**

	<i>Licences</i> £
<b>Cost</b>	
As at 1 January 2009	150,288
Additions	39,085
As at 31 December 2009	189,373
Additions	40,346
As at 31 December 2010	229,719
<b>Amortisation</b>	
As at 1 January 2009	(65,214)
Charge for the period	(43,852)
As at 31 December 2009	(109,066)
Charge for the period	(39,085)
As at 31 December 2010	(148,151)
<b>Net Book Value</b>	
As at 31 December 2010	81,568
As at 31 December 2009	80,307
As at 1 January 2009	85,074

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

13. Investments in subsidiaries

	£
<b>Cost</b>	
As at 1 January 2009	2,584,576
Additions	-
As at 31 December 2009	2,584,576
Additions	-
As at 31 December 2010	2,584,576
<b>Impairment</b>	
As at 1 January 2009	(332,897)
Charge for the period	(119,429)
As at 31 December 2009	(452,326)
Charge for the period	-
As at 31 December 2010	(452,326)
<b>Net book value</b>	
As at 31 December 2010	2,132,250
As at 31 December 2009	2,132,250
As at 1 January 2009	2,251,679

The investments in subsidiaries are as follows:

<i>Company</i>	<i>Country of registration</i>	<i>Percentage holding</i>	<i>Nature of business</i>
FCF Minerals Corporation	Philippines	85%	Holder of mining rights
PT Cupati	Indonesia	96%	Holder of mining rights
MTL Philippines	Philippines	100%	Regional head office
Cupati Holdings	Philippines	40%	Warehouse facility
Woggle Corporation	Philippines	40%	Holder of quarrying rights

FCF Minerals Corporation, PT Cupati and MTL Philippines are direct subsidiaries of the Company. The Company's investments in Cupati Holdings and Woggle Corporation are held through MTL Philippines. Cupati Holdings and Woggle Corporation have been treated as subsidiaries of the Company and their results for the year ended 31 December 2010 have been consolidated, due to the Company having effective control at board level and effective control over the activities of both of the companies.

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

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**14. Investment designated at fair value through profit and loss**

<b>Carrying value</b>	£
As at 1 January 2009	201,219
Revaluation to fair value	204,177
	<hr/>
As at 31 December 2009	405,396
Revaluation to fair value	37,357
Disposal	(442,753)
	<hr/>
As at 31 December 2010	-
	<hr/>

The investment was carried at fair value representing the market value of the shares acquired. Movements were recognised through profit and loss in the statement of total comprehensive income. In February 2010, the Company sold the investment, realising £442,753 before transaction costs.

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

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Other receivables	-	541,007
	<hr/>	<hr/>

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

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Amounts due from group undertakings	26,885,802	22,184,687
	<hr/>	<hr/>

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

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

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Other receivables	118,426	2,001,055
Prepayments	113,287	141,057
	<u>231,713</u>	<u>2,142,112</u>

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

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Other receivables	14,966	4,226
Prepayments	59,167	80,743
	<u>74,133</u>	<u>84,969</u>

17. Cash and cash equivalents - Group

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Cash at bank and in hand	<u>1,192,667</u>	<u>3,403,812</u>

17. Cash and cash equivalents – Company

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Cash at bank and in hand	<u>636,763</u>	<u>2,954,352</u>

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**18. Trade and other payables - Group**

	<i>As at 31 December 2010 £</i>	<i>As at 31 December 2009 £</i>
Trade payables	552,218	534,498
Other payables	41,104	3,266
Other tax and social security payable	29,351	45,892
Accruals	201,115	172,074
	<u>823,788</u>	<u>755,730</u>

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

	<i>As at 31 December 2010 £</i>	<i>As at 31 December 2009 £</i>
Trade payables	52,428	34,240
Other tax and social security payable	25,093	31,757
Accruals	126,256	142,071
	<u>203,777</u>	<u>208,068</u>

