MANILA MINING CORPORATION

(A corporation organized and existing under Philippine Laws)

One (1) Share Of Common Stock
For Every Eight (8) Shares Held

Prospectus relating to the stock rights offering, with Record Date of March 10, 2010, covering 22,375,540,151 common shares at P0.015 per share from the Company's additional capital stock with an aggregate value of P335,633,102.26, consisting of 13,429,141,954 "A" shares and 8,946,398,197 "B" shares, the initial 50% payable upon subscription and the 50% balance payable not later than May 12, 2010. The Offer Period is from April 7, 2010 to April 14, 2010.

The subject shares will be listed with the Philippine Stock Exchange. The Company will engage the services of an underwriter, the Multinational Investment Bancorporation, for the sale or distribution of the Offer Shares.

PROSPECTUS

February 8, 2010

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.

20th Floor, Lepanto Building, Paseo de Roxas, Makati City, Philippines
Telephone No. 8159447; Fax No. 8105583 / 8120451

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Prospectus relating to the
Pre-emptive Rights Offering with a par value of P0.010 per share at
an exercise price of P0.015 per share.

Manila Mining is offering to its shareholders the right to subscribe to One (1) share for every Eight (8) shares held as of Record Date.

In a Resolution dated February 5, 2010, the Securities and Exchange Commission has confirmed that the issuance of the Rights Shares is an exempt transaction under Section 10.1(e) of the Securities Regulation Code.

The shares to be offered and resulting shares outstanding after the offering is as follows:

		No. of Shares	Value
Shares to be offered	"A"	13,429,141,954	P201,437,129.31
	"B"	8,946,398,197	134,195,972.96
	Total	22,375,540,151	P335,633,102.27

Issued, outstanding and	"A"	120,862,277,583
subscribed (after the Offering)	"B"	80,517,583,773
	Total	201,379,861,356

Multinational Investment Bancorporation ("MIB") will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer. The Chairman of the Company and principal stockholders, Lepanto Consolidated Mining Company and F. Yap Securities, Inc. have committed to subscribe not just to their respective entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified stockholders.

The PSE assumes no responsibility for this correctness of any of the statements, opinions and reports made or expressed in this Prospectus. The application to cover the listing of the Offer Shares was approved by the PSE Board of Directors on February 17, 2010.

USE OF PROCEEDS: Settle debts and fund exploration projects.

DIVIDEND POLICY: Apart from compliance with Sec. 43 of the Corporation Code, the Company has no dividend policy.

Manila Mining Corporation

20th Floor, BA-Lepanto Bldg. 8747 Paseo de Roxas
Makati, Metro Manila, Philippines
P.O. Box 1460 Makati • Telephones: 815-9447 • 812-7241
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Stock Rights Offering

One (1) Share of Common Stock
For Every Eight (8) Shares Held
At a Price of P0.015 Per Share

This Prospectus relates to the offering for subscription (the "Offer") of 22,375,540,151 Common Shares (the "Rights Shares" or "Offer Shares") with a par value of P0.01 per share of Manila Mining Corporation ("MMC") by way of a pre-emptive rights offering to eligible existing common shareholders of MMC at the proportion of one (1) Rights Share for every eight (8) Common Shares held as of Record Date at an offer price of P0.015 per share.

The authorized capital stock of the Company is P1,800,000,000 consisting of 102,000,000,000 "A" and 72,000,000,000 "B" Common Shares with a par value of P0.01 per share. As of the date of this Prospectus, 179,004,321,205 Common Shares are issued and outstanding. After the completion of the Offer, the Authorized Capital Stock shall have increased to P3,000,000,000, consisting of 180,000,000,000 "A" and 120,000,000,000 "B" common shares, with 201,379,861,356 shares, consisting of 120,862,277,583 "A" and 80,517,583,723 "B" common shares issued and outstanding.

All Common Shares of the Company to be issued pursuant to the Offer will have identical rights and privileges. The Philippine Constitution and laws limit foreign ownership in the company to a maximum of 40% of its issued and outstanding capital stock entitled to vote. To ensure compliance with the legal limits, the Company's "A" Common Shares, constituting 60%, at any one time of the issued and outstanding shares, are available only to Filipino citizens. The "B" shares are available to persons of any nationality.

The Company is allowed to declare dividends from its surplus profits at such times and in such percentage as the Board of Directors may deem proper.

The Company expects to raise approximately P335.6 million from the Offer. The net proceeds from the Offer, after costs and fees of about P4.8 million, will be used by the Company to settle debts and fund exploration projects.

The information contained in this Prospectus is publicly available and has been supplied by the Company solely for the purpose of the Offering. The Company accepts full responsibility for the accuracy and completeness of the information contained herein. The Company confirms that, after having made all reasonable inquiries, and to the best of its knowledge and belief, there are no material facts, the omission of which would make any statement in this Prospectus misleading in any material respect. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Multinational Investment Bancorporation (MIB) will act as Underwriter of the Offer. Any unsold Rights Shares will be taken up and distributed by MIB. The Chairman of the Company, Mr. Felipe U. Yap, and F. Yap Securities, Inc., and Lepanto Consolidated Mining principal shareholders of the Company, have committed to subscribe not just to their respective entitlement

MAILING & CABLE:
Domestic Surface Mail
P.O. Box 1460, MCPO
1254 Makati City
Metro Manila

Domestic & Foreign Air Mail
P.O. Box 7507
Domestic Airport Post Office
Domestic Road
1300 Pasay City, Philippines

of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified shareholders.

Prospective investors to the Offer Shares must conduct their own evaluation of the Company and the terms and conditions of the Offer, including the merits and risks involved. Please refer to Risk on Investing and Risk Factors discussed on pages 9-11 of this Prospectus. The readers of this Prospectus are further enjoined to consult their financial advisers, tax consultants, and other professional advisers with respect to the acquisition, holding, or disposal of the Offer Shares described herein.

The Company's Common Shares are listed on the Philippine Stock Exchange, Inc. ("PSE") under the symbols "MA and MAB". On January 29, 2010, both MA and MAB closed at P0.025 per share.

In a Resolution dated February 5, 2010, the Securities and Exchange Commission has confirmed that the issuance of the Rights Shares is an exempt transaction under Section 10.1(e) of the Securities Regulation Code.

The PSE assumes no responsibility for the correctness of any of the statements, opinions, and reports made or expressed in this Prospectus. The listing of the Rights Shares is subject to the approval of the PSE Board. Such approval for listing, however, is permissive only and does not constitute a recommendation or endorsement of the Offer Shares by the PSE.

This Prospectus shall not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described herein, nor does it constitute an offer to sell or a solicitation of an offer to buy the shares described herein in any jurisdiction in which such offer or solicitation or sale is not authorized, or to any person to whom it is unlawful to make such offer or solicitation or sale. No dealer, salesperson, or other person has been authorized to give information or make any representation not contained in this Prospectus, and if given or made, may not be relied upon as having been authorized by the Company.

MANILA MINING CORPORATION

By:

FELIPE U. YAP
Chairman and Chief Executive Officer

Subscribed and sworn to before me this FEB 0 8 2010 day of February 2010 at Makati City, affiant exhibiting his Com. Tax Cert. No. 14099509 issued at Davao City on January 5, 2010.

ATTY. RYAN R. ESPINOSA
NOTARY PUBLIC
UNTIL DECEMBER 31, 2011
ATRIUM OF MAKATI, MAKAPILAVE, MAKATI CITY
NOTARIAL COMMISSION NO. M-136
MCLE COMPLIANCE NO. 000465/ROLL NO. 47548
IBP NO. 803606/12-22-2009 / Q.C.
PTR NO. 2092247/1-7-2010 / MAKATI

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TABLE OF CONTENTS

Description	Page
Glossary of Terms	1-2
Business	3
Marketability of Products	3
History	4
Mining Tenements	4-5
Recent Developments	9
Risks Factors	9-11
Use of Proceeds and Cost of Offering	11-12
Determination of the Offer Price	12
Plan of Distribution	12-13
Relationship to Issuer	13
Terms and Conditions of the Offer	13-15
Securities and Shareholders	16-17
Dividends Policy	17
Properties	17-18
Legal Proceedings	18
Material Contracts	19-19
Employees	20
Investor Relations	20
Corporate Governance	20
Financial Information and MDA	20-23
Independent Public Accountant	23
Control Information	23-25
Certain Relationships and Related Transactions	26
Summary Compensation Table	26-28

Voting Trusts and Change in Control	. . . . .	27
Warrants, Options, Compensation Plans, Issuance or Modification of Securities	. . . . .	27
Security Ownership	. . . . .	27-28
Legal Framework for Mining in the Philippines: The Philippine Mining Act	. . . . .	28-29
Philippine Stock Market	. . . . .	29-30
Settlement	. . . . .	30-31
Scripless Trading	. . . . .	31-32
Amended Rule on Lodgment of Securities	. . . . .	33
Taxation and Foreign Exchange	. . . . .	33-34
Philippine Foreign Investment, Exchange Controls And Foreign Ownership	. . . . .	35
Audited Financial Statements (2008, 2007 & 2006)	. . . . .	36
Review of the 2007-2008 Revival Exploration Program Results		Annex “A”
Certification of Mr. Tomas D. Malihan		Annex “A-1”
Certification and Consent of Mr. Tomas D. Malihan		Annex “A-2”

GLOSSARY OF TERMS

Additional Shares	-	The shares granted to Applicants on top of the Rights Shares
Additional Subscription	-	The shares over and above the shares a stockholder is entitled to under the Offer which he indicates as such in the Subscription Agreement and for which the corresponding 50% downpayment is made to the Company within the Offer Period
Ag	-	Silver
Applicant	-	A shareholder entitled to subscribe to the Offer who applies for an Additional Subscription
APSA	-	Application for an MPSA
Assay	-	the chemical analysis of an ore, mineral, concentrate of metal to determine the amount of valuable species. Precious metals are usually given in ounces per short ton or grams per metric ton, while base metals are given in percentage
Au	-	Gold
Available Shares	-	such of the Offer Shares as will not be subscribed by the concerned Eligible Shareholders within the Offer Period, which may therefore be distributed among the Applicants in the Second Round.
Copper Flotation	-	is the process of separating copper minerals from the ore using chemical reagents, air and mechanical agitation. The mineral particles are separated from the host rock and float to the surface on air bubbles forming a froth, which is skimmed off, filtered and dried
Copper concentrate	-	the resulting copper product of the process of separating mill head grade ore or metal from its containing rock.
Cu	-	Copper

Eligible Shareholder	-	a shareholder of at least eight (8) shares of stock of the Company as of the Record Date, thus entitled to subscribe to the Offer Shares
KCGRI	-	Kalayaan Copper-Gold Resources, Inc, a wholly-owned subsidiary of the Company
LCMC / Lepanto	-	Lepanto Consolidated Mining Company
MPSA	-	Mineral Production Sharing Agreement
Manila Mining; MMC/ /Company	-	Manila Mining Corporation
MIB	-	Multinational Investment Bancorporation
Mill head grade	-	the content of precious metal in the ore as it enters the mill
Mmt	-	Million metric tonnes
Offer/ Rights Offer	-	The 1:8 Stock Rights Offering of the Company
Offer Period	-	The period commencing on April 7, 2010 at 9:00 o'clock a.m. and ending on April 14, 2010 at 5:00 o'clock p.m.
Offer Shares	-	The shares subject of the Offer, totaling 22,375,540,151 shares
Record Date	-	March 10, 2010
Rights Shares	-	The shares to which shareholder of the Company is entitled to subscribe, on the basis of his shareholdings as of the Record Date
Second Round	-	The distribution of the unsubscribed Offer Shares to Applicants in proportion to their shareholdings as of the Record Date

Business and General Information

Business

MMC was incorporated in 1949 to engage in the mining and exploration of metals. It is an affiliate of Lepanto Consolidated Mining Company, which, directly and through its wholly-owned subsidiaries, Lepanto Investment and Development Corporation and Shipside, Incorporated, owns 22.7 % of MMC's outstanding capital.

MMC started mining operations in Placer, Surigao del Norte in 1981. From 1982 to 2001 when it suspended mining operations, MMC produced a total of 761,835 ounces gold and 261,720 ounces silver. During its 4 years of copper operations from1997-2001, MMC produced a total of 19,810,616 lbs. copper.

MMC has no parent company. It has a wholly-owned subsidiary, the Kalayaan Copper-Gold Resources, Inc. ("KCGRI")

Below is the Capital Structure of the Company and its sole Subsidiary:

Company	Date of Incorporation	Authorized Capital Stock	Subscribed Capital Stock	Ownership of the Company
Manila Mining Corporation (MMC)	June 3, 1949	P1.8 Billion	P1.79 Billion	4,187 Stockholders
Kalaya-an Copper-Gold Resources, Inc.	May 31, 2007	P10 Million	P2.5 million	100% owned by MMC

Marketability of Products

There is virtually no market competition among metals producers. Whatever is produced may be shipped out immediately. There is always a ready market, in fact, an increasing demand, for the Company's products, i.e., gold-copper and silver. The steady demand for these metals explains the continuing rise in metals prices since 2002, interrupted only by the financial crisis in 2008. MMC used to sell its gold to the Bangko Sentral ng Pilipinas and foreign metals traders, such as Johnson Matthey, without difficulty. The copper concentrate was sold to the Philippine Associated Smelter and Refinery (PASAR) and foreign metals traders without difficulty. Prices of the company's products are dictated by the world market. The Company is not bound under any contract to sell exclusively to any one party.

The Company has no new products or services. As stated above, the Company stopped its mining and milling operations in 2001.

History

MMC started work at the Placer Project in the mid 1970's after taking over the former grounds of East Mindanao Mining Company (EMMC), Mapaso Goldfields and Surigao Suyoc Mines. EMMC started mining the property in 1936 with a 100-tpd straight cyanidization mill capacity, which increased to 200 tpd just prior to the outbreak of World War II. Operations ceased soon after. MMC took over in the early 1970's, producing, until 1982, a total of 82,683 tonnes of ore averaging 7.46 g/t gold. Mining method switched from underground to open-pit mining by late 1982.

The Placer Project is located in the municipality of Placer, Province of Surigao del Norte, and lies at the center of the well-known Surigao Mineral District. The area may be reached from both Surigao City and Butuan City via some 32 and 102 km of concrete roads respectively. Daily commercial flights to and from Manila is being serviced by the Philippine Airlines using the Butuan airport.

Both underground and open pit ores were initially treated in the mill employing the Carbon-In- Pulp (CIP) process at 250 tpd. This gradually increased to a maximum of 1500 tpd. Heap leaching was later adapted to process the lower grade ore in 1989. The original mill ceased commercial operation in early 1995 as operating costs increased, and a new mill was commissioned, designed for a 3000-tpd operation. The new mill reached a peak capacity of 10,000 tpd using CIP/CIL process to extract the gold. At this time, the major source of gold ore was the Heine pit supplemented by ore from the Ntina, Suyoc, Reno-Emma and other minor areas. Heine was a comparatively easy to extract open pit operation and the ore is metallurgically clean and ideal for the Carbon in Pulp (CIP) gold recovery process

MMC has contributed significant revenues to the national and local governments in the form of taxes, fees and duties

On 25 July 2001, MMC shut down its Placer Project due to the expiration of the Temporary Authority to construct and operate Tailings Pond No.7 (TP-7) issued by the EMB-CARAGA. This has caused a reduction of manpower to less than a fifth of the total workforce of more than 500. Thereafter, activities have been limited to exploration and securing the Company's assets. MMC will firm up plans concerning the Tailings Pond in due course, after conversion of its Ore Resource to Ore Reserve and as it prepares to re-start its operations

Mining Tenements

The MMC Tenements consist of groups of claims totaling 5,070.6604 hectares of mineral land bounded located in the Municipalities of Placer, Tagana-an, Sison, Tubod and Claver.

These are covered by mining lease contracts, mineral production sharing agreement, exploration permits and conversions to production sharing agreement. As mandated by the Philippine Mining Act of 1995, mining claims previously covered by lease contract No. V-1128, including the Ntina Gold-Copper project, are now covered by MPSA No. 253-2007-XIII; those covered by lease contracts MRD-67; MRD-324 and MRD-480 have been converted to APSA No. 00083-XIII. The existing lease contracts MRD- 322 and MRD- 323 are presently being converted to a consolidated APSA, for filing before the expiry date, June 4, 2011.

The Suyoc Kinto-Limbo deposits are covered by Mining Lease Contract MRD-322 and Parcel IV of EPA-XIII-014A. The Ntina-Mindoro deposits are covered by Mining Lease Contract MRD-67 which was converted to APSA-00083-XIII.

Recent Developments

MMC obtained Exploration Permit No. XIII-014 ("EP XIII-014") from the DENR covering 2,462.9152 hectares in Placer, Surigao del Norte on July 17, 2002, for a period of two years from issuance thereof. This EP was renewed by the DENR on January 26, 2007.

MMC signed on March 26, 2007 a Farm-In Agreement with Anglo Investments BV (Anglo), a wholly-owned subsidiary of Anglo American plc, covering Parcel VI of EP XIII-014 consisting of 286.63 hectares, known as the Kalayaan Project. Under this Agreement, Anglo had the obligation to fund, at its sole cost over a period of 2-3 years, the Kalayaan Project's pre-feasibility study phase at an estimated cost of US$20 million, including the initial entry cost of US$7million that was paid to MMC upon the execution of the Agreement. Anglo was to earn a 40% interest in KCGRI upon completion of the pre-feasibility phase.

By a Deed of Assignment dated April 24, 2007, MMC assigned the said parcel VI to its wholly-owned MMC subsidiary, KCGRI. The Deed of Assignment was registered with the MGB Regional Office XIII, Surigao City and approved by the DENR Secretary on July 30, 2007. Thereafter, MMC sought the amendment of EP XIII-014 for the purpose of carving out therefrom Parcel VI and causing the issuance of a separate EP to KCGRI for that parcel. On March 5, 2008, EP No. XIII-014B was issued to KCGRI.

In November 2008, KCGRI received notice from Anglo that Anglo was exercising its option to terminate the Farm-In Agreement dated March 26, 2007 for the exploration of the Kalayaan Project. Anglo is not entitled to any payment, repayment, fees or consideration for any funding, work or services that it had provided to Kalayaan or to MMC. During the period of the joint venture, Anglo had spent a total of US$ 10.821 million, including the initial entry cost that was paid to MMC, community development projects and the drilling of 11 holes with an aggregate depth of over 8,200 meters. The termination of the Farm-In Agreement was not caused by any dispute, as there was none, between Anglo and MMC.

