

28 June 2011

**Metal-Tech Ltd.**  
**("Metal-Tech" or "the Company")**

**Results for the year ended 31 December 2010**

Metal-Tech, the producer and recycler of specialty metals such as Tungsten and Molybdenum, announces the Company's results for the year ended 31 December 2010.

**Financial Summary:**

- Revenue increased by 25% to \$45.9m (2009: \$36.7m), despite sales only coming from Tungsten products
- Gross profit of \$0.4m, compared with a gross loss of \$7.8m in 2009, reflecting increased Tungsten prices and tight cost control
- General and Administrative expenses decreased to \$3.8m (2009: \$4.5m) as a result of streamlining the business, including a reduction in headcount
- Loss per share of \$0.54 (2009: \$0.46 loss)
- Operating expenses amounted to \$27.1m (2009: \$9.3m), including an \$19.3 (2009: \$2.2m) expense incurred by suspended production plant of Shim-Technology Co. Ltd. (Shim-Tech), the Company's Mongolian subsidiary
- Cash, cash deposits and restricted cash balance at 31 December 2010 were \$7.3m (31 December 2009: \$9.9m)
- Net cash used in operations was \$1.0m (2009: \$2.0m gain)
- Equity at 31 December 2010 is deficit of \$1 million (2009: positive \$25.5m)

**Operational Summary:**

- Tungsten revenue increased by 66% to \$45.9m (2009: \$27.6m) reflecting improved trading conditions
- Higher demand for Tungsten led to a continued increase in the metal's price by approximately 27% over the year
- Tightly managed costs and cash flow to improve efficiency
- Strong focus maintained on R&D in strategic areas
- The Company's arbitration case against the Republic of Uzbekistan asserting that country's unlawful treatment of Metal-Tech's 50% investment in Uzmetal Technology is ongoing

**Current Year and Outlook:**

- Strong trend in sales of Tungsten and increased prices set to continue
- Continued focus on resolving outstanding issues while driving the business forward
- Maintained disciplined approach to cost control
- On 31 March 2011, a four-month industrial pilot phase for the validation of the Company's novel molybdenum extraction technology was completed satisfactorily under the supervision of a major publicly-traded international Chilean copper/molybdenum company

Commenting on the results, Aik Rosenberg, Executive Chairman and Chief Executive Officer of the Company, said: "Despite the difficulties the Company encountered with its operations abroad, we are pleased to report a year of progress and a return to revenue growth in 2010. The increase in demand for Tungsten saw strong sales at higher prices than the previous year. These increased sales alongside the Company's commitment to tight cost controls resulted in improved margins. Looking ahead, the momentum of strong demand for Tungsten seen in 2010 has continued and the Company expect sales of the metal to be higher in 2011 than in the previous year."

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## **Operational Review**

Metal-Tech is pleased to report a strong operating performance and a return to revenue growth in 2010. Revenue increased by 25% to \$45.9m (2009: \$36.7m), reflecting improved trading conditions and significantly higher demand for Tungsten.

Metal-Tech achieved a gross profit of \$0.4m in 2010, compared with a gross loss of \$7.8m in 2009, due to tight cost control measures, higher sales volumes and an approximate 27% increase in Tungsten prices since the start of 2010.

Tungsten revenue increased by 66% to \$45.9m (2009: \$27.6m) reflecting improved trading conditions. As demand increased through the year, the Company took steps to increase its recycling and production capacity in Israel by preparing and submitting an investment program to the Israel Ministry of Trade and Industry as well as seek other international opportunities for co-production.

## **Update on Mongolian Operations**

Further to the Company's trading update of 26 April 2011, the Company has recently been informed that the court in Erdenet has declared Shim-Tech bankrupt and ordered to freeze its accounts and seize its assets. As reported, Metal-Tech is taking all necessary actions in Mongolia to attain a fair and just result for the Company, including the submission of an appeal which is still pending as well as submission of its claims as creditor of Shim-Tech.

Due to the suspension of production in the Mongolian subsidiary and the Mongolian court decision to declare Shim-Tech as insolvent, the Company recorded an impairment loss of property, write down of inventories and other expenses of suspended production plant in amount of \$19.3m.