**19. Short-term borrowings – Group and Company**

	<i>As at 31 December 2010 £</i>	<i>As at 31 December 2009 £</i>
Convertible loan	6,000,000	-

Short term borrowings consist of two convertible loans; one from New City High Yield Fund for £2,000,000 and the other from Solomon Capital Limited (Solomon) for £4,000,000. The loan for £2,000,000 is due to be redeemed at par on 1 August 2011, interest on the loan is payable at 9% per annum and the loan is convertible at the option of the holder at any time prior to the date of redemption into 3,846,154 ordinary shares at 1p each, representing a conversion price of 52p. The loan for £4,000,000 is due to be redeemed at par on 11 November 2011, interest on the loan is payable at 10% per annum and the loan is convertible at the option of the holder at any time from 8 December 2010 to the date of redemption into 30,769,231 ordinary shares at 1p each. Solomon has provided a total convertible loan facility of £13m which is convertible into 100,000,000 ordinary 1p shares each representing a conversion price of 13p. As of 19 April 2011 the conversion rights included in the loan of £4,000,000 have been exercised by Solomon and has resulted in Solomon receiving 30,769,231 new ordinary 1p shares. The exercise of the conversion option on the £13m facility by Solomon after the balance sheet date is explained in Note 30.

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**20. Long-term borrowings – Group and Company**

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
Convertible loan	-	2,000,000

**21. Called up share capital**

	<i>As at 31 December 2010</i>	<i>As at 31 December 2009</i>
	£	£
<b>Allotted, called up and fully paid</b>		
269,716,344 ordinary shares of 1p each (as at 31 December 2009: 269,716,344)	2,697,163	2,697,163

**22. Share based payments**

**Share options**

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

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

Details of the share options outstanding are as follows:

	<i>Year ended 31 December 2010</i>		<i>Year ended 31 December 2009</i>	
	<i>Number of share options</i>	<i>Weighted average exercise price</i>	<i>Number of share options</i>	<i>Weighted Average exercise price P</i>
Outstanding at the beginning of the period	3,865,000	29	4,390,000	12
Exercised during the period	-	-	(50,000)	12
Forfeited during the period	(485,000)	27	(475,000)	39
Issued during the period	11,950,000	24	-	-
Outstanding at the end of the period	15,330,000	25	3,865,000	29
Exercisable at the end of the period	3,630,000	29	1,865,000	32

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

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

The options outstanding as at 31 December 2010 had a range of exercise prices from 12p to 40p (year ended 31 December 2009: 12p to 40p) and a weighted average remaining contractual life to expiry of 7 years (year ended 31 December 2009: 8 years). During the year, an expense of £383,735 was recognised in the statement of total comprehensive income (year ended 31 December 2009: £235,793).

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

	<i>Share option issue 18 March 2010</i>	<i>Share option issue 15 March 2010</i>	<i>Year ended 31 December 2009</i>
Weighted average share price	13.5p	13.8p	-
Weighted average exercise price	25p	15p	-
Expected volatility	72.7%	72.7%	-
Expected life	5 years	5 years	-
Risk free rate	2.33%	2.15%	-
Expected dividend yield	Nil	Nil	-
Number granted	11,000,000	950,000	-
Share price at date of grant	13.5p	13.8p	-
Fair value at date of grant	7.89p	8.76p	-
Earliest vesting date	18 March 2012	15 March 2011	-
Exit date	17 March 2017	17 March 2016	-

**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:

	<i>Year ended 31 December 2010</i>		<i>Year ended 31 December 2009</i>	
	<i>Number of warrants</i>	<i>Weighted average exercise price</i>	<i>Number of warrants</i>	<i>Weighted Average exercise price P</i>
Outstanding at the beginning of the period	18,250,000	20	18,000,000	20
Granted during the period	-	-	250,000	20
Forfeited during the period	(240,000)	20	-	-
Outstanding at the end of the period	18,010,000	18	18,250,000	20
Exercisable at the end of the period	18,010,000	18	16,510,000	16

The warrants outstanding as at 31 December 2010 had a range of exercise prices from 3.25p to 52.5p (year ended 31 December 2009: 3.25p to 52.5p) and a weighted average remaining contractual life to expiry of 4 years (year ended 31 December 2009: 5 years). During the year, an expense of £11,098 was recognised in the statement of total comprehensive income (year ended 31 December 2009: £195,914).