Using the proceeds of a stock rights offering in 2006 and the payment received from Anglo in 2007, MMC had reduced its liabilities from P1.30 billion in 2005 to P0.38 billion. MMC was also able to complete the 2007-2008 Revival Exploration Program, drilling 71 holes with a total depth of 15.9 kilometers around the previous open pits (historical operations site) with a view to blocking additional ore reserves that would justify the re-opening of the Placer Mine.

In January 2010, the Company engaged the services of Mr. Tomas D. Malihan, a Competent Person as the term is defined in the Philippine Mineral Reporting Code, to review the results of the 2007-2008 Revival Exploration Program of the Company. His Comments and Recommendations are as follows:

COMMENTS AND RECOMMENDATIONS

a) The recent estimate of the MMC Resource made by the MMC Revival Exploration Staff and the Resource Evaluation Team shows a large percentage of the deposit in the Inferred category. Inferred Resource, following the guidelines set up by the Philippine Mineral Reporting Code (PMRC), could not be given any weight for mine planning purposes as only resources in the Measured and Indicated classes may be converted into reserve and only if it could satisfy certain economic parameters to allow them to be used in mine planning. Thus, MMC might have to consider the 2007-2008 drilling campaign as Phase 1 or preliminary and may have to design a follow up drilling program to drill more holes, i.e., fill in holes to upgrade more of the Inferred resources that could be usable to the Mine planners.

b) In the MMC Revival Exploration Program, it was stated that the primary objective of the exploration drilling campaign was to block additional open-pittable, epithermal Cu-Au deposits within and around the vicinity of the old pits that could justify the revival of the mining operation in MMC's mineral properties in Placer. MMC therefore, is targeting shallow-seated 'ore-grade' mineralization similar to that the company mined in the '80 and the 90's

c) During the visit at the Placer mine sites, it was noted that north wall of the abandoned Heine Pit was a alive high-grading activities with numerous adits dotting the now vegetated slope. It would only indicate that substantial resource was left there by MMC when it was mining the Heine deposit which was considered the richest among the various deposits exploited by the company in the '80s and '90s. We are informed that, in the 2007-2008 Revival Exploration Program, Heine had been given low priority as the plan was to utilize the Heine Pit as possible tailings pond in case the mining operation is revived. We suggest that MMC Management reconsider this option is alternative tailings ponds could be found. Heine possibly still contain substantial gold resource left from the previous operation that should be systematically and exhaustively explored considering that it was the number one producer during the time and its gold ore was considered 'clean ore' (with minor Cu content compared to the other deposits) when MMC was mining the deposits.

d.) The occurrence of the Heine deposit appears to be associated with a diatreme where the deposit is localized along the diatreme's margin. If MMC has not done it yet, it is suggested that the Company have the margin of the diatreme traced and explored for possible "GW-type breccias deposits" that are in big numbers along the margin of the Balatoc Plug, also a diatreme, found in Acupan Mine in Benguet. The GWs were great ore contributors to the Acupan Mine production during its heyday.

e.) The geological sections presented by the MMC minesite geological staff which are also part of the 2007-2008 Revival Exploration Program Report dated January 30, 2010 that are the subject of this review, shows that most of the drill holes were sunk well below the old pits' bottoms and below what might be considered 'economical' pit limits. This is, however, understandable as drilling depths given their extraordinary nature. Limiting the depths to the upper horizon during this initial phase of the program might lead to opportunities missed in case there are higher grade deposits that lie just below the surface-mineable horizon. The drilling of a few deep holes to test the conjectured porphyry system down below the epithermal system is also justified. The results, although largely inconclusive, give hints that a potential porphyry copper systems or systems might below the epithermal horizon and, therefore, could guide future exploratory drilling programs should MMC opts to pursue deep drilling mineralization, its geologists could be guided by the results of the few deep holes that were sunk to probe its existence. Based from initial results of these drill holes, the porphyry system, if it exists, probably lies below 800 meters from surface. If initial drilling results indicate lower grade mineralization that may not support the cost of underground mining, the deep drilling program should be re-evaluated if it's worth continuing.

f) A closer examination of the drill cores from selected holes produced from the 2007-2008 drilling campaign showed most of the observed copper and gold mineralization difficult to reconcile with the assay records. Quartz veinlets and quartz-lined fractures that are observed to contain chalcopryrite are generally few and far between to account for elevated Cu values in many cases. Also, the 'ore grade' Au values when checked against the cores, usually manifest only as stronger oxidation in the cores with no clearly defined structures much less, quartz veins to account for the high Au values. This might require further checking in the Assay laboratory and maybe, some research works in ore microscopy. Furthermore, the train of elevated or 'ore' grade values that could be used to define 'ore blocks' are generally discontinuous and erratic. The GEMCOM generated resource noted that skewness of the value plots to the right indicating a generally few extremely high values and abundance of low values. In this type of mineralization, closer-spaced drilling could minimize uncertainties in ore block projections.

g) In summary, the results of the 2007-2008 resource evaluation campaign conducted by MMC in its Placer mineral property in Surigao are far from being conclusive to justify reactiviating the mining operations. The combined percentage of Measured and Indicated resources comprise only 19.6% of the delimited Resource with the bulk (81.4%) in the Inferred category. For mine planning purposes, only 19.6% of the 76.7 Mmt of the Global resource blocked by the diamond drills could qualify for categorizing as reserve. But even then, not all of this 19.6% may pass as reserve or mineable if open pittable resource is the target as spelled out in MMC's objective in the Revivcal Exploration Program.

h) It might be prudent for MMC to pursue a Phase 2 or follow-up drilling program using the results from the 2007-2008 drilling campaign in locating fill-in holes. The drilling should, as much as possible, limit the

depth to shallow horizon if it aims to block only open pittable resources unless there are compelling reasons to deepen the hole or the assay shows that the hole is still in 'ore' and shoild not be terminated. Limiting the drilling depths would maximize intersections of 'ore' materials that could pass as mineable if mining option would have to be limited to open pit. Defining mineralized zones in the deeper levels can only be justified if the grade of mineralization and potential tonnage could support the more expensive underground development. A deposit in the "Boyongan Class" should be the target, otherwise, investing in deep drilling could be an exercise in futility.

Following is Mr. Malihan's conclusion:

"The Revival Drilling Program results as collated and synthesized by the MMC Exploration Group, blocked an estimated 76.7Mmt of copper-gold resource with an average grade of 1.07 g/t Au Equivalent using a 0.61 g/t Au Equivalent cut-off. Of the blocked resource, 5.24Mmt @ 1.12 g/t Au Equivalent was categorized as Measured, 6.92Mmt @1.04g/t Au Equivalent, Indicated, while the bulk, 62.5 Mmt @1.06g/t Au Equivalent grade falls under Inferred category. In the computation of the Au Equivalent for the Cu contents, the Group used conservative figures of USD850/Oz and USD2.00/lb for Cu.

"MMC has observed the industry accepted procedures and guidelines in the management of its exploration data during the execution of the drilling program and employed the latest resource estimation tools in its processing of the data stored in its database. The resources estimated by the Exploration Group from the drilling results, however, appear inadequate to help the MMC management decide whether the revival of the mining operation could be justified or not. If MMC limits its option to open-pittable resource, then, it needs to upgrade more of the blocked resource from Inferred to Measured and Indicated. MMC may have to pursue a Phase 2 Drilling Program based on the results of Phase I and design more fill-in holes for closer-spaced drilling. This program should also limit the drilling depths within the open-pittable horizon to maximize the meterage that really counts in he resource blocking.

"In summary, the Manila Mining Corporation Revival Exploration Program Report prepared by the MMC Exploration Group is a well-written report and was based on the exploration data diligently gathered, collated, processed and interpreted by the Group. The Group also applied all the required safeguards to protect the integrity and validity of the data stored in the database used in the report preparation. However, the resource estimated is deemed inadequate to help the MMC Management decide to go ahead with the revival of the mining operation in the subject tenement that was mothballed in 2001. Additional drilling is suggested to upgrade more resources to higher categories that can be useful for the mine planners."

The full report and certifications of Mr. Malihan, dated February 8, 2010, are attached to this Prospectus as Annexes "A", "A-1" and "A-2".

Resumption of Operations

Additional drilling is needed to complete the Company's Mineral Resource, which include the Ntina, Heinie and Suyoc Kinto-Limbo projects in Placer, Surigao del Norte, and to convert the said resource to Ore Reserve using in-house competent geologists. Once the Ore Reserve is in place, the Company will embark on the development of the mine and rehabilitation of facilities to be able to resume mining operations. A study will also be made concerning the feasibility of Commissioning Tailing Pond No. 7 or the construction of a new tailings pond.

Risks Factors

Prospective investors should carefully consider the risk factors discussed below in addition to the other information contained in this Prospectus, including the Company's financial statements and notes relating thereto, before making any investment decision relating to the Offer. This section does not purport to disclose all the risks and other significant aspects of investing in the Offer. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Company or are currently considered Company's business, financial condition and prospects affecting the market price of the Company's shares

a) Marketability of Shares

The Rights Shares will be listed on the PSE. Trading volumes in the Philippines have historically been significantly smaller than those in securities markets in more developed countries and have also been highly volatile. There is no assurance that an active market for the Rights Shares will develop following the Offer or if developed, that such market will be sustained. The price at which the shares offered will be traded on the PSE after the Offer may vary from the Rights Offer Price.

b) Further Net Losses Projected

There can be no assurance as to when MMC will resume its mining operations. This will depend largely on the results of the exploration work to be undertaken this year. As reflected in the projected financial statements, no revenues are projected in 2010. Thus, all expenses related to administrative matters and depreciation/depletion will be booked as losses.

c) Additional Capital May be Needed for Mine Development

Should exploration results and market conditions warrant the re-opening of its mines, MMC may need additional financing for mine development and purchase of equipment. Its ability to raise funds will depend on various factors, including the state of financial markets, general condition of the Philippine economy, public perception of the Company's health and other factors which are beyond the Company's control.

d) Revival of Mining Operations

As stated in the report of Mr. Malihan (Please see Annexes A"" to "A-2".), the Ore Resource estimated is deemed inadequate to help the MMC Management decide to go ahead with the revival of the mining operation in the subject tenement that was mothballed in 2001. Additional drilling is suggested to upgrade more resources to higher categories that can be useful for the mine planners."

After completion of additional drilling, the Company's Mineral Resource will be converted to Ore Reserve and a Final Feasibility Study will be completed detailing the mining method, equipment, metallurgical process and facilities to be used, including tailings improvement, among others. This will be followed by the development phase, including rehabilitation of equipment and facilities and/or purchase of new ones, and then the mine operations phase. For all these, more funding will be needed by the Company, the amount of which will depend on the exploration results, cost of materials and metal prices at that time.

e) Geology Risks

There can be no assurance that the properties explored will be developed and operated. Also, resource estimates may materially vary from actual ore reserves. Until the ore is actually mined and processed, the tonnage and grade of mineral resources and reserves may only be considered as estimates. Thus, the actual mine life of a project may vary from initial estimates. The exploration of mineral properties is based on samples. The sampling is exposed to several risks such as the inaccuracy and unreliability of the laboratory sampling methods and practices. The Company however employs and/or consults with highly knowledgeable and experienced geologists and metallurgists who are familiar with the style of mineralization and type of deposit of MMC's properties. As observed by Mr. Malihan, (Please see Annexes A"" to "A-2".), MMC has observed the industry accepted procedures and guidelines in the management of its exploration data during the execution of the drilling program and employed the latest resource estimation tools in its processing of the data stored in its database.

f) Risks Relating to Mining Tenements

MMC and KCGRI have pending applications for the renewal of their respective Exploration Permit (EP No. XIII-014 and XIII-014B, respectively) which approval is outside of MMC control. MMC and KCGRI however are compliant with the requirements for such approvals.

MMC has pending applications for MPSAs (APSA nos. 000006-X; 000007-X; and 000047-X; XIII-083; 000078-XIII) and which approval is outside of MMC control. MMC diligently prosecutes these applications and is compliant with the DENR's requirements for the approval of the same.

The areas that MMC intends to mine in the medium-term, if warranted by explorations results, are either covered by an approved MPSA (MPSA No. 253-2007-XIII) or a still effective mining lease contract.

g) Metal Prices

Current metal prices are very favorable – gold is at a record high and copper price, though lower than last year's peak, are also very high historically. However, the Company has no control over metal prices. They could fall below, or rise higher, than the prices upon which future feasibility studies may be based.

h) Risk on Environmental Legislation

Mining activities in the Philippines are monitored and highly regulated by the DENR. Non-compliance or failure to comply with government regulations may delay mining operations. New government regulations affecting the Company's exploration or mining activities will have to be complied with and could entail additional costs.

i) Environmental Risk Hazards

Mining is a highly-regulated industry and the Company complies with all environmental and mining laws and regulations. Environmental protection is a priority of the Company. MMC has adopted an Environmental Policy that integrates safety, health and environmental concerns in all phases of its operations.

Risk hazards include exposure of workers and other stakeholders to possible occurrence of accidents in the exploration sites and eventually operations site. Also, pollutants may be generated from mining and milling operations, thus the need for strict compliance with health, safety and environmental standards.

Use of Proceeds

	Amount
Drilling Program	
Additional Exploration Work and Conversion of Ore Resource to Ore Reserve	P180,000,000
Accounts Payable & Accruals	
Trade	43,400,000
Employee Related Accounts	14,400,000
Advances from Shareholders & Related Parties	93,000,000
Cost of Offering	4,800,000
Total	**P335,600,000**

All the accounts shown above will be paid within the period 2010 to 2011.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event that there is any change in the Company's development plan, including *force*

majeure and circumstances such as failure to obtain requisite approvals, changes in government policies that would render any of the above plans not viable, the Company may reallocate the proceeds to other purposes taking into consideration the prevailing business climate and the interests of the Company and the shareholders taken as a whole. In the event of any deviation/adjustment in the planned use of proceeds, the Company shall promptly make the appropriate disclosure to the SEC and the PSE.

Cost of Offering

The Expenses that this exercise will entail are estimated at PhP4,800,000.00, broken down as follows:

Nature of Expense		Amount
Processing Fee, PSE	PhP	10,000.00
Listing Fee		335,000.00
SEC Confirmation of Exempt Transaction		340,000.00
Filing Fees re: Increase of Authorized Capital Stock, SEC		2,430,000.00
Documentary Stamp Tax		1,120,000.00
Transfer Agent's Fees		75,000.00
Administrative (printing of notices, subscription agreements and stock certificates, mailing, Escrow Agent's Fees, miscellaneous)		490,000.00
Total	PhP	4,800,000.00

Determination of Offering Price

The shares will be offered to all eligible MMC shareholders at the exercise price of P0.015 per share of either class or a discount of about 38% to the closing price of MMC Class "A" and "B" shares on the day of the Board's approval and announcement of the offering. The discount is being given to encourage participation in the offering. The exercise price is 1.5x the par value of P0.01 per share. Under the existing PSE rules, the Rights Offer Price should not be lower than the share's par value.

Plan of Distribution

The Rights Shares shall be offered on a pre-emptive rights basis to existing shareholders of the Company as of the Record Date. The Offer shall be in the proportion of one (1) share for every eight (8) shares of the same class held as of the Record Date at a Rights Offer Price of P0.015 per Rights Share. The Available Shares shall be granted to those shareholders who had exercised their rights and had applied for Additional Shares. These shall be distributed by the underwriter Multinational Investment Bancorporation ("MIB") on a pro-rata basis, to be determined after all the subscription agreements with the required payments shall have been received by the Company. The Chairman of the Company and principal stockholders, F. Yap Securities, Inc. and Lepanto Consolidated Mining Company, have committed to subscribe, not just to their respective entitlement of Rights Shares, but also to any rights shares that will not otherwise be taken up by other qualified shareholders.

Holdings of existing shares in certificated and scripless form will be treated as separate holdings for the purpose of calculating entitlements under the Offer. Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlement will be rounded down to the nearest whole number of the Rights Shares.

MIB will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer, the underwriting being a technical compliance underwriting undertaken pursuant to the requirements of the PSE.

Notices of the Offer with the subscription agreements will be issued by the Office of the Corporate Secretary and payments will be received by the Office of the Chief Accountant.

Relationship with the Issuer

No relationship exists between the Underwriter and the Company, other than as stated in the Underwriting Agreement entered into by both parties.

TERMS AND CONDITIONS OF THE OFFER

ISSUER:	Manila Mining Corporation
RATIO:	one (1) new common share for every eight (8) common shares held
ELIGIBLE SHAREHOLDER	a shareholder of at least eight (8) shares of stock of the Company as of the Record Date, thus entitled to subscribe to the Offer Shares
OFFER SHARES:	Common Shares of the Company with par value of P0.01 per share consisting of 13,429,141,954 class “A” shares and 8,946,398,197 class “B” shares or a total of 22,375,540,151 shares. The Offer Shares shall be considered issued and shall rank equally in all respects with the existing shares after a valid subscription agreement is perfected between MMC and the subscriber as evidenced by the written acceptance by MMC of the application to subscribe and issuance of an official receipt covering the payment of at least 50% of the Subscription Price
OFFER PRICE:	P0.015 per share
PAR VALUE:	P0.01 per share
RECORD DATE:	March 10, 2010
EX-DATE:	March 5, 2010

OFFER PERIOD:	April 7 – 14, 2010
PAYMENT TERMS:	50% due within Offer Period; balance due on May 12, 2010. Full Payment is acceptable and will be duly receipted but such full payment does not guarantee the Company's approval of the Additional Subscription, as the Available Shares, to be determined only after the Offer Period, will be distributed to the Applicants in proportion to their original shareholdings as of the Record Date.
ADDITIONAL DOCUMENTS NEEDED:	If the Subscriber is a partnership, corporation or trust account, the Subscription Agreement must be accompanied by a Secretary's Certificate embodying the resolution authorizing the subscription to the Rights offer and designating the authorized signatory for the transaction; Individual subscribers must submit a copy of a valid ID together with the Subscription Agreement.
SECOND ROUND:	To be considered for the Second Round, Additional Subscriptions must be indicated in the Subscription Agreement and submitted within the Offer Period with the corresponding 50% payment. In the event that the SRO is not fully taken up on the First Round, shareholders who have applied for Additional Subscriptions ("Applicant") will automatically qualify for the Second Round of the rights offering; the Available Shares shall be distributed to the Applicants in proportion to their original shareholdings as of the Record Date. To ensure that all validly mailed-in subscriptions are taken into account, the Second Round shall not commence until five (5) days from the end of the Offer Period
REFUND:	The initial subscription payment of each Applicant shall be applied first to the approved Additional Subscription; then to the payment of the balance of the entire subscription. Any further balance shall be refunded via check not later than five (5) banking days after the end of the Offer Period. Such refund check shall be mailed to the Applicant's address as indicated in the Subscription Agreement
UNDERWRITER:	Multinational Investment Bancorporation
ESCROW AGENT:	Banco de Oro Universal Bank
STOCK TRANSFER AGENT:	Bank of the Philippine Islands

USE OF PROCEEDS:	To settle debts and fund exploration projects
ISSUANCE TAX/ DOCUMENTARY STAMP TAX	All documentary stamp taxes applicable to the issuance of the Offer Shares shall be for the account of MMC
LISTING DATE:	The shares offered will be listed about two weeks from the end of the Offer Period or on or around April 28, 2010, subject to compliance with the post-approval requirements of the PSE
TRADING DATE:	The shares will be tradable upon full payment by the shareholder concerned of the subscribed shares and MMC's compliance with post-listing requirements of the PSE provided that MMC's application for the increase of its Authorized Capital Stock shall have been approved by the SEC
REGISTRATION AND LODGMENT OF SHARES WITH PDTC	All Offer Shares shall be lodged with the PDTC but no stock certificates shall be issued corresponding to fully-paid subscriptions. Instead a Registry Confirmation Advice will be issued by the Transfer Agent to the Depository Participants or brokers designated by the subscriber; if the Subscriber does not indicate any broker's name, then the Company will designate F. Yap Securities, Inc. on the Subscriber's behalf.
FOREIGN OWNERSHIP RESTRICTION	Common "A" Shares, constituting 60% of the capital stock of the Company, are available only to Filipino Shareholders. This is a built-in mechanism to ensure that at any one time, foreign ownership in the Company does not exceed 40% of the outstanding capital.
ACCEPTANCE / REJECTION OF APPLICATIONS	The Company has full discretion to accept or reject all or a portion of any subscription under the terms and conditions of the Offer. The actual number of Rights Shares to which any subscriber may be entitled is subject to the confirmation of the Company. Subscriptions where checks are dishonored upon first presentment or which do not comply with the terms of the Offer shall be rejected. Moreover, payment received upon submission of a subscription does not constitute approval or acceptance by the Company of the same.