As a result of the aforementioned legal proceedings, the Company may no longer control Shim-Tech and therefore will cease to consolidate the financial statements of Shim-Tech that include as of the end of the reporting period an excess of liabilities over assets in the approximate amount of \$9.5m.

As of December 31, 2010, the subsidiary had negative equity of \$21.0m and negative working capital of \$15.0m.

This factor and the other factors described in the Company's previous trading updates and in the consolidated financial statements, including unilateral actions of Erdenet Mining Corporation, the Company's Mongolian partner, in violation of its contractual obligation to supply raw material to Shim-Tech, raise substantial doubts about the subsidiary's ability to continue as a going concern.

## **Update on Uzbekistan Action**

As announced in January 2010, Metal-Tech filed a Request for Arbitration against the Republic of Uzbekistan asserting that country's unlawful treatment of Metal-Tech's 50% investment in UzMetal-Technology, a joint venture to produce high-quality molybdenum products. The Request for Arbitration, filed with the International Centre for Settlement of Investment Disputes (ICSID) based in Washington, D.C., asserted Uzbekistan's breach of the Israel-Uzbekistan Bilateral Investment Treaty, as well as violations of various standards of treatment under international law and Uzbek legislation.

The current position is that an Arbitral Tribunal comprising a nominee of the Republic of Uzbekistan, a nominee of the Company and an independent agreed nominee as the Chair, has been appointed. To date, both parties have filed their respective submissions before the Tribunal, including the Company's statement of claim. The Tribunal has already held sessions in which, *inter alia*, the agenda for the proceedings was presented and which are expected to take up to 18 months to complete.

## **Focus on R&D**

Investment in R&D continued in 2010 to be directed to the validation of the Company's novel molybdenum extraction technology expected to yield attractive returns in the short to medium term.

As stated previously, the Company made a breakthrough in 2010 and is pursuing a joint technical investigation which may lead to a certain business agreement with a leading mining company following the validation tests completed on 31 March 2011.

## **Financial Review**

### ***Income statement***

Revenues for the year ending 31 December 2010 were \$45.9m, compared with \$36.7m for the prior year. Loss attributable to equity holders was \$20.8m (2009: \$17.5m loss). This increase is primarily due to an increase in expenses of the suspended production plant to \$19.3m for the year ending 31 December 2010, compared with \$2.2m for the prior year. Metal-Tech achieved a gross profit of \$0.4m, compared with a gross loss of \$7.8m for 2009.

General and Administrative expenses decreased to \$3.8m from \$4.5m in the equivalent period last year as a result of cost cutting exercise, streamlining of the business including a reduction in headcount.

### ***Balance sheet statement***

During the period, cash and cash equivalents decreased from \$9.9m at 31 December 2009 to \$7.3million at 31 December 2010. Current ratio decreased by 21% compared to the position at 31 December 2009. Inventory decreased by \$5.4m from \$26.5m at 31 December 2009.

The Group has a negative net worth as a result of the suspension of Shim-Tech plant. As of 31 December 2010, the current liabilities of the Group relating to said write-off amount to \$9.5m.

The Company continues to have a good relationship with its banks who remain supportive of the business. The Company's debts stand at \$28.6m at 31 December 2010 (31 December 2009: \$27.9m). Subsequent to the end of the reporting period, the Company reached an agreement with one of the banks regarding rescheduling of its credit facilities with that bank. The Company is meeting all the financial covenants.

The global economic slowdown and adverse effect on the pricing and demand of the Group's products have had an impact on the Group's operations. In 2010 and 2009, the Group incurred losses of \$27.0m, and \$20.0m, respectively and as of December 31, 2010, the Company has a negative net worth in the amount of \$1.0m. As the Group has not guaranteed the debt of the Shim-Tech, the Company believes that the negative working capital of Shim-Tech will not have a material adverse impact on the rest of the Group's liquidity position. Furthermore, Company management believes that funds generated from the Group's operations and its present funding resources and the rescheduling of bank loans will be sufficient to enable the Group to continue as a going concern and meet its obligations for at least one year from the end of the reporting period.