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

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

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

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
Weighted average share price	-	10p
Weighted average exercise price	-	20p
Expected volatility	-	91.7%
Expected life	-	4.4 years
Risk free rate	-	2.77%
Expected dividend yield	-	Nil
Number granted	-	250,000
Share price at date of grant	-	10p
Fair value at date of grant	-	5.55p
Earliest vesting date	-	23 January 2009
Exit date	-	30 June 2013

**23. Net cash used in operating activities - Group**

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	£	£
Loss after taxation	(4,526,872)	(4,296,209)
Depreciation	362,535	345,028
Amortisation	57,534	62,534
Revaluation of investment designated at fair value through profit and loss	(37,357)	(204,177)
Impairment of carrying costs of exploration in respect of PT Cupati	200,630	-
Share based payment expense	394,833	431,707
Net interest payable	293,404	180,853
Decrease/(increase) in receivables	1,890,401	(1,986,561)
Increase in payables	68,057	446,934
Foreign exchange differences	70,297	918,850
	<hr/>	<hr/>
Cash used in operations	(1,226,538)	(4,101,041)
Interest received	524	11,080
Interest paid	(293,928)	(191,932)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(1,519,942)</b>	<b>(4,281,893)</b>

**METALS EXPLORATION PLC**

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**23. Net cash used in operating activities - Company**

	<i>Year ended</i> <i>31 December 2010</i>	<i>Year ended</i> <i>31 December 2009</i>
	£	£
Loss after taxation	(2,422,162)	(101,545)
Depreciation	2,246	1,302
Amortisation	39,085	43,852
Impairment	-	119,429
Revaluation of investment designated at fair value through profit and loss	(37,357)	(204,177)
Share based payment expense	394,833	431,707
Net interest payable	289,535	180,971
Increase in receivables	(4,690,279)	(12,778,643)
(Decrease)/increase in payables	(4,291)	70,864
Foreign exchange differences	-	51,897
	<hr/>	<hr/>
Cash used in operations	(6,428,390)	(12,184,343)
Interest received	74	9,871
Interest paid	(289,609)	(190,842)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(6,717,925)</b>	<b>(12,365,314)</b>

**24. Operating lease commitments**

	<i>As at</i> <i>31 December 2010</i>	<i>As at</i> <i>31 December 2009</i>
	£	£
The Group had total commitments under non-cancellable operating leases as follows:		
1 year or less	-	22,521
1 – 2 years	-	-
	<hr/>	<hr/>
	-	22,521
	<hr/>	<hr/>

**25. Pension commitments**

	<i>Year ended</i> <i>31 December 2010</i>	<i>Year ended</i> <i>31 December 2009</i>
	£	£
Defined contribution scheme costs	9,000	8,775
	<hr/>	<hr/>
	9,000	8,775
	<hr/>	<hr/>

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010 (continued)

#### 26. Capital commitments

As at 31 December 2010 the Company had no capital commitments. However, under the terms of the Financial or Technical Assistance Agreement (FTAA) dated 28 October 2009 upon the Company entering into the Development and Construction Period over a defined area within the FTAA it is required to “commit a minimum investment of Fifty Million US Dollars (\$50,000,000) or its Philippine Peso equivalent, on infrastructure and development” in the defined area, “which amount shall include all Pre-Operating Expenses incurred after the commencement of the Development and Construction Period”. For the Company to enter the Development and Construction Period in respect of a defined area within the FTAA it must first obtain the Mines and Geosciences Bureau of the Department of Environment and Natural Resources approval of the Company’s Declaration of Mining Feasibility. In the alternative if the Company was not prepared to commit to Fifty Million US Dollars (\$50,000,000) or its Philippine Peso equivalent to a development, or could not commit to such a sum the Company has the option to convert that part of the FTAA into Mineral production Sharing Agreement or withdraw from the FTAA. The Company has made application for the approval of its Declaration of Mining Feasibility which is undergoing the review and approval process.