SECURITIES

Market for Registrant's Common Equity and Related Matters

MMC's shares of stock are listed in the Philippine Stock Exchange. Following are the quarterly prices of MMC securities since 2007:

MMC "A" (P/share)

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Low	0.023	0.029	0.017	0.024	0.0019	0.013	0.017	0.01	0.008	0.012	0.025	0.024
High	0.034	0.038	0.033	0.032	0.021	0.013	0.01	0.0065	0.008	0.013	0.027	0.025

MMC "B" (P/share)

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09
Low	0.025	0.033	0.020	0.028	0.02\1	0.013	0.021	0.0065	0.009	0.013	0.026	0.024
High	0.039	0.041	0.035	0.035	0.022	0.014	0.012	0.0065	0.009	0.013	0.027	0.025

Securities and Shareholders

As of December 31, 2009, there were a total of 4,803 shareholders- 3,489 shareholders holding Common "A" shares, or 60.02% of total shareholders; and 1,314 shareholders with Common "B" shares, or 39.98% of total.

Top 20 Stockholders of the Company (as of December 31, 2009)

	Name of Stockholder	Class "A"	Class "B"	Total	%
1	PCD Nominee Corp (Fil)	37,893,954,355	25,156,117,369	63,050,071,724	35.27
2	Lepanto Cons. Mining Co.	18,203,579,648	10,707,139,480	28,910,719,128	16.17
3	F. Yap Securities, Inc.	19,199,959,764	7,332,559,695	26,532,519,459	14.84
4	Lepanto Invt & Devt Corp.	1,390,313,541	5,037,619,533	6,427,933,074	3.60
5	PCD Nominee Corp (Non-Fil)		2,589,478,745	2,589,478,745	1.45
6	Yap, Bryan	1,945,977,139	1,124,317,007	3,070,294,146	1.72
7	Yap Christine	1,861,557,111	461,919,918	2,323,477,029	1.30
8	Paul Gerard B. del Rosario	1,218,800,000	1,074,000,000	2,292,800,000	1.28
9	Coronet Property Holding Corp.	1,235,209,029	851,662,573	2,086,871,602	1.17
10	Yap, Paulino	1,064,905,731	1,019,720,824	2,084,626,555	1.17
11	Yap, Paulino	890,763,764	787,396,304	1,678,160,068	0.94
12	F. Yap Securities, Inc.		1,665,206,615	1,665,206,615	0.93
13	Yap, Abigail K.	82,103,410	1,403,451,933	1,485,555,343	0.83
14	Yap, Christine Karen	886,334,939	492,917,544	1,379,252,483	0.77
15	Yap, Emma	799,516,109	529,116,591	1,328,632,700	0.74
16	Patrick Resources Corporation	1,301,152,163		1,301,152,163	0.73
17	Yap, Pacita	351,786,420	824,539,227	1,176,325,647	0.66
18	Emma Yap	678,551,292	433,448,272	1,111,999,564	0.62
19	Cresencio Yap	107,242,261	950,612,016	1,057,854,277	0.59
20	David Go Securities Corp.	438,590,034	590,574,844	1,029,164,878	0.58

Recent Sales of Unregistered or Exempt Securities

There were no sales of unregistered or exempt securities after the stock rights offering in 2006.

Dividends Policy

Dividends may be declared out of the unrestricted retained earnings of the Company, which may be in the form of cash or stock to all stockholders on the basis of outstanding shares held by them as of the record date fixed by the Company in accordance with existing laws and rules. Any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while stock dividends shall be withheld from the delinquent stockholder until his unpaid subscription is fully paid: Provided, That no stock dividends shall be issued without the approval of stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose. (Section 43, Corporation Code).

Properties

The Company has one (1) Mineral Production Sharing Agreement (No. 253-2007-XIII) granted on April 16, 2003 and effective until April 2028; It has two (2) effective Mining Lease Contracts with the Government covering a total of 484.4 has. located in Placer, Surigao del Norte. The first, MLC MRD No. 324, will expire in 2011 and the second, MLC MRD No. 480, will expire a year later. Both are currently the site of mapping and sampling works.

The Company also has three (3) MPSA applications, namely, APSA No. 000006-X in Surigao del Norte; APSA No. 000007-X covering 4,793.85 has. and APSA No. 000047-X covering 1,539 has., all located in Agusan del Norte. Data compilation study are on-going in the areas covered by APSA No. 00006-X, APSA 00007-X and APSA No. 000047-X.

Also, MMC has existing Operating Agreements with holders of Mining Lease Contract or application for an MPSA with the Government. MLC MRD No. 67, covering 198 has. expired on April 16, 2003 and is now covered by a pending Application for MPSA No. XIII-083 in Placer, Surigao del Norte, filed prior to said expiration date. MMC has an existing Operating Agreement with NORSUMICO covering three (3) mining lease contracts of the latter, covering a total of 495 hectares in Placer, Surigao del Norte. The first MLC No. V-1128 expired last September 23, 2000 and is now covered by MPSA No. 253-XIII while the other two namely, MLC No. MRD-322 and MRD-323 will expire in 2011. A portion of the area covered by APSA No. 00006(X), consisting of 2,462.9 has., is now covered by Exploration Permit No. XIII-014.

Kalayaan Copper Gold Resources, Inc., a 100%-owned subsidiary of the Company is the holder of Exploration Permit No. EP No. XIII-014B which is also up for renewal.

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The Company is the registered owner of a total of 1,165 has. of land in Surigao del Norte. It also has personal properties (mostly equipment) in the minesite in Surigao del Norte, as follows:

Property, Plant and Equipment	Location
Mine and Mining Properties	Placer, Surigao del Norte
Buildings and Improvements	Placer, Surigao del Norte
Leasehold Improvements	Makati City
Heap-Leach Equipment	Placer, Surigao del Norte
Mine Machinery and Equipment	Placer, Surigao del Norte
Mill Machinery and Equipment	Placer, Surigao del Norte
Powerhouse Equipment	Placer, Surigao del Norte
Heavy Equipment	Placer, Surigao del Norte
Transportation Equipment	Placer, Surigao del Norte
Transportation Equipment	Makati City
Furniture and Office Equipment	Placer, Surigao del Norte
Furniture and Office Equipment	Makati City
Other Equipment and Facilities	Placer, Surigao del Norte

The land referred to above house the offices and housing quarters of the Company in Surigao del Norte. The rest were acquired by the Company for its tailings pond and other mining purposes.

Not having been in use for the last nine years, the facilities and equipment of the Company in Placer, Surigao del Norte are continually checked for maintenance purposes. Nonetheless, these may have to be rehabilitated if determined to be needed when the Company resumes mine operations.

The Company leases for P50,000 per year an 11-hectare land where its various mining equipment are located. The lease will expire in 2014.

The Company has no plans of acquiring additional properties in the next 12 months.

Legal Proceedings

There is no material pending legal proceeding against the Company.

Summary of Material Contracts

Aside from the Company's Transfer Agency Agreement with the Bank of the Philippine Islands which is effective until August 21, 2012, following are the Material Contracts of the Company:

1. Mining Lease Contract No. MRD-322

Date granted	-	June 4, 1986
Expiry date	-	June 4, 2011
Term	-	25 years
Name of claims	-	"BIMBO", "BAMBI", etc. group of claims
Area	-	153.0000 has.

NOTE: To be covered by an APSA for filing before June 4, 2011.

2. Mining Lease Contract No. MRD-323

Date granted	-	June 4, 1986
Expiry date	-	June 4, 2011
Term	-	25 years
Name of claims	-	"LA LMC", "DEK", etc. group of claims
Area	-	117.0000 has.

Note: To be covered by an APSA for filing before June 4, 2011.

3. MPSA NO. 253-2007-XIII

Date granted	-	July 28, 2007
Expiry date	-	June 4, 2032
Term	-	25 years
Name of claims	-	LLC No. V-1128 (II-a) " JESS", "EDY", etc.
Area	-	211.5000 has.

4. EXPLORATION PERMIT NO. XIII-00014 AMD. A (1st renewal)

Name of Permittee	-	Manila Mining Corp.
Date granted	-	Jan. 26, 2007
Expiry date	-	Jan. 26, 2009
Term	-	2 years
Area	-	2,176.2810 has.

Note: Pending Renewal

5. EXPLORATION PERMIT NO. XIII-00014 AMD. B (1st renewal)

Name of Permittee	-	Kalayaan Copper-Gold Res. Corp.
Date granted	-	Jan. 26, 2007
Expiry date	-	Jan. 26, 2009
Term	-	2 years
Area	-	286.6342 has.
Location	-	Placer, Surigao del Norte

NOTE: Pending Renewal

6. OPERATING AGREEMENT WITH NORSUMICO

Date granted (at renewed)	-	Dec. 28, 1997
Expiry date	-	Dec. 28, 2022
Term	-	25 years
Area	-	270 has.
Location	-	Placer, Surigao del Norte

Employees

MMC had a total of 41 active employees as of the end of 2009. The Company intends to hire additional employees in the next 12 months in connection with the conversion of its ore resource to reserve. In the meantime, no supplemental benefits or incentive arrangements are given to the employees apart from the Stock Options discussed on page 27.

Investor Relations

All queries and matters relating to Shareholders and Investors are directed to the Office of the Assistant Corporate Secretary, Atty. Odette A. Javier. Her office directly deals with investors and shareholders or otherwise refers the matter to the Department or Officer concerned. The Assistant Corporate Secretary holds office at the 21st Floor, Lepanto Building, 8747 Paeeo de Roxas, Makati City and may be reached through: Tel nos. 815-9447; odette.javier@lepantomining.com

Corporate Governance

MMC adopted a Manual on Corporate Governance to institutionalize the principles of good governance in the entire organization. The Manual was revised in January 2010 to conform to the revisions to the Code of Corporate Governance prescribed by the Securities and Exchange Commission. Pursuant to the said Manual, the Company's Board of Directors have constituted the following committees: Audit Committee; Compensation and Remuneration Committee; Nomination Committee; Stock Option Committee.

Financial Information

Manila Mining Corporation
Summary Financial Data

(In Pesos)	For Period January-September 2009 (Unaudited)	For the Year Ended December 31, 2008 (Audited)	For the Year Ended December 31, 2007 (Audited)
Income Statement			
Revenue			
Operating Income	(4,851,062)	555,521	337,905,306
Net Income	(3,397,705)	(132,037,490)	276,979,890
Assets			
Current Assets	61,899,382	63,433,783	210,571,858
Non-Current Assets	1,619,697,307	1,624,210,280	1,609,998,642
Total Assets	1,681,596,690	1,687,644,063	1,820,570,500
Liabilities			
Current Liabilities	409,513,554	422,738,222	376,144,730
Non-Current Liabilities	76,966,910	76,966,910	90,411,349
Stockholders' Equity	1,195,116,226	1,187,958,931	1,354,014,421
Earnings Per Share (P)	(0.000019)	(0.00074)	0.00155

Management's Discussions and Analysis of Financial Conditions for 2009, 2008 and 2007

Interim Report for January to September 2009

An interest income of P1,428 was earned during the 3rd quarter of 2009 compared with P114,917 of last year. Expenses consisting of Administration and Depreciation costs totaled P1,306,042 compared with P2,724,951.21 last year. The decrease was due principally to the lower depreciation cost as a result of the retirement of some idle assets last year.

For the nine months ended September 30, 2009, interest income amounted to P5,485. Total expenses for the first nine months, consisting mainly of administrative expenses and depreciation, reached P4,851,062 compared with P10,045,500 last year. Depreciation cost was reduced substantially by the impairment in value of some idle equipment last year. Net loss for the period amounted to P3,397,704.50 as against P9,514,264 last year.

Cash and Cash equivalents as of September 2009 amounted to P914,635, 50% lower from end-2008 levels due to payments of accounts. Receivables totaled P355,993, 16% higher than last year on account of advances made in connection with exploration work. Materials and Supplies inventories decreased by 7% due to material withdrawals for exploration activities. Available for Sale Securities dropped by 21% due to the disposal of shares of stock.

The Board of Directors approved on November 10, 2009 a 1:8 stock rights offering to shareholders to support the increase in the authorized capital stock from P1.8 billion to P3.0 billion as approved by the shareholders on April 21, 2009. At the offer price of P0.15 per share, total proceeds will amount to P335 million, will be utilized for the following: a) Settlement of various payables (P135 million); and b) Additional Exploration Work and Conversion of Ore Resource to Reserve (P200 million).

2008

The Company's Exploration program in its historical operations site was completed in 2008. A total of 51 holes were drilled in 2008 in addition to the 20 holes drilled the previous year for an aggregate depth of 15.9 km. The results of the drilling are now being studied with a view to converting the ore resource into reserves and ultimately justifying the re-opening of the mine.

Other income of P555,521 was earned this year, compared with last year's P337,905,306. The latter amount included the equivalent of the US$7 million that was paid by Anglo American to MMC as its entry cost into the Kalayaan Project.

Total expenses for the year amounted to P146.8 million compared with last year's P74.8 million, both consisting of administrative expenses, depreciation and impairment. Impairment Losses on Properties and Inventories amounted to P92 million (compared with P58.4 million last year), as discussed below in relation to the Balance Sheet. Depreciation cost dropped to P8.7 million from P10.225 million last year due to the impairment in value of some idle equipment. Net Loss for the year was P132 million versus an income of P276.9 million in 2007.

There were 40 active employees as at the end of the year compared with 31 active employees last year. The additional employees were hired in connection with the Company's exploration program.

Cash & Cash Equivalents decreased by P117.7 million due to exploration program for the year and payments made to suppliers. Receivables decreased from P403 thousand to P306 thousand on account of reclassification. Inventories went down from P40.3 million to P33.8 million due mainly to the additional allowance of P8.3 million provided for mill materials, hardware and other supplies. Prepayments decreased to P27.5 million as the Miscellaneous Deposit of P30 million was applied to the drilling contractor's service fees. Available for Sale Financial Assets decreased by 71% due to the decline in the market value of shares of stock held by the Company. The increase in Property Plant & Equipment by P135 million represents principally the capitalized cost of exploration at the historical operations site.

The Mine Exploration costs of P92 million recorded in 2007 represents the exploration expenses directly incurred by Anglo American pursuant to the Farm-In Agreement with the Company. The Agreement was terminated in November 2008 and exploration discontinued; the Company thus provided an allowance for an impairment loss of P92 million in 2008 considering that the data derived from the pertinent exploration work is far from sufficient to declare the project feasible. Pursuant to the terms of the Farm-In Agreement, the "Deposit for Future Stock Subscriptions" in the same amount has been reclassified to "additional paid-in capital."

Accounts Payable and Accruals increased by P83.178 million from P200.2 million on account of drilling expenses. Non-trade Payables decreased by 18% to P139.3 million due to settlement of accounts. Income Tax Payable registered nil due to the losses incurred. Deferred Income Tax Liability decreased from P85.8 million to P71.6 million due to impairment losses. The Pension Liability increased by P0.7 million due to an increase in the actuarial valuation.

2007

The Company's Exploration program continued; there were no mining operations.

Other income for the year amounted to P337.9 million, principally on account of the US$7 million received from Anglo-American Investments BV (renamed Anglo American Philippines (Kalayaan) Holdings B.V) as its initial entry cost into the Kalayaan Project. Other income in 2006 amounted to P1.3 million. Total expenses in 2007 was P74.8 million, consisting mainly of administrative expenses, depreciation and impairment loss and amortization of the tailings dam. The tailings dam was fully amortized as of 2006, thus the big drop in this year's expenses. The impairment in value of some idle equipment resulted in lower depreciation cost, contributing to the reduction in expenses. Net income for the period was P277 million as against last year's net loss of P112.7 million.

There were 31 active employees this year compared with 32 active employees last year. No significant changes in the number of employees is expected during the year.

Cash & Cash Equivalents amounted to P119.5 million. With these balances, the Company will be able to meet all its requirements for the year, principally exploration expenses amounting P67 million. Receivables decreased from P1.4 million to P0.40 million due to payments received. Prepayments increased to P50.4 million due to an increase in input tax.

Trade and other payables were settled to the extent of P78.7 million. Non-trade payables in 2006 amounted to P316 million and were classified as a non-current liability. This has been reclassified to 'current liability' and decreased by P146.8 million due to settlement of accounts. Retirement benefit obligation increased by P483 thousand due to an increase in the actuarial valuation. The Income Tax Payable of P6.7 relates to the Other Income discussed above. The Deferred Income Tax Liability dropped from P106.4 million to P85.8 million largely as a result of the impairment of idle assets to the extent of P58.4 million.