## **Outlook**

The Company has entered 2011 with continued strong demand for Tungsten and expects sales of the metal to be higher in 2011 than in the previous year.

**STATEMENTS OF FINANCIAL POSITION**  
**U.S. dollars in thousands**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	2,243	5,879
Restricted cash	5,104	3,992
Available for sale investments	-	86
Trade receivables	11,076	9,752
Other accounts receivable	1,201	1,067
Inventories	21,131	26,544
	<u>40,755</u>	<u>47,320</u>
<b>NON-CURRENT ASSETS:</b>		
Property, plant and equipment	<u>9,739</u>	<u>26,232</u>
<u>Total assets</u>	<u><u>50,494</u></u>	<u><u>73,552</u></u>

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**U.S. dollars in thousands**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term bank credit	3,762	5,915
Short-term loans and current maturities	17,636	13,218
Loan related to suspended plant	6,787	6,956
Trade payables	8,620	5,562
Other trade payables related to suspended plant	3,334	2,780
Income taxes payable	5,319	6,981
Other accounts payable	4,507	4,385
	<u>49,965</u>	<u>45,797</u>
<b>NON-CURRENT LIABILITIES:</b>		
Long-term loans	487	1,863
Employee benefit obligations	506	305
Other liabilities	468	-
Provision for losses in excess of investment in investee	69	-
	<u>1,530</u>	<u>2,168</u>
<u>Total liabilities</u>	<u>51,495</u>	<u>47,965</u>
<b>EQUITY (deficit):</b>		
Equity attributable to the equity holders of the Company:		
Issued capital	2,399	2,399
Share premium	23,892	23,892
Other capital reserves	878	714
Accumulated deficit	(22,249)	(1,418)
	<u>4,920</u>	<u>25,587</u>
Non- controlling interests	<u>(5,921)</u>	<u>-</u>
<u>Total equity (deficit)</u>	<u>(1,001)</u>	<u>25,587</u>
<u>Total liabilities and equity</u>	<u><u>50,494</u></u>	<u><u>73,552</u></u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**U.S. dollars in thousands (except share and per share data)**

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenues	45,878	36,742
Cost of sales before write-down of inventories	45,471	(*44,572)
Gross profit (loss) before write-down of inventories	407	(7,830)
Write-down of inventories	-	1,497
Gross profit (loss)	407	(9,327)
Operating expenses:		
Research and development expenses ,net	778	655
Selling and marketing expenses	3,119	(*1,822)
General and administrative expenses	3,856	4,562
	7,753	7,039
Operating loss before expenses related to suspended production plant	(7,346)	(16,366)
Expenses of suspended production plant	19,308	2,227
Operating loss	(26,654)	(18,593)
Finance costs	(2,257)	(2,455)
Finance income	157	426
Other income (expense), net	3	(16)
Company's share of loss of company accounted for at equity	(202)	-
Loss before tax	(28,953)	(20,638)
Income tax benefit	2,201	165
Loss for the year	(26,752)	(20,473)
<u>Total comprehensive loss</u>	<u>(26,752)</u>	<u>(20,473)</u>
Loss attributable to:		
Equity holders of the Company	(20,831)	(17,469)
Non- controlling interests	(5,921)	(3,004)
	(26,752)	(20,473)
Total comprehensive loss attributable to:		
Equity holders of the Company	(20,831)	(17,469)
Non- controlling interests	(5,921)	(3,004)
	(26,752)	(20,473)
Basic and diluted loss per share attributable to Ordinary equity holders of the Company	(0.54)	(0.46)
Weighted average number of shares used in computing basic and diluted net loss per share attributable to Ordinary equity holders of the Company	38,376,923	38,376,923

\*) Reclassified - The Company determined that certain expenditures relating to transportation and shipping should be classified as selling and marketing expenses and not the cost of sales in order to better reflect the nature of the expenditures. Accordingly, comparative data in 2009 amounting to \$592 have been reclassified.