#### 27. Related party transactions

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

	<i>Number of key management personnel</i>	<i>Share Based payments £</i>
As at 31 December 2010	2	403,704
As at 31 December 2009	4	355,694

During the year to 31 December 2010, the Company recognised a provision of £44,684 in respect of a doubtful receivable balance owed by subsidiary company, PT Cupati (year ended 31 December 2009: £7,023).

During the year, the Company paid £4,701,115 to its subsidiaries to fund operations and purchase property, plant and equipment (year ended 31 December 2009: £12,911,493). At the year end, the Company was owed £26,885,802 by its subsidiaries (as at 31 December 2009: £22,184,687).

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**28. Financial instruments**

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

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

<b>Group</b>	<i>Cash and cash equivalents</i>	<i>Investment in quoted company</i>	<i>Other receivables</i>	<i>Total</i>
	£	£	£	£
<b>As at 31 December 2010</b>	1,192,667	-	118,425	1,311,092
<b>As at 31 December 2009</b>	3,403,812	405,396	2,542,062	6,351,270

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

The Company's financial assets comprise cash and cash equivalents of £636,763 (as at 31 December 2009: £2,954,352), an investment in a quoted company with a nil balance (as at 31 December 2009: £405,396) and other receivables of £26,900,768 (as at 31 December 2009: £22,188,913).

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

<b>Group</b>	<i>Trade payables</i>	<i>Accruals</i>	<i>Other Payables</i>	<i>Short term borrowings</i>	<i>Long term borrowings</i>	<i>Total</i>
	£	£	£	£	£	£
<b>As at 31 December 2010</b>	552,217	201,115	70,455	6,000,000	-	6,823,787
<b>As at 31 December 2009</b>	534,498	172,074	49,158	-	2,000,000	2,755,730

The Company's financial liabilities comprise trade payables of £52,428 (as at 31 December 2009: £34,240), accruals of £126,255 (as at 31 December 2009: £142,071), short term borrowings of £6,000,000 (as at 31 December 2009: nil) and long term borrowings with a nil balance (as at 31 December 2009: £2,000,000).

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

METALS EXPLORATION PLC

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)

28. Financial instruments (continued)

*Liquidity risk*

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

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

<b>Group</b>	<i>Trade payables</i>	<i>Accruals and other payables</i>	<i>Short term borrowings</i>	<i>Long term borrowings</i>	<i>Total</i>
	£	£	£	£	£
<b>As at 31 December 2010</b>					
1 month or less	552,217	271,570	-	-	823,787
2 – 6 months	-	-	161,316	-	161,316
6 – 12 months	-	-	6,030,575	-	6,030,575
1 – 2 years	-	-	-	-	-
Total contractual cash flows	552,217	271,570	6,191,891	-	7,015,678
<b>As at 31 December 2009</b>					
1 month or less	534,498	221,232	-	-	755,730
2 – 6 months	-	-	-	-	-
6 – 12 months	-	-	-	-	-
1 – 2 years	-	-	-	2,000,000	2,000,000
Total contractual cash flows	534,498	221,232	-	2,000,000	2,755,730
<b>Company</b>					
	£	£	£	£	£
<b>As at 31 December 2010</b>					
1 month or less	52,428	151,349	-	-	203,777
2 – 6 months	-	-	161,316	-	161,316
6 – 12 months	-	-	6,030,575	-	6,030,575
1 – 2 years	-	-	-	-	-
Total contractual cash flows	52,428	151,349	6,191,891	-	6,395,668
<b>As at 31 December 2009</b>					
1 month or less	34,240	173,828	-	-	208,068
2 – 6 months	-	-	-	-	-
6 – 12 months	-	-	-	-	-
1 – 2 years	-	-	-	2,000,000	2,000,000
Total contractual cash flows	34,240	173,828	-	2,000,000	2,208,068

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**28. Financial instruments (continued)**

***Credit risk***

Credit risk is the risk of financial loss to the Group or Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Group and Company are exposed to credit risk attributable to its cash balances however, this risk is limited because the counterparties are large international banks.