Independent Public Accountant

In November 2006, Sycip Gorres Velayo & Co. was designated by the Board as the independent public accountant. There has not been any disagreement between the Company and said accounting firm with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure. For the 2006 financial statements, SGV's certifying partner was Mr. J. Carlitos G. Cruz. For the 2007-2009 financial statements, the certifying partner is/will be Mr. Jaime F. del Rosario.

SGV's principal office is at SGV I Building, 6760 Ayala Avenue, Makati City.

The following table indicates the fees billed by SGV for professional services rendered to the Company as external auditors:

	Years Ended December 31		
	2006	2007	2008
Audit and Audit Related Fees	P550,000.00	P550,000.00	P300,000.00
Others	None	None	None

Directors and Executive Officers

Directors (each with term of office of 1 year)	Age	Citizenship	Period Served
FELIPE U. YAP	72	Filipino	Since 1976
JOSE G. CERVANTES	75	-do-	Since 2006
EDUARDO A. BANGAYAN (Independent)	58	-do-	Since 1989
RENE F. CHANYUNGCO	56	-do-	Since 2004
ETHELWOLDO E. FERNANDEZ	82	-do-	Since 2001
RODOLFO S. MIRANDA (Independent)	67	-do-	Since April 2009
BRYAN U. YAP	37	-do-	Since 1994
AUGUSTO C. VILLALUNA	60	-do-	Since 2003
PATRICK K. YAP	31	-do-	Since 2005

Executive Officers:	Citizenship	Position
FELIPE U. YAP	Filipino	Chairman of the Board and Chief Executive Officer
RENE F. CHANYUNGCO	-do-	Sr. Vice President, Treasurer and Compliance Officer
PATRICK K. YAP	-do-	Sr. Vice President
BRYAN U. YAP	-do-	Vice President
PABLO T. AYSON, JR.	-do-	Vice President
MA. LOURDES B. TUASON	-do-	Asst. Treasurer
ETHELWOLDO E. FERNANDEZ	-do-	Corporate Secretary
ODETTE A. JAVIER	-do-	Asst. Corporate Secretary, Chief Information Officer and Legal Counsel
RONALD REX S. RECIDORO	-do-	Legal Counsel

Mr. Felipe U. Yap became the Chairman and Chief Executive Officer of the Company in 1992. He was also the President and Chief Operating Officer of the Company from 1992 to 1995. He was the Chairman of the Board of Governors of the Philippine Stock Exchange from March 2000 to March 2002. He is currently the Chairman and Chief Executive Officer of Lepanto Consolidated Mining Company, a position which he has been holding since 1988, and Far Southeast Gold Resources, Inc. He is the Chairman of Prime Orion Philippines, Inc. and Zeus Holdings, Inc. and a Director of, among others, Manila Peninsula Hotel, Inc., Cyber Bay Corporation and Philippine Associated Smelting and Refining Corp. (PASAR).

Atty. Jose G. Cervantes, was the Senior Vice President of the Philippine Stock Exchange from March 2000 to November 30, 2005. He is also a director of Lepanto Consolidated Mining Company.

Mr. Eduardo A. Bangayan has been involved in real estate and coconut oil/copra production for the past five (5) years. He is currently the President of the Summit World Group of Companies.

Mr. Rene F. Chanyungco joined the Company in 1977 as Executive Assistant to the President. He eventually became Asst. Treasurer, then Vice President-Treasurer, until his promotion in 1997 as Senior Vice President-Treasurer. He was the Chief Finance Officer of Lepanto Consolidated Mining Company from 2004 to March 2008.

Atty. Ethelwoldo E. Fernandez rejoined the Company as Corporate Secretary in 2001, the same year he was reappointed Corporate Secretary of Lepanto Consolidated Mining Company (Lepanto). He was, from 1993 to 2003, Of Counsel to the law firm Sycip Salazar Hernandez & Gatmaitan, which is the principal retained counsel of the Company. He was elected to the Board of Lepanto in 2007.

Mr. Bryan U. Yap was the Senior Vice President-Chief Financial Officer of Lepanto Consolidated Mining Company from 1997 to 2003, when he was promoted as President and Chief Operating Officer effective March 1, 2003.

Mr. Augusto C. Villaluna is the Senior Vice President of Lepanto Consolidated Mining Company. He was Resident Manager of the Lepanto Mine Division from 1994 to 2000, and rejoined the Company to assume the same position in 2003.

Mr. Patrick K. Yap is the President of Philippine Fire and Marine Insurance Corporation, BA-Lepanto Condominium Corporation and Yapster e-Conglomerate, Inc. He is the Executive Vice President of Zamcore Realty Corporation and Vice President of Alliance Textile Mills, Inc.

Mr. Rodolfo S. Miranda is a Certified Public Accountant. He retired in 2002 as Vice President-Controller of Lepanto Consolidated Mining Company and Controller of Manila Mining Corporation.

Mr. Pablo T. Ayson, Jr. was appointed Vice President in November 2006. He is also a Vice President of Lepanto Consolidated Mining Company.

Ms. Ma. Lourdes B. Tuason is the Vice President and Treasurer of Lepanto Consolidated Mining Company. Treasurer of Far Southeast Gold Resources, Inc., Philippine Fire and Marine Insurance Corporation, Shipside, Inc., Diamond Drilling Corporation of the Philippines and Lepanto Investment and Development Corporation; Vice President of Diamant Boart Philippines, Inc.

Atty. Odette A. Javier has been the Company's Assistant Corporate Secretary since 1993. She is the Vice President-Assistant Corporate Secretary of Lepanto Consolidated Mining Company. She is a Director of Lepanto Investment and Development Corporation.

Atty. Ronald Rex S. Recidoro is also the Manager for Legal Services and Government Affairs of Lepanto Consolidated Mining Company.

Significant Employees

The significant employees expected to contribute significantly to the business other than the executive officers are Josephine C. Subido, Chief Accountant, Isagani C. Sulapas, Finance and Administrative Manager, Roberto Mabini, Chief Geologist.

Family Relationships

Mr. Bryan U. Yap, Director and Vice President, is the son of the Chairman and Chief Executive Officer, Mr. Felipe U. Yap. Mr. Patrick K. Yap is the nephew of the Chairman.

Involvement of the Company or its Directors and Officers in Certain Legal Proceedings

The Company is not aware of any bankruptcy proceeding against any of its directors and officers during the past five (5) years. Neither is the Company aware of any conviction by final judgment in any criminal proceeding, or the involvement, of any of its directors or officers, in any case where such officer or director has been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting his involvement in any type of business, securities, commodities or banking activities, or found to have violated a securities or commodities law.

Certain Relationships and Related Transactions

In the normal course of business, MMC has the following significant transactions with its related parties:

- Cash advances received from and expenses paid on behalf of MMC by Lepanto Consolidated Mining Company ("LCMC"). For these advances, total finance charges amounted to ₱24,233,053 in 2006 (see Note 16). Interest rates for these advances ranged from 7.50% to 16.50% in 2006. In 2008 and 2007, the Parent Company partially paid these advances to LCMC. For the remaining amount of ₱139,311,139 and ₱169,161,400 as of December 31, 2008 and 2007, respectively, no interest was charged by LCMC to MMC. The amount is due and demandable.

- Various drilling and hauling services rendered by its affiliates to MMC.

The consolidated balance sheets include the following asset and liabilities resulting from the above transactions with related parties:

	2008	2007
Payables:		
LCMC	**₱139,311,139**	₱169,161,400
Diamond Drilling Corporation of the Philippines	**84,547,496**	46,260,834
Others	**16,084,896**	6,976,554
Miscellaneous deposits (see Note 7)	**–**	30,000,000

Payable to LCMC is classified under current liabilities. Payables to other related parties are presented under accounts payable and accrued expenses under current liabilities (see Note 11).

Summary Compensation Table

	2007 Total (All Cash)	**Basic Salary**	**Bonus (13th month In the case of executive office**	**Others (Per Diem of Directors)**
Felipe U. Yap, Chairman Rene F. Chanyungco, Sr. Vice Pres./Treasurer Patrick K. Yap, SVP Bryan U. Yap, Vice Pres. Pablo T. Ayson, Jr., Vice Pres.	P471,450	P421,800	P35,150	P14,500
All officers and directors	P471,450	P421,800	P35,150	P14,500
	2008 (Total)			
Felipe U. Yap, Chairman Rene F. Chanyungco, Sr. Vice Pres./Treasurer Patrick K. Yap, SVP Bryan U. Yap, Vice Pres. Pablo T. Ayson, Jr., Vice Pres.	P359,500	P351,500		P8,000
All officers and directors	P359,500	P351,500		P8,000
	2009			
Executive officers listed above	P359,500	P351,500		P8,000
All officers and directors	P359,500	P351,500		P8,000

* The Chairman, Mr. Felipe U. Yap, and Senior Vice President, Patrick K. Yap, do not receive salaries from the Company.

There are no arrangements with any officer or director for payment of any amount or bonus other than the regular salary or per diem for attendance of board meetings. There is no existing consultancy or employment contract between the Company and any director or officer. Neither was there any compensatory plan or arrangement concerning or resulting from the termination of employment of any officer.

Compensation of Directors/Committee Members

Directors are paid a per diem of P500.00 each for attendance of every regular or special meeting. For each Committee meeting attended, member-directors are also paid a per diem of P500.00 each.

Voting Trusts and Change in Control

There are no voting trusts involving the Company's shares nor has there been any change in the control of the Company in the last five (5) years.

Warrants, Options, Compensation Plans, Issuance or Modification of Securities

The last stock option award expired on January 31, 2001. On November 10, 2009, the Board of Directors approved the grant of the 8th Stock Option Awards ("Grant") to selected directors, officers and employees of the Company and of its affiliates, covering a total 1.6 billion common shares from unissued capital stock. The option is exercisable within 5 years, to the extent of 20% of the Grant every year, from the SEC approval of the Grant. The price of the option is 80% of the average of the closing prices of MMC "A" and "B" shares for the ten trading days preceding the Board's approval of the Grant, i.e., October 26 to November 9, 2009, which is P0.02 per share. The Grant constitutes 0.8%, more or less, of the outstanding capital stock of the Company. The applications for approval of the amendment and the listing of the shares have been filed with the SEC and PSE, respectively.

***Security Ownership**

Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's securities, as of December 31, 2009, were as follows:

Title of Class	Name/Address of Record Owner**	Relationship to Issuer	Name of Beneficial Owner	Citizenship	A Shareholdings	%	B Shareholdings	%
A & B	F. Yap Securities, Inc. *Unit 2301/2302 Tektite Tower I, Exchange Rd., Ortigas Center, Pasig City*	Principal Stockholder	same	Filipino	19,199,959,764	17.91	7,332,559,695	10.25
A & B	Lepanto Cons. Mining Co. *21/F Lepanto Bldg., Paseo de Roxas, Makati City*	Principal Stockholder	same	-do-	18,097,056,076	16.88	10,707,139,480	14.97
A & B	*Lepanto Investment & Development Corporation *21/F Lepanto Bldg., Paseo de Roxas, Makati City*	Subsidiary of Principal Stockholder	same	-do-	1,390,313,541	1.30	5,037,619,533	7.04

The Boards of Directors of Lepanto and LIDC have the power to dispose of these corporations' shares. As to F. Yap Securities, Ms. Pacita K. Yap has such power. All three companies have proxies in favor of Mr. Felipe U. Yap.

* - 100% owned subsidiary of Lepanto Consolidated Mining Company

****Security Ownership of Management**

Title of Class	Beneficial Owner	Position	Amount and Nature of Beneficial Ownership (Class A / Class B)	Citizenship	Percentage of Shares (Class A/ Class B)
A & B	Felipe U. Yap	Chairman of the Board	140,155,975 / 125,035,206	Filipino	0.13 / 0.17
A & B	Eduardo A. Bangayan***	Director	5,907,551 / 27,669,589	-do-	0.01 / 0.04
B	Jose G. Cervantes	Director	1	-do-	nil
B	Ethelwoldo E. Fernandez	Director/Corp. Sec.	1	-do-	nil
A	Rodolfo S. Miranda**	Director	4,000,000	-do-	nil
A & B	Bryan U. Yap	Director/Vice President	1,945,977,139/1,124,317,007	-do-	1.81 / 1.57
"A"	Patrick K. Yap	Director/SVP	7,814,221	-do-	0.01
A	Augusto C. Villaluna	Director	808,350	-do-	nil
A & B	Rene F. Chanyungco	Director/SVP/Treasurer	2,692,501	-do-	nil
A & B	Pablo T. Ayson, Jr.	Vice President	1,599,962 / 416,057	-do-	nil

** - All of record and directly owned.

*** - Independent Directors

Legal Framework for Mining in the Philippines: The Philippine Mining Act

The 1987 Constitution provides that:

"All lands of the public domain, waters, minerals, coal, petroleum and other mineral oils, all forces of potential energy, fisheries, forests or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resources shall not be alienated. The exploration, development and utilization of natural resources shall be under the full control and supervision of the State. The State may directly undertake such activities, or it may enter into co-production, joint venture, or production sharing agreements with Filipino citizens, or corporations or associations at least sixty per centum of whose capital is owned by such citizens. Such agreements may be for a period not exceeding twenty-five years, renewable for not more than twenty-five years, and under such terms and conditions as may be provided by law. XXX. *Section 2, Article XII, Philippine Constitution*.

Pursuant to the foregoing Constitutional provision, Republic Act No. 7942, otherwise known as the Philippine Mining Act, was enacted in 1995 under which rights to explore, develop and utilize minerals may be obtained through:

1. Exploration Permits- Valid for a period of two years, subject to annual review and relinquishment or renewal upon the recommendation of the Director of the Mines and Geosciences Bureau; An exploration permit shall grant to the permittee, his heirs or successors-in-interest, the right to enter, occupy and explore the area.
2. Mineral Agreements- shall grant to the contractor the exclusive right to conduct mining operations and to extract all mineral resources found in the contract area. In addition, the contractor may be allowed to convert his agreement into any of the modes of mineral agreements or financial or technical assistance agreement covering the remaining period of e original agreement subject to the approval of the Secretary of the DENR. Mineral Agreements may take any of the following forms:

a. Mineral Production Sharing Agreement (MPSA)- an agreement where the government grants to the contractor the exclusive right to conduct mining operations within a contract area and shares in the production output. The contractor shall provide the financing, technology, management and personnel necessary for the implementation of this agreement;
b. Co-production Agreement- is an agreement between the Government and the contractor wherein the Government shall provide inputs to the mining operations other than the mineral resource.
c. Joint Venture Agreement- an agreement where a joint venture company is organized by the Government and contractor with both parties having equity shares. Aside from earnings in equity, the Government shall be entitled to a share in the gross output.

3. Financial or Technical Assistance Agreement- Any qualified person with technical and financial capability to undertake large-scale exploration, development and utilization of mineral resources in the Philippines may enter into a financial or technical assistance agreement directly with the Government through the DENR.

The information in the following sections has been extracted from publicly available documents which have not been prepared or independently verified by the Company or any of their respective affiliates or advisors in connection with sale of the Subject Shares.

PHILIPPINE STOCK MARKET

BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulating, governed by its respective Board of Directors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system which integrates all bid and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the PSE a Self-Regulatory Organization ("SRO") status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC.

Classified into financial, industrial, holding firms, property, services, mining and oil sectors, companies are listed either on the Exchange's First Board, Second Board or the newly created Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date hereof reflects the price movements of 34 selected stocks listed on the PSE, based on traded prices of stocks from the various

sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the naming of the PHISIX to PSEI. The new PSEI includes 30 selected stocks listed on the PSE.

With the increasing calls for good corporate governance, PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public.

The PSE is a double auction market. Buyers and sellers are each presented by stockbrokers. To trade, bids or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Payment of purchases of listed securities must be made by the buyer on or before the third trading any (the settlement date) after the trade.

Trading on the PSE starts at 9:30 am and ends at 12:00 pm with a 10-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 10 to 5,000,000 shares depending on the price range and nature of the security traded. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, when the price of a listed security moves up by 50% or down by 40% in one day (based on the previous closing price or last posted bid price, whichever is higher), the price of that security is automatically frozen by the PSE, unless there is an official statement from the company or a government agency, justifying such price fluctuation, in which case the affected security can still be traded but only at the frozen price. If a company fails to submit such explanation a trading hall is imposed by the PSE on the listed security the following day. Resumption of trading shall be allowed only when the disclosure of the company is disseminated, subject again to the trading ban.

SETTLEMENT

The Securities Clearing Corporation of the Philippines (SCCP) is a wholly-owned subsidiary of the Philippine Stock Exchange, Inc. and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. It is responsible for (a) synchronizing the settlement of transactions of funds and the transfer of securities through Delivery versus Payment (DVP) clearing and settlement of transactions of Clearing Members, who are also Trading Participants of the Philippine SEC; (b) guaranteeing the settlement of trades in the event of a Trading Participants default through the implementation of its Fails Management System and administration of the Clearing and trade Guaranty Fund (CTGF), and; (c) performance of Risk Management and Monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a 3-day rolling settlement environment, which means that settlement of trades takes place three (3) business days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under PDTC's book entry system. Each Trading Participants maintains a Cash Settlement Account with one of the two existing Settlement Banks of SCCP which are Banco de Oro Unibank, Inc. and Rizal Commercial Banking Corporation. Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its new clearing and settlement system called Central Clearing and Central Settlement (CCCS) on May 29, 2006, CCCS employs multilateral netting whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each Clearing Member. All cash debits and credits are also netted into a single net cash position for each Clearing Member. Novation of the original PSE trade contract occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-Eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, PDTC (formerly the Philippine Central Depository, Inc.) was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the SEC to act as a central securities depository. All listed securities fit the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment and upliftment of securities, pledge of securities, securities lending and borrowing and corporate action including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current banks, Rizal Commercial Banking Corporation and Banco de Oro, Unibank Inc.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of the PCD Nominee, a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of shares of stock lodged into the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and a Jumbo Certificate is issued in the name of the PCD Nominee. This trust agreement between the participants and PDTC through the PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of legal title of the securities are accomplished via book-entry settlement. Under the current PDTC system, only participants (e.g., brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodge equity securities. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected with respect to the participant's

aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodian.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP find into the PDTC system. Once it is determined on settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate cash or an appropriate bank limit in the system cash account of the participant-buyer, the PSE trades are automatically settled in the PDTC system, in accordance with the PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged by surrendering the jumbo certificate of PCD Nominee to a transfer agent which then issues a new stock certificate in the name of the shareholders and a new jumbo certificate of PCD Nominee for the balance of the lodged shares. The expenses for upliftment are on the account of the uplifting shareholder.