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**

**U.S. dollars in thousands**

	Attributable to equity holders of the Company					Minority interests	Total equity (deficit)
	Share capital	Share premium	Other capital reserves	Accumulated deficit	Total		
<b>Balance as of January 1, 2010</b>	2,399	23,892	714	(1,418)	25,587	-	25,587
Total comprehensive loss	-	-	-	(20,831)	(20,831)	(5,921)	(26,752)
Share based payment	-	-	164	-	164	-	164
<b>Balance as of December 31, 2010</b>	<u>2,399</u>	<u>23,892</u>	<u>878</u>	<u>(22,249)</u>	<u>4,920</u>	<u>(5,921)</u>	<u>(1,001)</u>

	Attributable to equity holders of the Company					Minority interests	Total equity
	Share capital	Share premium	Other capital reserves	Retained earnings (accumulated deficit)	Total		
<b>Balance as of January 1, 2009</b>	2,399	23,892	624	16,051	42,966	3,004	45,970
Total comprehensive loss	-	-	-	(17,469)	(17,469)	(3,004)	(20,473)
Share based payment	-	-	90	-	90	-	90
<b>Balance as of December 31, 2009</b>	<u>2,399</u>	<u>23,892</u>	<u>714</u>	<u>(1,418)</u>	<u>25,587</u>	<u>-</u>	<u>25,587</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**U.S. dollars in thousands**

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<u>Cash flows from operating activities:</u>		
Loss for the year	(26,752)	(20,473)
<u>Adjustments to reconcile net loss to net cash provided by operating activities:</u>		
Adjustments to the profit or loss items:		
Depreciation	2,693	2,335
Impairment of property, plant and equipment	15,711	2,227
Write-down of inventories	-	1,497
Amortization and impairment of deferred finance costs	-	528
Gain on marketable securities	(13)	(58)
Capital gain from sale of property, plant and equipment	(3)	(73)
Employee benefit obligations	201	64
Accrued interest and foreign exchange differences on short and long-term liabilities, net	1,299	1,183
Share based payments	164	90
Deferred taxes	-	(79)
Company's share of loss of company accounted for at equity	202	-
Income tax benefit	(2,201)	(86)
	<u>18,053</u>	<u>7,628</u>
Changes in operating asset and liability items:		
Decrease (increase) in trade receivables, net	(1,324)	1,401
Decrease (increase) in other accounts receivable	(134)	4,125
Decrease in inventory	5,413	19,861
Increase (decrease) in trade payables	3,685	(9,093)
Increase in related parties, net	(68)	(211)
Increase (decrease) in other accounts payable	1,065	(1,094)
	<u>8,637</u>	<u>14,989</u>
Cash paid and received during the year for:		
Interest received	23	18
Interest paid	(1,101)	(904)
Income tax received	232	834
Income tax paid	(97)	(121)
	<u>(943)</u>	<u>(173)</u>
Net cash provided by (used in) operating activities	<u>(1,005)</u>	<u>1,971</u>
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(2,138)	(1,148)
Investment in company accounted for at equity	(133)	-
Participation in the purchase of property, plant and equipment	150	-
Proceeds from sale of property, plant and equipment	7	116
Realization of marketable securities	99	-
Increase in restricted cash	(1,112)	(842)
Net cash used in investing activities	<u>(3,127)</u>	<u>(1,874)</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
**U.S. dollars in thousands**

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<u>Cash flows from financing activities:</u>		
Dividend paid	-	(180)
Proceeds from short -term loans, net	6,002	185
Repayment of long-term loans	(3,353)	(1,607)
Decrease in short-term bank credit, net	(2,153)	(4,628)
Net cash provided by (used in) financing activities	<u>496</u>	<u>(6,230)</u>
Decrease in cash and cash equivalents	(3,636)	(6,133)
Cash and cash equivalents at the beginning of the year	<u>5,879</u>	<u>12,012</u>
Cash and cash equivalents at the end of the year	<u><u>2,243</u></u>	<u><u>5,879</u></u>
<u>Significant non- cash transactions:</u>		
Purchase of property, plant and equipment on credit	<u>-</u>	<u>73</u>