The Group is exposed to credit risk for other receivables due from third parties. The Company is exposed to credit risk to the extent that amounts owed by its subsidiaries may not be recoverable in the future. As at 31 December 2010, none of the other receivables were found to be impaired (year ended 31 December 2009: nil). No unimpaired other receivables are past due as at 31 December 2010 (year ended 31 December 2009: nil).

The maximum exposure to credit risk at the year end is as follows:

<b>Group</b>	<i>Cash and cash equivalents</i>	<i>Investment in quoted company</i>	<i>Other receivables</i>	<i>Total</i>
	£	£	£	£
<b>As at 31 December 2010</b>	1,192,666	-	118,426	1,311,092
<b>As at 31 December 2009</b>	3,403,812	405,396	2,542,062	6,351,270

<b>Company</b>	<i>Cash and cash equivalents</i>	<i>Investment in quoted company</i>	<i>Other receivables</i>	<i>Total</i>
	£	£	£	£
<b>As at 31 December 2010</b>	636,763	-	26,900,768	27,537,531
<b>As at 31 December 2009</b>	2,954,352	405,396	22,188,913	27,507,222

***Market risk and sensitivity analysis***

*Foreign currency exchange rate risk*

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

The Group is also exposed to translation risk due to the accounts of the Group's subsidiaries being in different currencies to the Company's. On consolidation, the subsidiary accounts' are translated to Pounds Sterling. The impact on the reported net assets at the year end is a separate reserve of £3,860,032 (year ended 31 December 2009: £3,157,958).

The company had a negligible US Dollar cash balance at the year end and a 5% movement in the exchange rate would have a non-material impact on the loss for the year (year ended 31 December 2009: £126,561).

## METALS EXPLORATION PLC

### NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010 (continued)

#### 28. Financial instruments (continued)

##### *Interest rate risk*

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets comprise cash and cash equivalents which earn interest at a variable rate. The Company's Pound Sterling cash balance earned interest at an average annual rate in the year of 0.15% (year ended 31 December 2009: 0.3%). The impact on the reported loss for the year is net interest income on cash of £73 (year ended 31 December 2009: £3,677).

Interest bearing liabilities comprise two convertible loans with fixed rates of interest to ensure certainty of future cash flows. The impact on the reported loss for the year is a net interest expense on the loans of £389,609 (year ended 31 December 2009: £179,507).

#### 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.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 DECEMBER 2010  
(continued)**

**30. Post balance sheet events**

On 7 March 2011, the Company issued 300,000 ordinary shares of 1p each at a price of 12p per share, realising £36,000 following the exercise of share options by a member of staff.

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

The Agreement was entered into for the purpose of full and final settlement of various allegations made by some minority shareholders relating to the Solomon offer, and related parties to Solomon, dated 23 July 2010 whereby Solomon announced the terms of a cash offer for the entire issued share capital of the Company.

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

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

Runruno Holdings Ltd subscribed for and received a total of 76,923,077 new ordinary 1p shares at 13p per shares in consideration for £10m

Williams de Broë Limited subscribed for and received a total of 15,384,615 new ordinary 1p shares at 13p per shares in consideration for £2m

The Company received in total therefore, £19.25m from the proceeds of the subscription of 192,307,692 new ordinary 1p shares.

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

**31. Ultimate controlling party**

At the year-end, Christian Candy indirectly controlled 66.99% of the share capital of the Company and therefore, was the ultimate controlling party of the Company.