The SCCP launched its Central Clearing and Settlement System ("CCSS") in May 2006. Under this system, the current securities infrastructure in the Philippines is composed of a depository and a registry system wherein listed shares are traded and settled as book-entry shares. The difference between the depository and the registry would be on the recording of ownership of the shares in the issuing corporations' books.

In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a new jumbo certificate is issued in the name, of PCD Nominee. Transfers among /between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current. "de facto" custodianship role.

The option of whether a listed security should be "housed" in the depository or registry is at the issuer's discretion. The migration from the depository to the registry model to eliminate the legal and operational risk brought about by a depository infrastructure. Likewise, the migration is expected to strengthen measures to protect public investors/shareholders and decrease transaction costs resulting from additional layers in the settlement process. The move will also prepare tin infrastructure for a complete name-on registry system.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE issued Memorandum No. 2009-0320 amending the rule on lodgment of securities as follows:

Section 16. Lodgment of Securities – As a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the Philippine Depository and Trust Corporation (PDTC), or any other entity duly authorized by the Commission, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Securities Regulation Code. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the following:

(a) Sworn corporate secretary's certificate stating that all the securities have been issued in uncertified form in accordance with the requirements of Section 43 of the Securities Regulation Code and electronically lodged with the PDTC or any other authorized entity without any jumbo or mother certificate; and

(b) Written confirmation issued by the transfer agent confirming that it has the capability and capacity to handle the issuance and transfer of uncertificated securities; and

(c) Written confirmation issued by PDTC or any other authorized entity confirming the electronic lodgment of the applicant's securities.

The above requirements shall also apply to follow-on offerings and additional listing applications.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof to wit:

For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent on the companies shall no longer issue a certificate to PCD Nominee Corp but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.

On the other hand, for existing listed\d companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the Issuer's registry as of confirmation date.

TAXATION AND FOREIGN EXCHANGE

Effective January 1, 2009, the corporation income tax rate was reduced to 30% from 35% of taxable net income pursuant to Republic Act 9337. Gross interest income from the Philippine currency bank deposits and yield from deposit substitutes, trust fund

and similar arrangements as well as royalties from sources within the Philippines are subject to a final withholding tax of twenty per cent of the gross amount of such income.

Tax on Dividends

Cash and property dividends received from a domestic corporation by individual stockholders who are either citizens or residents of the Philippines are subject to tax of ten pre cent. Cash and property dividends received by domestic corporations or resident foreign corporations are not subject to tax. Cash and property dividends received from a domestic corporation by a non-resident foreign corporation not engaged in trade or business in the Philippines are generally subject to tax at the rate of 30% effective January 1, 2009.

Subject to applicable preferential tax rates under relevant treaties, cash and/or property dividends received from a domestic corporation by a non-resident corporation are subject to final withholding tax at the rate of 15 per cent; provided that the country in which the non-resident foreign corporation is domiciled (i) imposes no taxes on foreign sources dividends or (ii) allows a credit against the tax due from the non-resident foreign corporation taxes deemed to have been paid in the Philippines equivalent to the difference between the regular income tax on corporations and the 15 per cent tax on dividends.

Taxes on Capital Gains

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares outside the facilities of the PSE, unless exempt under an applicable treaty, are subject to tax as follows; (a) five (5) per cent on gains not exceeding Php100,000; and (b) 10 percent on gains over Php100,000.

Taxes on Transfer of Shares Listed and Traded Through the PSE

A sale or other disposition of shares of stock listed and traded through the facilities of the Exchange by a resident or a non-resident holder, other than a dealer in securities, is generally subject to a stock transaction tax at the rate of one-half of one-percent (1/2% of 1%) of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed which shall be paid by the seller or transferor. In addition, a value-added tax ("VAT") of 12 per cent is imposed on the commission earned by the Philippine Stock Exchange registered broker which is generally passed on to the client.

Documentary Stamp Tax

The original issue of shares is subject to documentary stamp tax of Php1.00 for each Php200.00, or fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of Php0.75 for each Php200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp tax pursuant to Republic Act No. 9243 dated February 17, 2004 and Republic Act 9648 dated June 30, 2009.

PHILIPPINE FOREIGN INVESTMENT, EXCHANGE CONTROLS AND FOREIGN OWNERSHIP

Under the BSP regulations, a foreign investment in listed Philippine securities must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon will be sources from the banking system.

The registration with the BSP of all foreign investments in the Subject Shares shall be the responsibility of the foreign investor. The application for registration must be filed by a stockbroker/dealer or an underwriter directly with the BSP or with a custodian bank designated by the investor.

It should be noted that Manila Mining Corporation was an exporter of metals and will export metals if/when it resumes production, so it will be able to generate its own foreign exchange.

Foreign Ownership of Shares in the Company, pursuant to the Philippine Constitution, is limited to 40%. As a built-in mechanism to ensure compliance with such a limitation, the Company has two classes of common shares, “A” and “B”, and the “A” shares constituting 60% at any one time of the outstanding capital of the Company, is available only to Filipino citizens or corporations.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
Manila Mining Corporation and Subsidiary

We have audited the accompanying financial statements of Manila Mining Corporation and Subsidiary (the Group), which comprise the consolidated balance sheets as of December 31, 2008 and 2007, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

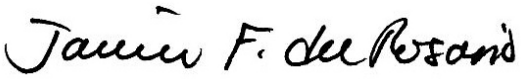
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Mining Corporation and Subsidiary as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-1
Tax Identification No. 102-096-009
PTR No. 1566422, January 5, 2009, Makati City

March 17, 2009

MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash (Notes 4 and 24)	**₱1,813,976**	₱119,505,020
Receivables - net (Notes 5 and 24)	**306,942**	403,753
Inventories - net (Note 6)	**33,789,194**	40,312,494
Prepayments and other current assets (Note 7)	**27,523,671**	50,350,591
Total Current Assets	**63,433,783**	210,571,858
Noncurrent Assets		
Available-for-sale (AFS) investments (Notes 8 and 24)	**12,665,571**	43,875,000
Property, plant and equipment - net (Note 9)	**1,601,999,004**	1,467,138,562
Mine exploration costs - net (Note 23)	**2,664,201**	92,028,090
Other noncurrent assets (Note 10)	**6,881,504**	6,956,990
Total Noncurrent Assets	**1,624,210,280**	1,609,998,642
TOTAL ASSETS	**₱1,687,644,063**	₱1,820,570,500
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 11 and 24)	**₱283,427,083**	₱200,248,773
Nontrade payables (Notes 13 and 24)	**139,311,139**	169,161,400
Income tax payable	**–**	6,734,557
Total Current Liabilities	**422,738,222**	376,144,730
Noncurrent Liabilities		
Deferred income tax liability - net (Note 19)	**71,527,937**	85,766,176
Retirement benefit obligation (Note 18)	**5,438,973**	4,645,173
Total Noncurrent Liabilities	**76,966,910**	90,411,349
Equity		
Capital stock (Note 20)	**1,789,741,922**	1,789,938,502
Additional paid-in capital	**388,801,666**	296,576,996
Deposit for future stock subscriptions (Note 23)	**–**	92,028,090
Cumulative changes in fair values of AFS investments (Note 8)	**(17,903,000)**	16,135,000
Deficit	**(972,701,657)**	(840,664,167)
Total Equity	**1,187,938,931**	1,354,014,421
TOTAL LIABILITIES AND EQUITY	**₱1,687,644,063**	₱1,820,570,500

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31		
	2008	2007	2006
OTHER INCOME (Note 16)	**₱555,521**	₱337,905,306	₱1,338,448
ADMINISTRATION AND OVERHEAD COSTS (Note 14)	**(146,831,250)**	(74,802,217)	(108,644,593)
FINANCE COSTS (Note 15)	–	–	(24,241,921)
INCOME (LOSS) BEFORE INCOME TAX	**(146,275,729)**	263,103,089	(131,548,066)
BENEFIT FROM INCOME TAX (Note 19)	**14,238,239**	13,876,801	18,850,318
NET INCOME (LOSS)	**(₱132,037,490)**	₱276,979,890	(₱112,697,748)
EARNINGS (LOSS) PER SHARE Basic and diluted (Note 22)	**(₱0.00074)**	₱0.00155	(₱0.00084)

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**(₱146,275,729)**	₱263,103,089	(₱131,548,066)
Adjustments for:			
Provision for impairment losses on mine exploration cost (Note 23)	**92,028,090**	–	–
Depletion, depreciation and amortization (Note 9)	**15,895,226**	19,806,399	47,396,582
Retirement benefit costs (Note 18)	**793,800**	483,585	480,400
Interest income (Note 16)	**(537,381)**	(1,177,478)	(1,337,748)
Interest expense (Note 15)	–	–	24,241,921
Provision for impairment losses on property, plant and equipment and other noncurrent assets (Notes 9 and 10)	–	58,406,009	50,007,818
Operating income (loss) before working capital changes	**(38,095,994)**	340,621,604	(10,759,093)
Decrease (increase) in:			
Receivables	**96,811**	709,853	(4,033,463)
Inventories	**6,523,300**	61,861	4,174,820
Prepayments and other current assets	**22,826,920**	(7,172,346)	(28,302,699)
Increase (decrease) in accounts payable and accrued expenses	**83,178,310**	(78,917,746)	(288,103,632)
Cash generated from (used in) operations	**74,529,347**	255,303,226	(327,024,067)
Interest received	**537,381**	1,506,186	1,337,748
Income taxes paid	**(6,734,557)**	–	–
Interest paid	**–**	–	(24,241,921)
Net cash from (used in) operating activities	**68,332,171**	256,809,412	(349,928,240)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Note 9)	**(150,755,668)**	(90,601,700)	(8,429,792)
Mine exploration costs (Note 23)	**(2,664,201)**	(92,028,090)	–
Purchase of AFS investments (Note 8)	**(2,828,571)**	(20,240,000)	–
Decrease (increase) in other noncurrent assets	**75,486**	(315,888)	(2,461,786)
Net cash used in investing activities	**(156,172,954)**	(203,185,678)	(10,891,578)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of/to:			
Nontrade payables	**(29,850,261)**	(146,805,284)	–
Borrowings (Note 12)	**–**	–	(193,439,896)
Related parties	**–**	–	(28,154,759)
Deposit for future stock subscriptions (Note 23)	**–**	92,028,090	–
Cost incurred from issuance of shares (Note 20)	**–**	(105,502)	(2,818,486)
Refund from subscription (Note 20)	**–**	(86,320)	–
Proceeds from issuance of shares (Note 20)	**–**	–	705,620,169
Net cash from (used in) financing activities	**(29,850,261)**	(54,969,016)	481,207,028
NET INCREASE (DECREASE) IN CASH	**(117,691,044)**	(1,345,282)	120,387,210
CASH AT THE BEGINNING OF THE YEAR	**119,505,020**	120,850,302	463,092
CASH AT THE END OF THE YEAR (Note 4)	**₱1,813,976**	₱119,505,020	₱120,850,302

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	Capital Stock (Note 20)							
	Issued	Subscribed	Subscription Receivable	Additional Paid-in Capital	Deposit for Future Stock Subscriptions	Changes in Fair Values of AFS Investments	Deficit	Total
Balances at December 31, 2005	₱1,193,160,189	₱71,125	₱–	₱4,230,174	₱–	₱375,000	(₱1,004,946,309)	₱192,890,179
Issuance/subscription of shares during the year (Note 1)	587,831,567	8,980,331	(104,710)	292,538,644	–	–	–	889,245,832
Net loss for the year	–	–	–	–	–	–	(112,697,748)	(112,697,748)
Balances at December 31, 2006	1,780,991,756	9,051,456	(104,710)	296,768,818	–	375,000	(1,117,644,057)	969,438,263
Cumulative changes in fair values of AFS investments (Note 8)	–	–	–	–	–	15,760,000	–	15,760,000
Net income for the year	–	–	–	–	–	–	276,979,890	276,979,890
Total income recognized for the year	–	–	–	–	–	15,760,000	276,979,890	292,739,890
Deposit for future stock subscriptions (Note 23)	–	–	–	–	92,028,090	–	–	92,028,090
Issuance of shares during the year	8,572,082	(8,572,082)	–	(105,502)	–	–	–	(105,502)
Refund from subscription (Note 20)	–	–	–	(86,320)	–	–	–	(86,320)
Balances at December 31, 2007	1,789,563,838	479,374	(104,710)	296,576,996	92,028,090	16,135,000	(840,664,167)	1,354,014,421
Cumulative changes in fair values of AFS investments (Note 8)	–	–	–	–	–	(34,038,000)	–	(34,038,000)
Net loss for the year	–	–	–	–	–	–	(132,037,490)	(132,037,490)
Total loss recognized for the year	–	–	–	–	–	(34,038,000)	(132, 037,490)	(166,075,490)
Additional paid-in capital (Note 23)	–	–	–	92,028,090	(92,028,090)	–	–	–
Subscription of shares during the year	–		(196,580)	196,580	–	–	–	–
Balances at December 31, 2008	₱1,789,563,838	₱479,374	(₱301,290)	₱388,801,666	₱–	(₱17,903,000)	(₱972,701,657)	₱1,187,938,931

See accompanying Notes to Consolidated Financial Statements.

1. General Information and Status of Operations

Manila Mining Corporation

Manila Mining Corporation (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 20, 1949, primarily to carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in precious and semi-precious metals, ores, minerals and their by-products. The Parent Company's shares are listed and traded on the Philippine Stock Exchange (PSE). On April 16, 1999, the SEC approved the extension of the Parent Company's corporate term for another fifty (50) years upon expiration of its original term on May 30, 1999. Lepanto Consolidated Mining Company (LCMC), a publicly listed Company, and its subsidiaries, has 20.08% equity interest in the Company.

The principal office of the Parent Company is located at the 20th Floor, Lepanto Building, 8747 Paseo de Roxas, 1226 Makati City.

Kalayaan Copper-Gold Resources, Inc.

Upon incorporation of Kalayaan Copper-Gold Resources, Inc. (KCGRI; the Subsidiary), the Parent Company gained one hundred percent (100%) of its voting shares.

KCGRI was incorporated with the SEC on December 19, 2006, primarily to carry on the business of exploration, mining, development and utilization of all mineral resources, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in all other kinds of ores, metals and minerals, hydrocarbons acids, and chemicals, and in the products and by-products of every kind and description.

The principal office of the Subsidiary is located at the 21st Floor Lepanto Building, Paseo de Roxas, Makati City.

Status of Operations

On May 22, 1996, the Parent Company's Board of Directors (BOD) approved the expansion of its current mill capacity from 8,000 tonnes per day (TPD) to 10,000 TPD, designed to consolidate the installation of the second Semi-Autogenous Grinding mill unit with the original 48-inch pit conveyor project. The expansion was registered with the Board of Investments (BOI) under Executive Order (E.O.) No. 226 on October 6, 1996.

On November 5, 1997, the BOI approved the Parent Company's application for registration of its copper flotation project under E.O. No. 226 on a non-pioneer status. On June 9, 2000, the BOI likewise approved the Parent Company's application for the modernization program of the copper flotation project under a preferred non-pioneer status. As a registered enterprise, the Parent Company is entitled to certain incentives and tax benefits which include, among others, income tax holiday for a period of four (4) years from February 23, 1998, the actual start of commercial operations.

The two BOI certificates of registration are currently suspended in view of the suspension of the Parent Company's operations.

On November 30, 2000, the Parent Company's gold mining and milling operations were temporarily shutdown due to the landslide that occurred in one of its open pits.

On December 20, 2000, the Parent Company temporarily shut down its milling operations pending its receipt of a permit to further raise its tailing pond.

On January 29, 2001, after obtaining the necessary permit to increase the height of the tailing pond to the sixty five (65) meter limit set by the Department of Environment and Natural Resources (DENR), the Parent Company resumed its milling operations.

On July 26, 2001, the Parent Company's BOD, resolved to shutdown the Parent Company's mining operations due to the expiration of its temporary authority to construct and operate its tailings dam issued by the DENR. In view of the suspension of the Parent Company's mining operations, the registration of the Parent Company's copper flotation project was cancelled by the BOI on August 23, 2005.

In 2005, several companies have expressed interest in the area that lies between the Kalaya-an district at the extreme southwest end of the Parent Company's tenement holdings and immediately north of the Anglo-American/Philex Boyongan discovery and the historical operations. This area has been named the "Corridor" as it covers important geology and structures that connect two significantly mineralized areas. The Corridor also hosts several small gold deposits that are not currently economic to develop and operate. However, with additional investment and operations, it is expected that the reserves would grow significantly.

The investment and mining climate has improved since 2001 as a result of the 2004 Supreme Court ruling upholding the validity of the Philippine Mining Act of 1995. The Parent Company holds excellent properties and should be able to realize significant benefits over the long term. The Parent Company's Kalaya-an Project is among the mineral exploration projects under the Ten Point Legacy of the President of the Philippines for year 2004 - 2010.

In 2006, the Parent Company made a pre-emptive rights offering of shares with a par value of ₱0.010 per share at an exercise price of ₱0.015 per share. Such rights offered shareholders the right to subscribe to one share for two shares held as of record date of August 30, 2006. Total capital stock issued and subscribed from the stock rights offering amounted to ₱889,245,832 (net of related costs). Proceeds from the issuance of stock rights were used to settle debts and fund exploration projects.

Exploration drilling activities started in 2007. On January 22, 2007, the Parent Company has initiated mining activities through an exploration program adopted during the last quarter of 2006.

On November 9, 2006, the Parent Company and Anglo American Exploration (Philippines), Inc. (AMEXP), a wholly-owned subsidiary of Anglo American Plc, signed a Letter of Intent which, subject to finalizing definitive agreements, confirms the participation of AMEXP in the exploration and potential development of the Kalaya-an Property which is part of the contract area of the Exploration Permit of the Parent Company then pending renewal with the DENR.

The Exploration Permit renewal was granted by the DENR on January 29, 2007 for a term of two (2) years from issuance covering an area of 2,462.92 hectares, of which one parcel consisting of 286.63 hectares, would be the subject of the definitive agreements between the Parent Company and Anglo American Plc. As discussed in Note 23, the Parent Company signed on March 26, 2007 a Farm-in Agreement with Anglo Investments BV, a wholly owned subsidiary of Anglo American Plc, covering said area. However, as further discussed in Note 23, KCGRI received notice from Anglo that Anglo is exercising its option to terminate the Farm-in Agreement. The Exploration Permit is valid until January 2009, renewable for another two (2) years. KCGRI will continue the work program for the Kalaya-an Project and accordingly seek the renewal of the Exploration Permit.

The accompanying consolidated financial statements of Manila Mining Corporation and Subsidiary (the Group) as of and for the years ended December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, were authorized for issue in accordance with a resolution by the BOD on March 17, 2009.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis except for AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Group's functional and presentation currency.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and KCGRI, a 100% owned subsidiary. The financial statements of the subsidiary are prepared for the same reporting year as the Parent Company using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated in full.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretation which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Company:

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 14, Philippine Accounting Standards (PAS) 19*, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008
The Group will adopt the following new standards, amendments to existing standards, and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements.

Effective in 2009

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective for reporting periods beginning on or after January 1, 2009)
  The amendments to PFRS 1 allow an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations* (effective for reporting periods beginning on or after January 1, 2009)
  The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- PFRS 8, *Operating Segments* (effective for reporting periods beginning on or after January 1, 2009)
  PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The

information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

- Amendments to PAS 1, *Presentation of Financial Statements* (effective for reporting periods beginning on or after January 1, 2009)
  The amendments include the introduction of a new statement of comprehensive income that combines all items of income and expenses recognized in the statement of income together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The amendments also include additional requirements in the presentation of the balance sheet and statement of changes in equity as well as additional disclosures to be included in the financial statements.

- Revised PAS 23, *Borrowing Costs* (effective for reporting periods beginning on or after January 1, 2009)
  The standard has been revised to require capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective for reporting periods beginning on or after January 1, 2009)
  Amendments to PAS 27 have changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value.

- Amendments to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for reporting periods beginning on or after January 1, 2009)
  These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) all instruments in the subordinate class have identical features, (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change

in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for reporting periods beginning on or after July 1, 2008)
  This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective for reporting periods beginning on or after October 1, 2008)
  This interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. The interpretation, among others, clarifies that: (a) an entity can hedge the foreign exchange gains and losses on a net investment arising from differences between the functional currency of the foreign operation and the functional currencies of either its direct parent or of any intermediate parent or its ultimate parent; (b) the hedged item can be an amount of net assets equal to or less than the carrying amount of the net assets of the foreign corporation in the consolidated financial statements and (c) the hedging instrument is not required to be held by the entity exposed to the risk. To assess the effectiveness of the hedging instrument for the purpose of the consolidated financial statements, the change in value of the hedging instrument is calculated in terms of the functional currency of the parent entity that is hedging its risk.

Improvements to PFRS
In May 2008, the International Accounting Standards Board issued its first omnibus edition of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. These are the separate transitional provisions for each standard:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - Plan to sell the controlling interest in a subsidiary
  - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements* - Current and non-current classification of derivatives
  - Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- PAS 16, *Property, Plant and Equipment*
  - Recoverable amount
  - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Asset*s.

- Sale of Assets held for rental
  - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  - Curtailments and negative past service costs
    - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
  - Plan administration costs
    - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
  - Replacement of term "fall due"
    - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
  - Guidance on contingent liabilities
    - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance* - Government loans with no interest or a below-market interest rate
  - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs* - Components of borrowing costs
  - Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' (i.e., components of the interest expense calculated using the effective interest rate method).

- PAS 27, *Consolidated and Separate Financial Statements* - Measurement of a subsidiary held for sale in a separate financial statement
  - When a parent entity accounts for a subsidiary at fair value in its financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

- PAS 28, *Investment in Associates*
  - Required disclosures when investment in associates are accounted for at fair value through profit or loss (FVPL)
    - If an associate is accounted for at FVPL in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

- Impairment of investment in associates
  - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies* - Description of measurement basis in financial statements
  - Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interest in Joint Ventures* - Required disclosure when investment in jointly controlled entities are accounted for at FVPL
  - If a joint venture is accounted for at FVPL, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets* - Disclosure of estimates used to determine recoverable amount
  - When discounted cash flows are used to estimate 'fair value less cost to sell' the same disclosures are required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*
  - Advertising and promotional activities
    - Expenditure on advertising and promotional activities is recognized as an expense when the company either has the right to access the goods or has received the services.
  - Units-of-production method of amortization
    - Deletes references to, there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that result in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Reclassification of derivatives into or out of the classification of at FVPL
    - Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
    - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
  - Designation and documentation of hedges at the segment level
    - Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
  - Applicable effective interest rate on cessation of fair value hedge accounting
    - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Property* - Property under construction or development for future use as an investment property
  - Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*
  - Discount rate on fair value calculations
  - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
  - Additional biological transformation
  - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements* (effective for reporting periods beginning on or after July 1, 2009)
  The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized in a business combination, the reported results in the period that an acquisition occurs, and results reported in future period. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* (effective for reporting periods beginning on or after July 1, 2009)
  This amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate* (effective for reporting periods beginning on or after January 1, 2012)
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case, revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Summary of Significant Accounting Policies

Financial Instruments
Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at FVPL, the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held to maturity (HTM) investments and AFS investments. The consolidated financial assets are of the nature of loans and receivables and AFS investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

Loans and Receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. This accounting policy relates to the balance sheet caption 'Receivables', which arise primarily from nontrade receivables and receivables from officers and employees. Loans and receivables are classified as current when these are expected to be realized within one year after the balance sheet date or the Group's normal operating cycle. All others are classified as non-current.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized costs is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in 'Finance Cost' caption in the consolidated statement of income. The losses arising from impairment of receivables are recognized in the consolidated statement of income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets).

AFS Investments
AFS investments are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They are included in noncurrent assets unless management intends to dispose of the investment within twelve (12) months from the balance sheet date. Included in this category are equity investments in publicly listed and private companies other than subsidiaries and associates, which are shown as a separate line item in the consolidated balance sheet (see Note 8).

Fair values of quoted equity securities are estimated by reference to their quoted market price at the balance sheet date. Unquoted equity securities are carried at cost, net of an impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Cumulative changes in fair values of AFS investments' caption in the equity section of the consolidated balance sheet.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Any interest earned on holding AFS investments are reported as interest income using the effective interest rate. Any dividends earned on holding AFS investments are recognized in the consolidated statement of income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the consolidated statement of income.

Fair Value
The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exists and discounted cash flow analysis or other valuation models.

Other Financial Liabilities
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity

component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income. This accounting policy applies primarily to the Group's borrowings, accounts payable and accrued expenses and nontrade payables that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The fair value of the interest bearing long term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. For floating rate long-term debt which is repriced monthly, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For floating rate long-term debt, which is repriced semi-annually, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

For the current year, the Group has no outstanding loans and borrowings.

"Day 1" Profit or Loss
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data that is not observable, the difference between the transaction price and model value is recognized in the consolidated statement of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit or loss amount.

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

Impairment of Financial Assets

Assets Carried at Amortized Cost

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income. Receivables together with the associated allowance are written-off when there is no realistic prospect of future recovery. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income.

The Group first assesses whether its objective evidence of impairment, such as aging of assets and/or status of debtors, exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial asset with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

With respect to receivables, the Group maintains a provision for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly.

AFS Investments

For AFS investments, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. If, in subsequent year, the fair value of a debt

instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting

Financial assets and liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Capital Stock

Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of share over par value of share are credited to additional paid-in capital.

Where the Group purchases its own shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

Inventories

Materials and supplies are stated at the lower of cost or net realizable value (NRV). Cost is determined using the moving average method. NRV is the replacement cost. In determining NRV, the Group considers any adjustment necessary for obsolescence.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depletion, depreciation and amortization and impairment in value, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense. Mine exploration and development costs of mineral properties are capitalized as mine and mining property included in property, plant and equipment account.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Major maintenance and major overhaul costs that are capitalized as part of property, plant and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection.

Depreciation and amortization are calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

Type of asset	Estimated useful life in years
Machinery and equipment	5-20
Building and improvements	20
Furniture, office and other equipment	5
Tailings dam	14

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the Group's geologist and certified by an independent geologist.

The assets' residual values, if any, and useful lives and methods of depletion and depreciation are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of income.

Mine Exploration Costs

Expenditures for mine exploration work prior to drilling are charged to operations. Expenditures for the acquisition of property rights and expenditures subsequent to drilling and development costs are deferred. When exploration work and project development results are positive, these costs and subsequent mine development costs are capitalized and carried under 'Mine exploration costs' account until the start of commercial operations when such costs are transferred to property, plant and equipment. When the results are determined to be negative or not commercially viable, the accumulated costs are written off.

Impairment of Nonfinancial Assets

Property, Plant and Equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statement of income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Mine Exploration Costs

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

Deferred Income Tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Provision for Mine Rehabilitation and Decommissioning

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the balance sheet date. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the consolidated statement of income. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

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

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the consolidated statement of income.

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within "Other noncurrent assets" on the consolidated balance sheet.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest Income
Interest income is recognized as it accrues using effective interest rate method.

Other Income
Other income is recognized when earned.

Provisions
Provisions are recognized when (a) the Group has a present obligation (legal and constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Employee Benefits
Pension Obligations
Pension cost and obligation are computed in accordance with Republic Act No.7641, Retirement Pay Law, which is similar to that computed under a defined benefit pension plan. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on certain factors such as age, years of credited service and salary.

The liability recognized in the consolidated balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of any plan assets, together with any adjustments for unrecognized gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity which approximates the terms of the related pension liability. The defined benefit obligation is calculated on a regular periodic basis by an independent actuary using the "Projected Unit Credit Cost" method.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of ten percent (10%) of the value of plan assets or ten percent (10%) of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Termination Benefits
Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after balance sheet date are discounted to present value.

Foreign Currency Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate at the balance sheet date. Foreign exchange differences between rate at transaction date and rate at settlement date or balance sheet date are credited to or charged against current operations.

Earnings (Loss) Per Share
Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares. The Parent Company has no dilutive potential common shares as of December 31, 2008 and 2007.

Dividend Distribution
Dividend distribution to the Group's stockholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are declared by the BOD.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group has only one business and geographical segment.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Parent and the Subsidiary, the functional currency of the Parent Company and the Subsidiary has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company and the Subsidiary operate. It is the currency that mainly influences the revenues and expenses of the Parent Company and the Subsidiary.

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty as of balance sheet date, that have the most significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are as follows:

Estimating Allowances for Impairment Losses on Receivables
The provision for impairment losses on receivables is based on the Group's assessment of the collectibility of payments from employees and other third parties. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that affect the collectibilty of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. In 2008 and 2007, the Group used specific impairment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified.

As of December 31, 2008 and 2007, the Group has receivables of ₱306,942 and ₱403,753, respectively, net of allowance for impairment losses of ₱506,301 and ₱421,460, respectively (see Note 5).

Estimating Allowances for Inventory Obsolescence
Mill materials, hardware and other supplies, which are used in the Group's operations, are stated at the lower of cost or NRV. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased were no longer in service. Inventories which are nonmoving or have become unusable are priced at their recoverable amount.

Inventories, at lower of cost or NRV, amounted to ₱33,789,194 and ₱40,312,494 as of December 31, 2008 and 2007, respectively, net of allowance for inventory obsolescence of ₱37,170,173 and ₱28,847,718 as of December 31, 2008 and 2007, respectively (see Note 6).

Estimating Impairment on AFS Investments
The Group treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Fair value of AFS investments amounted to ₱12,665,571 and ₱43,875,000, as of December 31, 2008 and 2007, respectively (see Note 8).

Estimating Useful Lives of Property, Plant and Equipment
Estimated useful lives of the property, plant and equipment are determined based on the assessment by the end user and the parameters of usage indicated in the Group's manual. The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2008 and 2007, the net book values of the property, plant and equipment amounted to ₱1,601,999,004 and ₱1,467,138,562, respectively (see Note 9).

Estimating Impairment Losses on Property, Plant and Equipment
The Group assesses impairment on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The aggregate net book values of property, plant and equipment amounted to ₱1,601,999,004 and ₱1,467,138,562 as of December 31, 2008 and 2007 respectively, net of accumulated impairment losses of ₱143,272,443 (see Note 9).

An impairment loss is recognized and charged to the consolidated statement of income if the recoverable amount is less than the carrying amount. The recoverable amount of the asset is incurred as the higher of its fair value less cost to sell and value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, net of direct costs of selling the asset. When value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

Recoverability of Mine Exploration Costs
Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to operations until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. NRV of mine exploration costs amounted to ₱2,664,201 and ₱92,028,090, net of allowance for impairment losses of ₱92,028,090 and nil as of December 31, 2008 and 2007, respectively (see Note 23).

Estimating Mineral Reserves and Resources
Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and extraction and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions.

The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of mine, stripping ratios and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning.

As of December 31, 2008 and 2007, mine and mining properties included in property, plant and equipment account amounted to ₱1,533,507,850 and ₱1,389,419,841, respectively (see Note 9).

Estimating Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has recognized deferred income tax asset amounting to ₱58,337,589 and ₱65,743,604 as of December 31, 2008 and 2007, respectively (see Note 19). No deferred income tax assets was recognized for temporary differences amounting to ₱143,921,678 and ₱6,735,897 as of December 31, 2008 and 2007, respectively, since there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

Estimating Contingencies
The Company evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 23).

Retirement Benefit Cost
The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts.

Retirement benefit obligation amounted to ₱5,438,973 and ₱4,645,173 as of December 31, 2008 and 2007, respectively (see Note 18).

4. **Cash**

	2008	2007
Cash on hand	**₱110,000**	₱153,427
Cash in banks	**1,703,976**	119,351,593
	₱1,813,976	₱119,505,020

Cash in banks earn interest at the respective bank deposit rates.

Interest income earned from cash amounted to ₱537,381, ₱1,177,478 and ₱1,337,748 for the years ended December 31, 2008, 2007 and 2006, respectively.

5. **Receivables -** net

	2008	2007
Nontrade	**₱603,137**	₱693,298
Officers and employees	**210,106**	131,915
	813,243	825,213
Less allowance for impairment losses	**506,301**	421,460
	₱306,942	₱403,753

Based on the assessment done by the management, the Group recognized an allowance for specifically identified accounts amounting to ₱506,301 and ₱421,460 as of December 31, 2008 and 2007, respectively, covering those nontrade receivables and advances to officers and employees considered as impaired.

The following table shows the aging of nontrade and other receivables that are past due as of December 31, 2008 and 2007 but are not considered impaired.

		Past due but not impaired			
	Total	Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days
2008					
Nontrade	**₱101,227**	**₱–**	**₱–**	**₱–**	**₱101,227**
Officers and employees	**205,715**	**417**	**–**	**–**	**205,298**
	₱306,942	**₱417**	**₱–**	**₱–**	**₱306,525**
2007					
Nontrade	₱271,838	₱–	₱–	₱10,000	₱261,838
Officers and employees	131,915	54,684	7,874	16,860	52,497
	₱403,753	₱54,684	₱7,874	₱26,860	₱314,335

Movements of allowance for impairment losses in 2008 and 2007 are as follows:

	Nontrade	Officers and employees	Total
2008			
Balances at beginning of year	**₱421,460**	**₱–**	**₱421,460**
Additional provisions	**80,450**	**4,391**	**84,841**
Balances at end of year	**₱501,910**	**₱4,391**	**₱506,301**
2007			
Balances at beginning of year	₱455,534	₱–	₱455,534
Write-off	(34,074)	–	(34,074)
Balances at end of year	₱421,460	₱–	₱421,460

6. **Inventories** - net

	2008	2007
At NRV:		
Mill materials, hardware and other supplies - net	**₱14,353,813**	₱22,797,569
At cost:		
Machinery and automotive parts	**19,359,311**	17,210,604
Fuel, oil and lubricants	**76,070**	304,321
	19,435,381	17,514,925
	₱33,789,194	₱40,312,494

The allowance for inventory obsolescence on mill materials, hardware, and other supplies amounted to ₱37,170,173 and ₱28,847,718 as of December 31, 2008 and 2007, respectively. Cost of mill materials, hardware and other supplies amounted to ₱51,523,986 and ₱51,645,287 as of December 31, 2008 and 2007, respectively.

7. Prepayments and Other Current Assets

	2008	2007
Input value added taxes (VAT)	**₱21,481,852**	₱12,009,714
Miscellaneous deposits	**2,253,400**	32,153,400
Prepaid income tax	**–**	2,618,898
Others	**3,788,419**	3,568,579
	₱27,523,671	₱50,350,591

Miscellaneous deposits in 2007 include the deposit of ₱30,000,000 for the drilling service contract entered into by the Parent Company with Diamond Drilling Corporation of the Philippines (DDCP) during the last quarter of 2006 (see Note 13). Such agreement is with regard to the exploration drilling programme involving the drilling of about ten (10) holes to probe the Kinto Limbo Project and possible extension of Ntina ore body. Initial activities, such as accessing proposed drill pads were undertaken in 2006, however, actual drilling exploration began in January 2007. Charges incurred by DDCP such as mobilization costs, nonoperating field costs, reaming of casings, stand-by fees, contractors' fees, among others, were applied against the miscellaneous deposits in 2008.

8. AFS Investments

	2008	2007
Quoted share	**₱4,790,571**	₱36,000,000
Unquoted share	**7,875,000**	7,875,000
	₱12,665,571	₱43,875,000

Unquoted share consists of the Parent Company's investments in ordinary shares and therefore have no fixed maturity date or coupon rate.

Quoted share pertains to equity security that is traded on the Philippine Stock Exchange. The fair value of the quoted share is based on the bid market price as of December 31, 2008. Unquoted share has been carried at cost since fair value of this AFS security cannot be reliably determined as it has no available bid price.

The aggregate costs of these investments amounted to ₱30,568,571 and ₱27,740,000 as of December 31, 2008 and 2007, respectively. The fair values amounted to ₱12,665,571 and ₱43,875,000 and as of December 31, 2008 and 2007, respectively.

Movements of cumulative changes in fair values of AFS investments recognized as a separate component of equity are as follows:

	2008	2007
Balances at beginning of year	**₱16,135,000**	₱375,000
Changes in fair value of AFS investments	**(34,038,000)**	15,760,000
Balances at end of year	**(₱17,903,000)**	₱16,135,000

9. Property, Plant and Equipment

	2008					
	Mine and Mining Properties	**Machinery and Equipment**	**Building and Improvements**	**Furniture, Office and Other Equipment**	**Land**	**Total**
Cost:						
Balances at beginning of year	**₱2,454,744,163**	**₱769,761,208**	**₱102,869,335**	**₱69,405,780**	**₱7,270,713**	**₱3,404,051,199**
Additions	**144,088,009**	**1,627,603**	**1,367,633**	**3,672,423**	**–**	**150,755,668**
Balances at end of year	**2,598,832,172**	**771,388,811**	**104,236,968**	**73,078,203**	**7,270,713**	**3,554,806,867**
Accumulated depreciation, depletion and amortization:						
Balances at beginning of year	**1,065,324,322**	**601,687,242**	**57,981,278**	**68,647,352**	**–**	**1,793,640,194**
Depletion, depreciation and amortization during the year	**–**	**10,632,818**	**4,447,678**	**814,730**	**–**	**15,895,226**
Balances at end of year	**1,065,324,322**	**612,320,060**	**62,428,956**	**69,462,082**	**–**	**1,809,535,420**
Allowance for impairment losses	**–**	**125,501,962**	**17,706,056**	**64,425**	**–**	**143,272,443**
Net book values	**₱1,533,507,850**	**₱33,566,789**	**₱24,101,956**	**₱3,551,696**	**₱7,270,713**	**₱1,601,999,004**

	2007					
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Total
Cost:						
Balances at beginning of year	₱2,370,227,626	₱768,150,087	₱98,989,074	₱68,811,999	₱7,270,713	₱3,313,449,499
Additions	84,516,537	1,611,121	3,880,261	593,781	–	90,601,700
Balances at end of year	2,454,744,163	769,761,208	102,869,335	69,405,780	7,270,713	3,404,051,199
Accumulated depreciation, depletion and amortization:						
Balances at beginning of year	1,065,324,322	586,376,604	53,606,161	68,526,708	–	1,773,833,795
Depletion, depreciation and amortization during the year	–	15,310,638	4,375,117	120,644	–	19,806,399
Balances at end of year	1,065,324,322	601,687,242	57,981,278	68,647,352	–	1,793,640,194
Allowance for impairment losses:						
Balances at beginning of year	–	76,387,528	8,414,481	64,425	–	84,866,434
Additions (see Note 14)	–	49,114,434	9,291,575	–	–	58,406,009
Balances at end of year	–	125,501,962	17,706,056	64,425	–	143,272,443
Net book values	₱1,389,419,841	₱42,572,004	₱27,182,001	₱694,003	₱7,270,713	₱1,467,138,562

Total depletion, depreciation and amortization of property, plant and equipment and certain idle assets charged to operations including amortization of tailings dam (which is included as part of mine and mining properties) amounted to ₱8,735,352, ₱10,225,860 and ₱25,886,659 in 2008, 2007 and 2006, respectively. Depreciation amounting to ₱7,159,874, ₱9,580,539 and ₱21,509,923 were capitalized in 2008, 2007 and 2006, respectively, as part of mine and mining properties.

The Parent Company recognized impairment losses of nil, ₱58,406,009 and ₱43,331,136 in 2008, 2007 and 2006, respectively, on the difference between the net book value of certain assets and their fair value as determined by independent appraisers less any costs to dispose and those assets which were identified as damaged and obsolete.

The value of the land was arrived at using Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable.

The value of the machinery and equipment and building and improvements was arrived using the Fair Market Value (In orderly liquidation) approach. This is the amount that might be realized from assembled or piecemeal disposition of the property in the secondhand market, assuming a reasonable period of time (usually more than three months) in which to complete the transaction. The liquidation value estimates consider that the property will be offered for sale in its present location and condition on an "as is, where is" basis, with the potential buyer to assume cost, if any, to dismantle and remove.

10. **Other Noncurrent Assets**

	2008	2007
Environmental fund	**₱5,210,464**	₱5,154,836
Advances to landowners	**1,645,141**	1,674,141
Idle and other assets, net of accumulated amortization and impairment losses of ₱40,054,171 in 2008 and 2007	**25,899**	128,013
	₱6,881,504	₱6,956,990

On November 13, 1998, the Parent Company entered into a separate Memorandum of Agreement with the Office of Municipal Mayor and Sangguniang Bayan of Placer, Surigao del Norte, DENR and Mines and Geosciences Bureau. Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and a Mine Rehabilitation Fund (MRF) amounting to ₱5,150,000. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the Group in a mutually acceptable bank is subject to annual review of the MRF committee. The funds earn interest based on the prevailing market rate.

Advances to landowners pertain to advances made to certain landowners for future purchases of parcels of land. The same will be deducted from the total acquisition cost of parcels of land purchased in the future.

Provision for impairment losses amounting to nil in 2008 and 2007 and ₱6,676,682 in 2006 was recognized for the remaining net book value of idle assets.

11. **Accounts Payable and Accrued Expenses**

	2008	2007
Accounts payable (see Note 13)	**₱180,577,575**	₱144,332,773
Due to related parties (see Note 13)	**84,547,496**	46,260,834
Accrued payroll	**5,962,665**	4,575,820
Unclaimed dividends	**573,097**	573,097
Other liabilities	**11,766,250**	4,506,249
	₱283,427,083	₱200,248,773

Terms and conditions of the above financial liabilities:

- Accounts payables are non-interest bearing and are normally settled on 60 days' terms.
- Other payables are non-interest bearing and have an average term of 1 - 3 months.

12. **Borrowings**

In 2002, the Parent Company had loans payable to Equitable PCI Bank (EPCIB), Metropolitan Bank and Trust Group (MBTC) and International Exchange Bank (IEB) of ₱115,938,429, ₱103,282,946 and ₱35,381,177, respectively. During 2004, the Parent Company made payments to the creditor banks reducing the total loans payable to ₱193,439, 896.

The loans payable account represented what were originally foreign currency-denominated loans from EPCIB, MBTC and IEB for the importation of various mining equipment. Importations were made through existing credit lines then maintained with the local banks. The loans were restructured and were converted into peso loans fixed at certain amounts at various dates in 2002. These loans had annual interest rates ranging from 10.00% to 15.25% in 2005.

The loan agreements also provided certain restrictions such as maintenance of a ratio of current assets to current liabilities of at least 0.50:1 and a debt to equity ratio of not more than 1:1, among others.

On August 24, 2005, in accordance with the Special Purpose Vehicle Act of 2002, otherwise known as Republic Act No. 9182, EPCIB assigned to Cameron Granville Asset Management (SPV-AMC), Inc. (Cameron) all its rights, titles and interest in the receivable from the Parent Company in the amount of ₱101,796,828. Cameron subsequently further assigned the receivable to Asia Surplus Limited. In 2005, MBTC initiated a legal action against the Parent Company to collect the principal amount of ₱72,184,588 plus interest. This was subsequently settled and dismissed in 2006.

13. Related Party Disclosures

In the normal course of business, the Parent Company has the following significant transactions with its related parties:

- Cash advances received from and expenses paid by LCMC on behalf of the Parent Company. For these advances, total finance charges amounted to ₱24,233,053 in 2006 (see Note 16). Interest rates for these advances ranged from 7.50% to 16.50% in 2006. In 2008 and 2007, the Parent Company partially paid these advances to LCMC. For the remaining amount of ₱139,311,139 and ₱169,161,400 as of December 31, 2008 and 2007, respectively, no interest was charged by LCMC to the Parent Company. The amount is due and demandable.

- Various drilling and hauling services rendered by its affiliates to the Parent Company.

The consolidated balance sheets include the following asset and liabilities resulting from the above transactions with related parties:

	Relationship	**2008**	2007
Payables:			
LCMC	Affiliate	**₱139,311,139**	₱169,161,400
DDCP	Affiliate	**84,547,496**	46,260,834
Others	Individual Stockholder	**16,084,896**	6,976,554
Miscellaneous deposits (see Note 7)		**–**	30,000,000

Payable to LCMC is classified as nontrade payables under current liabilities. Payables to other related parties are presented under accounts payable and accrued expenses under current liabilities (see Note 11).

- Total compensation of the Group's key management personnel for the years ended December 31, 2008, 2007 and 2006 amounted to ₱359,500, ₱800,800 and ₱42,000, respectively.

14. Administration and Overhead Costs

	2008	2007	2006
Provision for impairment of mine exploration cost (see Note 23)	**₱92,028,090**	₱–	₱–
Interest expense	**33,125,696**	–	–
Depletion, depreciation and amortization (see Notes 9 and 10)	**8,735,352**	10,225,860	25,886,659
Provision for inventory obsolescence (see Note 6)	**8,322,455**	–	3,369,834
Outside services	**914,059**	2,342,275	120,000
Salaries, allowances and other benefits	**905,790**	938,450	4,343,339
Retirement benefit cost (see Note 18)	**793,800**	483,585	480,400

(Forward)

	2008	2007	2006
Representation and entertainment	**₱96,569**	₱234,507	₱35,448
Provision for impairment losses on receivables	**84,841**	–	–
Transportation and travel	**41,241**	185,628	196,582
Taxes and licenses	**38,495**	16,548	308,299
Repairs and maintenance	**36,870**	118,724	–
Supplies	**29,763**	40,694	530,330
Provision for impairment losses on property, plant and equipment and idle assets (see Notes 9 and 10)	**–**	58,406,009	50,007,818
Amortization of tailings dam (see Note 9)	**–**	–	21,509,923
Other charges	**1,678,229**	1,809,937	1,855,961
	₱146,831,250	₱74,802,217	₱108,644,593

15. Finance Costs

	2008	2007	2006
Interest on borrowings (see Note 13)	**₱–**	₱–	₱24,233,053
Others	**–**	–	8,868
	₱–	₱–	₱24,241,921

16. Other Income

	2008	2007	2006
Interest income (see Note 4)	**₱537,381**	₱1,177,478	₱1,337,748
Foreign exchange gains	**18,140**	14,167,478	–
Others (see Note 23)	**–**	322,560,350	700
	₱555,521	₱337,905,306	₱1,338,448

Other income in 2007 includes the US$7,000,000 (₱322,560,000) nonrefundable deposit, constituting Anglo Investments BV's initial entry cost into the Kalaya-an Project. Pursuant to the Farm-in Agreement entered into by the Parent Company with Anglo Investments BV, the US$7,000,000 nonrefundable deposit was recognized as income in the books of the Parent Company in 2007 when Anglo Investments BV commenced exploration activities in the area.

17. Provision for Mine Rehabilitation and Decommissioning

DENR Administrative Order (DAO) No. 2007-26, which was published in the Philippine Star on August 9, 2007 and took effect fifteen (15) days thereafter, was released by the DENR, amending section 2 of DAO 2005-7 and requires Contractors with approved Environmental Protection and Enhancement Programs to submit the Final Mine Rehabilitation and Decommissioning Plan (FMR/DP) for review by the Mine Rehabilitation Fund (MRF) Committee and approval by the Contingent Liability and Rehabilitation Fund Steering Committee before December 31, 2007.

As of December 31, 2008, the Parent Company is still in the process of evaluating the timing and amount of estimated cash flows relating to the mine rehabilitation and decommissioning. Once the Parent Company has been able to complete and submit to Mines and Geosciences Bureau its FMR/DP, it will provide the necessary accrual for mine rehabilitation and decommissioning.

18. Retirement Benefit Plan

The Parent Company has an unfunded defined retirement benefit plan covering substantially all regular employees. Benefits are dependent on the years of service and the respective employee's compensation. The defined unfunded retirement benefit plan obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement in 2008, 2007 and 2006.

The amounts of retirement benefit cost recognized in the consolidated statements of income under administration and overhead costs are determined as follows:

	2008	2007	2006
Current service costs	**₱477,224**	₱200,860	₱200,860
Interest costs	**316,576**	282,725	307,097
Actuarial gains recognized	**–**	–	(27,557)
	₱793,800	₱483,585	₱480,400

The amounts of retirement benefit obligations recognized in the consolidated balance sheets are determined as follows:

	2008	2007
Present value of defined benefit obligation	**₱6,147,283**	₱4,522,517
Actuarial gains (losses) not recognized	**(708,310)**	122,656
	₱5,438,973	₱4,645,173

Changes in the present value of the unfunded retirement benefit obligation are determined as follows:

	2008	2007
Balances at beginning of year	**₱4,522,517**	₱4,038,932
Interest costs	**316,576**	282,725
Current service cost	**477,224**	200,860
Actuarial loss	**830,966**	–
Balances at end of year	**₱6,147,283**	₱4,522,517

Movements in the unfunded retirement benefit obligation recognized in the consolidated balance sheets are as follows:

	2008	2007
Balances at beginning of year	**₱4,645,173**	₱4,161,588
Expense recognized for the year	**793,800**	483,585
Balances at end of year	**₱5,438,973**	₱4,645,173

The principal assumptions used in determining retirement benefit plan obligations are as follows:

	2008	2007
Discount rate	**8.33%**	7.00%
Salary increase rate	**8.00%**	8.00%
Expected remaining working lives of employees	**11 years**	11 years

Amounts for the current and previous two years are as follows:

	2008	2007	2006
Defined benefit obligation	**₱6,147,283**	₱4,522,517	₱4,038,932
Experience adjustments on plan liabilities	**1,626,083**	–	14,801
Change in assumptions	**(795,117)**	–	–

19. Income Taxes

The Group has no provision for current income tax in 2008 and 2006 because of its gross and net tax loss positions. The current provision for income tax in 2007 represents minimum corporate income tax (MCIT).

Benefit from income tax consists of:

	2008	2007	2006
Current	**₱–**	₱6,734,557	₱–
Deferred	**(14,238,239)**	(20,611,358)	(18,850,318)
	(₱14,238,239)	(₱13,876,801)	(₱18,850,318)

A reconciliation of income tax applicable to income (loss) before income tax at the statutory income tax rate to benefit from income tax shown in the consolidated statements of income follows:

	2008	2007	2006
Tax at statutory tax rate	**(₱51,196,505)**	₱92,086,081	(₱46,041,823)
Additions to (reductions in) income tax resulting from:			
Change in unrecognized deferred income taxes	**49,243,129**	5,869,353	–
Nondeductible interest expense	**96,182**	–	280,927
Nondeductible representation and entertainment expense	**33,799**	–	–
Nondeductible other charges	**25,550**	–	–
Interest income subjected to final tax	**(188,083)**	(412,117)	(468,212)
Effect of change in tax rate	**(12,252,311)**	–	–
Application of NOLCO	–	(111,420,118)	–
Expired NOLCO	–	–	27,378,790
	(₱14,238,239)	(₱13,876,801)	(₱18,850,318)

The components of the net deferred income tax liability as of December 31 are as follows:

	2008	2007
Deferred income tax assets:		
Allowance for:		
Impairment losses on property, plant and equipment	**₱45,273,955**	₱53,711,155
Losses on inventories	**11,151,052**	10,096,701
Impairment losses on receivables	**151,890**	159,438
Probable losses	**129,000**	150,500
Retirement benefit obligation	**1,631,692**	1,625,810
	58,337,589	65,743,604
Deferred income tax liability:		
Excess of allowable depletion over depletion per books	**129,865,526**	151,509,780
	₱71,527,937	₱85,766,176

Deferred income tax liability is mainly provided on taxable temporary differences arising on the difference between allowed depletion under Presidential Decree 1353 and normal depletion.

The following are the movements of the Group's NOLCO and MCIT for the years ended December 31:

NOLCO	**2008**	2007
Balances at beginning of year	**₱1,340**	₱318,343,195
Applications	**–**	(318,343,195)
Additions	**45,157,691**	1,340
Balances at end of year	**₱45,159,031**	₱1,340

MCIT	**2008**	2007
Balances at beginning of year	**₱6,734,557**	₱–
Additions	**–**	6,734,557
Balances at end of year	**₱6,734,557**	₱6,734,557

As of December 31, 2008, the Group has NOLCO that can be claimed as deduction from future taxable income as follows:

Year incurred	Year of Expiry	Amount	Tax Effect
2007	2010	₱1,340	₱402
2008	2011	45,157,691	13,547,307
		₱45,159,031	₱13,547,709

In 2007, The Group has MCIT that can be claimed as tax credit against future income tax liability amounting to ₱6,734,557 that will expire in 2010.

No deferred income tax assets were recognized for above NOLCO, MCIT and allowance for impairment of mine exploration cost of ₱92,028,090 as it is not probable that sufficient taxable income will be available to allow all or part of these deferred income tax assets to be utilized.

20. **Capital Stock**

On November 30, 2006, the SEC approved the increase in the authorized capital stock to 180 billion shares at par value of ₱0.01 per share divided into 108 billion Class "A" shares and 72 billion Class "B" shares.

Only Philippine nationals are qualified to acquire, own or hold Class "A" common shares of stock of the Parent Company. The total number of Class "B" common shares of stock subscribed, issued or outstanding at any given time shall in no case exceed two-thirds (2/3) of the number of Class "A" common shares of stock or 40% of the aggregate number of Class "A" and Class "B" common shares of stock then subscribed, issued or outstanding.

	2008		2007	
	No. of Shares	**Amount**	No. of Shares	Amount
Issued and outstanding				
Class "A"	**107,401,052,086**	**₱1,074,010,521**	107,401,052,086	₱1,074,010,521
Class "B"	**71,555,331,747**	**715,553,317**	71,555,331,747	715,553,317
	178,956,383,833	**1,789,563,838**	178,956,383,833	1,789,563,838
Subscribed				
Class "A"	**32,083,543**	**320,836**	32,083,917	320,839
Class "B"	**15,853,829**	**158,538**	15,853,455	158,535
	47,937,372	**479,374**	47,937,372	479,374
Total Shares Issued and Subscribed	**179,004,321,205**	**1,790,043,212**	179,004,321,205	1,790,043,212
Less: Subscriptions Receivable		**301,290**		104,710
		₱1,789,741,922		₱1,789,938,502

In September 2006, the Parent Company offered to its shareholders as of record date of August 30, 2006 the right to subscribe to one (1) share for every two (2) shares held covering 59,668,107,068 common shares consisting of 35,811,045,334 Class "A" shares and 23,857,061,734 Class "B" shares. Proceeds from the resulting issuance of shares amounted to ₱702,801,683, net of ₱2,818,486 amount of cost incurred from such issuance.

The offer period was from September 25, 2006 to October 4, 2006. On October 4, 2006, all shares of stock offered were fully subscribed and/or issued.

In 2007, the decrease in additional paid-in capital of ₱86,320 pertains to refund from subscription arising from overpayment of subscribed shares in 2006.

As of December 31, 2008, authorized capital stock of the Subsidiary includes 200 convertible preferred shares with par value of ₱15,000 each. The convertible preferred shares are non-voting, non-cumulative, and shall be convertible to common shares at the option of the shareholder subscribing to the convertible preferred shares under terms and conditions as may be agreed upon between the Subsidiary and the Subsidiary's shareholders.

As of December 31, 2008 and 2007, the Parent Company has 4,249 and 4,305 stockholders, respectively.

21. Share-based Plan

Under the Parent Company's Revised Stock Option Plan (Plan), as amended on September 25, 1995, employees selected by the Stock Option Committee to be important for the success or continued growth of the Parent Company based on their past performance and/or potential, are eligible for the grant. The grantees are given the option to purchase collectively not more than 5% of the total number of shares of the Parent Company's outstanding stock at a price not less than the par value and representing 80% of the average closing price of the stock for the 10 trading days immediately following the SEC's approval of the grant, as determined from the quotations in the PSE. The Plan was further amended by the Parent Company's BOD on August 25, 1997 to enable the BOD to reduce the option price in the event that the market price of the stock should fall to such a level as would dissuade the optionees from exercising their respective option provided that: (1) the reduced

price shall not be lower than 80% of the closing price of the stock on the reference date; (2) any reduction in option price should be applied prospectively; and, (3) the option price could not be reduced by more than two times during the effectivity of any grant. The stock options are valid for a period of five years and are exercisable upon approval by the SEC.

There were no stock options granted or stock options activities after the last award granted by the Parent Company, the Seventh Stock Option Award, expired on January 31, 2001.

22. Earnings (Loss) Per Share

The basic and diluted earning (loss) per share are the same for the years presented as there are no dilutive potential common shares outstanding.

	2008	2007	2006
Net income (loss) as shown in the consolidated statements of income	**(₱132,037,490)**	₱276,979,890	(₱112,697,748)
Weighted average common shares	**179,004,321,205**	179,004,321,205	133,721,949,540
Basic and diluted earnings (loss) per share	**(₱0.00074)**	₱0.00155	(₱0.00084)

23. Commitments and Contingent Liabilities

- The Parent Company signed on March 26, 2007 a Farm-in Agreement (Agreement) with Anglo Investments BV (Anglo), a wholly owned subsidiary of Anglo American Plc, covering an area of 286.63 hectares (out of total of 2,462.92 hectares of the Parent Company's renewed Exploration Permit No. XIII-014 dated January 26, 2007) known as the Kalaya-an Project. The Kalaya-an Project is the subject of a partial assignment duly approved by DENR on July 30, 2007. The Agreement calls for Anglo to fund, at its sole cost over a period of two to three years, Kalaya-an Project's pre-feasibility phase at an estimated minimum cost of US$20,000,000 (less US$7,000,000 nonrefundable deposit) in order to earn an initial 40% interest in KCGRI. Part of the US$20,000,000 expenditure is by way of a US$7,000,000 nonrefundable deposit remitted by Anglo to the Parent Company on March 26, 2007. The US$7,000,000 nonrefundable deposit constitutes Anglo's initial entry cost into the Kalaya-an Project and the payment to the Parent Company took effect upon Anglo's commencement of the program in the Kalaya-an area. The deposit was recognized as income in the books of the Parent Company in 2007 when Anglo commenced exploration drilling activities in the area. As of December 31, 2007, Anglo has incurred ₱92,028,090 (US$2.0 million) amount of exploration costs recorded in the consolidated balance sheet as "mine exploration costs" and "deposit for future stock subscriptions".

  In November 2008, Anglo exercised its option to terminate the Agreement. In case of such termination, the Agreement provides that Anglo is not entitled to any payment, repayment, fees or consideration for any funding work or services it rendered to the Subsidiary. In view of the foregoing, the "deposit for future stock subscriptions" of ₱92,028,090 was reclassified as part of the "additional paid-in capital" in the 2008 consolidated balance sheet. Simultaneously, management provided an allowance for impairment loss of ₱92,028,090 on the cost of drilling made by Anglo during the eighteen-month period. Management believes that the data from

the drilling are quite limited as they are far from sufficient to render or declare the Kalaya-an Project feasible. Any new investor will have to rework the drilling program and will need a minimum of two years to come up with the prefeasibility study which will determine if there is sufficient basis to proceed with the final feasibility study phase.

- The Parent Company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the Parent Company's legal counsel, any adverse decision on these cases would not materially affect the Parent Company's financial position and results of operations as of and for the year ended December 31, 2008 and 2007.

24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and nontrade payables. The main purpose of the financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, and accounts payable and accrued expenses which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign currency risk, equity price risk, interest rate risk and liquidity risk. The Group's BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk
Credit risk represents the loss that the Group would incur if a counterparty failed to perform its contractual obligations. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all credit is subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the component of the consolidated balance sheet.

	Notes	**2008**	2007
Cash in banks	4	**₱1,703,976**	₱119,351,593
Receivables	5		
Nontrade		**101,227**	271,838
Officers and employees		**205,715**	131,915
AFS investments	8		
Quoted equity securities		**–**	36,000,000
Unquoted equity securities		**7,875,000**	7,875,000
Total credit risk exposure		**₱9,885,918**	₱163,630,346

Accordingly, the Group has assessed the credit quality of the following financial assets:

- Cash is assessed as high grade since it is deposited in reputable banks in the country as approved by the BOD and which have a low probability of insolvency.

- Unquoted equity instrument was assessed as high-grade, since this relates to one of the reputable hotels in the country.

Further, the above high grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience.

There are no significant concentrations of credit risk within the Group.

Foreign Currency Risk
The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in United States (US) dollar currencies. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies.

The Group's exposure to foreign currency exchange risk arises from its US dollar-denominated cash amounting to US$3,249 and US$5,298 as of December 31, 2008 and 2007, respectively.

As of December 31, 2008 and 2007, the exchange rates of the Philippine peso to the US Dollar are ₱47.52 and ₱41.28 to US$1.00, respectively.

Based on the historical movement of the US Dollar and the Philippine Peso, management believes that the estimated reasonably possible change in the next twelve (12) months would be an increase (decrease) of ₱0.91 (₱0.70) against the US$ in 2008 and ₱1.00 (₱1.00) in 2007. Sensitivity of the Company's 2008 and 2007 pre-tax income to foreign currency risks are as follows:

- An increase of ₱2,274 and ₱5,298, respectively, in the pre-tax income if the Philippine peso weakens; and
- A decrease of ₱2,957 and ₱5,298, respectively, in the pre-tax if the Philippine peso strengthens.

There is no other impact on the Group's equity other than those already affecting the statement of income.

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity security. The Group's exposure to equity price risk relates primarily to the Parent Company's AFS investment on a listed company.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

The table below shows the sensitivity to a reasonably possible change in equity prices on AFS equity security as of December 31, 2008 and 2007. The equity impact is arrived using the reasonably possible change of the relevant market indices and the specific adjusted beta of each stock the Parent Company holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

	Average Change in Market Indices (In Percentage)	Sensitivity to Equity
2008	**9.79%**	**₱261,782**
2007	6.20%	₱2,325,219
	-6.20%	(2,325,219)

The impact on the consolidated net income (loss) when there is a decline of 9.79% in market indices is ₱261,782 loss, which pertains to the sensitivity of the Parent Company's impaired AFS equity security.

Interest Rate Risk
In 2008 and 2007, the Group has minimal exposure to market risk for changes in interest rates since the Group avails only non-interest bearing advances from a related party classified under current nontrade payables.

The interest expense recognized from borrowings amounted to nil in 2008 and 2007 and ₱24,233,053 in 2006.

Liquidity Risk
Liquidity risk arises when there is a shortage of funds and the Group, as a consequence, could not meet its maturing obligations. The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences and forecasts from its collection and disbursement. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Also, the Group only places funds in the money market which are exceeding the Group's requirements. Placements are strictly made based on cash planning assumptions and covers only a short period of time.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

As of December 31, 2008 and 2007, all of the Group's financial liabilities amounting to ₱422,738,222 and ₱369,410,173, respectively, are contractually payable on demand.

Fair Values
The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, Receivables, Accounts Payable and Accrued Expenses and Nontrade Payables
The carrying amounts of cash, receivables, accounts payable and accrued expenses and nontrade payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Investments
AFS investment of the quoted shares is carried at fair market value based on quoted prices in the market. Unquoted share is carried at cost, net of an impairment in value, since fair value of this AFS investment cannot be reliably determined as it has no available bid price.

The carrying values and fair values of the Group's financial assets and liabilities as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Carrying Value	**Fair value**	Carrying Value	Fair value
Financial Assets				
Loans and receivables				
Cash	**₱1,813,976**	**₱1,813,976**	₱119,505,020	₱119,505,020
Receivables	**306,942**	**306,942**	403,753	403,753
	2,120,918	**2,120,918**	119,908,773	119,908,773
AFS investments				
Quoted equity security	**4,790,571**	**4,790,571**	36,000,000	36,000,000
Unquoted equity security	**7,875,000**	**7,875,000**	7,875,000	7,875,000
	12,665,571	**12,665,571**	43,875,000	43,875,000
Total financial assets	**₱14,786,489**	**₱14,786,489**	₱163,783,773	₱163,783,773
Financial Liabilities				
Other financial liabilities				
Accounts payable and accrued expenses	**₱283,427,083**	**₱283,427,083**	₱200,248,773	₱200,248,773
Nontrade payables	**139,311,139**	**139,311,139**	169,161,400	169,161,400
Total financial liabilities	**₱422,738,222**	**₱422,738,222**	₱369,410,173	₱369,410,173

25. Capital Management

The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support their business, pay existing obligations and maximize shareholder value. As of December 31, 2008 and 2007, the Group's capital is composed of cash amounting to ₱1,813,976 and ₱119,505,020, respectively, and common shares, amounting to ₱2,178,543,588 and ₱2,086,515,498, respectively.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2008, 2007 and 2006.

The Group monitors capital using the monthly cash position report and consolidated financial statements. The Group's policy is to maintain positive cash flows. The Group determines the outstanding balance of its cash in banks and summarizes collections and disbursements for the month for the analysis of the Group's cash position. As of December 31, 2008 and 2007, the

Group has been able to maintain positive cash flows from operations amounting to ₱68,332,171 and ₱256,809,412, respectively, as shown in the consolidated statements of cash flows.

26. **Subsequent Event**

On February 16, 2009, the Company's BOD approved and agreed to recommend to the stockholders on its Annual Stockholder's Meeting on April 21, 2009 the approval of the Amendment of Article Seventh of the Articles of Incorporation to reflect the increase in the authorized capital stock from ₱1.8 billion up to ₱3.0 billion as may be determined by the BOD.

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
Manila Mining Corporation and Subsidiary
20th Floor, Lepanto Building
8747 Paseo de Roxas, 1226 Makati City

We have audited the accompanying financial statements of Manila Mining Corporation and Subsidiary (the Group), which comprise the consolidated balance sheets as of December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the Parent Company as of and for the year ended December 31, 2005 were audited by other auditors whose report thereon, dated March 20, 2006, expressed an unqualified opinion with an emphasis on the going concern status of the Parent Company. The opinion of such auditors, however, does not cover the restatement of those financial statements as discussed in Note 26 to the financial statements. As discussed in Note 1 to the financial statements, current developments has occurred in the Parent Company that mitigated its going concern.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Manila Mining Corporation and Subsidiary as of December 31, 2007 and 2006, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-1
Tax Identification No. 102-096-009
PTR No. 017591, January 3, 2008, Makati City

March 17, 2008

MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱119,505,020**	₱120,850,302
Receivables - net (Notes 5 and 24)	**403,753**	1,442,314
Inventories - net (Note 6)	**40,312,494**	40,374,355
Prepayments and other current assets (Note 7)	**50,350,591**	43,178,245
Total Current Assets	**210,571,858**	205,845,216
Noncurrent Assets		
Available-for-sale (AFS) investments (Notes 8 and 24)	**43,875,000**	7,875,000
Property, plant and equipment - net (Note 9)	**1,467,138,562**	1,454,749,270
Mine exploration costs (Note 23)	**92,028,090**	–
Other noncurrent assets (Note 10)	**6,956,990**	6,641,102
Total Noncurrent Assets	**1,609,998,642**	1,469,265,372
TOTAL ASSETS	**₱1,820,570,500**	₱1,675,110,588
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 11 and 24)	**₱200,248,773**	₱279,166,519
Nontrade payables (Notes 13 and 24)	**169,161,400**	–
Income tax payable (Note 19)	**6,734,557**	–
Total Current Liabilities	**376,144,730**	279,166,519
Noncurrent Liabilities		
Deferred income tax liability - net (Note 19)	**85,766,176**	106,377,534
Retirement benefit obligation (Note 18)	**4,645,173**	4,161,588
Nontrade payables (Notes 13 and 24)	**–**	315,966,684
Total Noncurrent Liabilities	**90,411,349**	426,505,806
Equity		
Capital stock (Note 20)	**1,789,938,502**	1,789,938,502
Additional paid-in capital	**296,576,996**	296,768,818
Deposit for future stock subscriptions (Note 23)	**92,028,090**	–
Cumulative changes in fair values of AFS investments (Note 8)	**16,135,000**	375,000
Deficit	**(840,664,167)**	(1,117,644,057)
Total Equity	**1,354,014,421**	969,438,263
TOTAL LIABILITIES AND EQUITY	**₱1,820,570,500**	₱1,675,110,588

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(With Comparative Figures for 2005)

	For the Years Ended December 31		
	2007	2006	2005 (As restated; Note 26)
OTHER OPERATING INCOME	**₱–**	₱–	₱375,000
ADMINISTRATION AND OVERHEAD COSTS (Note 14)	**(74,802,217)**	(108,644,593)	(133,778,690)
FINANCE COSTS (Note 15)	**–**	(24,241,921)	(20,762,328)
OTHER INCOME (Note 16)	**337,905,306**	1,338,448	6,919
INCOME (LOSS) BEFORE INCOME TAX	**263,103,089**	(131,548,066)	(154,159,099)
BENEFIT FROM INCOME TAX (Note 19)	**13,876,801**	18,850,318	6,741,565
NET INCOME (LOSS)	**₱276,979,890**	(₱112,697,748)	(₱147,417,534)
EARNINGS (LOSS) PER SHARE Basic and diluted (Note 22)	**₱0.00155**	(₱0.00084)	(₱0.00124)

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(With Comparative Figures for 2005)

	For the Years Ended December 31		
	2007	2006	2005 (As restated; Note 26)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱263,103,089**	(₱131,548,066)	(₱154,159,099)
Adjustments for:			
Provision for impairment losses (Notes 9 and 10)	**58,406,009**	50,007,818	45,046,615
Depletion, depreciation and amortization (Note 9)	**19,806,399**	47,396,582	59,294,978
Retirement benefit costs (Note 18)	**483,585**	480,400	432,025
Interest income (Note 16)	**(1,177,478)**	(1,337,748)	(6,919)
Gain from sale of AFS investments	**–**	–	(375,000)
Operating income (loss) before working capital changes	**340,621,604**	(35,001,014)	(49,767,400)
Decrease (increase) in:			
Receivables	**709,853**	(4,033,463)	(95,124)
Inventories	**61,861**	4,174,820	10,046,718
Prepayments and other current assets	**(7,172,346)**	(28,302,699)	(396,517)
Increase (decrease) in trade and other payables	**(78,917,746)**	(288,103,632)	21,589,162
Cash generated from (used in) operations	**255,303,226**	(351,265,988)	(18,623,161)
Interest received	**1,506,186**	1,337,748	6,919
Net cash provided by (used in) operating activities	**256,809,412**	(349,928,240)	(18,616,242)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment (Note 9)	**(90,601,700)**	(8,429,794)	(35,000)
Additions to mine exploration costs (Note 23)	**(92,028,090)**	–	–
Purchase of AFS investments (Note 8)	**(20,240,000)**	–	–
Additions to other noncurrent assets	**(315,888)**	(2,461,784)	(4,542,330)
Proceeds from disposal of AFS investment (Note 8)	**–**	–	7,875,000
Net cash provided by (used in) investing activities	**(203,185,678)**	(10,891,578)	3,297,670
CASH FLOWS FROM FINANCING ACTIVITIES			
Deposit for future stock subscriptions (Note 23)	**92,028,090**	–	–
Payments of nontrade payables	**(146,805,284)**	–	–
Cost incurred from issuance of shares (Note 20)	**(105,502)**	(2,818,486)	–
Refund from subscription (Note 20)	**(86,320)**	–	–
Proceeds from issuance of shares (Note 20)	**–**	705,620,169	–
Payments of borrowings (Note 12)	**–**	(193,439,896)	–
Receipts from (payments to) related parties	**–**	(28,154,759)	15,114,672
Net cash provided by (used in) financing activities	**(54,969,016)**	481,207,028	15,114,672
NET INCREASE (DECREASE) IN CASH	**(1,345,282)**	120,387,210	(203,900)
CASH AT THE BEGINNING OF THE YEAR	**120,850,302**	463,092	666,992
CASH AT THE END OF THE YEAR (Note 4)	**₱119,505,020**	₱120,850,302	₱463,092

See accompanying Notes to Consolidated Financial Statements

MANILA MINING CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(With Comparative Figures for 2005)

	Capital Stock (Note 20)							
	Issued	Subscribed	Subscription Receivable	Additional Paid-in Capital	Deposit for Future Stock Subscriptions	Changes in Fair Values of AFS Investments	Deficit	Total
Balances at January 1, 2005, as previously reported	₱1,193,160,189	₱71,125	₱–	₱4,230,174	₱–	₱750,000	(₱782,126,077)	₱416,085,411
Prior period adjustments (Note 26)	–	–	–	–	–	–	(75,402,698)	(75,402,698)
Balances at January 1, 2005, as restated	1,193,160,189	71,125	–	4,230,174	–	750,000	(857,528,775)	340,682,713
Fair value transferred to profit and loss (Note 8)	–	–	–	–	–	(375,000)	–	(375,000)
Net loss for the year	–	–	–	–	–	–	(147,417,534)	(147,417,534)
Total loss recognized for the year	–	–	–	–	–	(375,000)	(147,417,534)	(147,792,534)
Balances at December 31, 2005	1,193,160,189	71,125	–	4,230,174	–	375,000	(1,004,946,309)	192,890,179
Issuance/subscription of shares during the year (Note 20)	587,831,567	8,980,331	(104,710)	292,538,644	–	–	–	889,245,832
Net loss for the year	–	–	–	–	–	–	(112,697,748)	(112,697,748)
Balances at December 31, 2006	1,780,991,756	9,051,456	(104,710)	296,768,818	–	375,000	(1,117,644,057)	969,438,263
Cumulative changes in fair values of AFS investments	–	–	–	–	–	15,760,000	–	15,760,000
Net income for the year	–	–	–	–	–	–	276,979,890	276,979,890
Total income recognized for the year	–	–	–	–	–	15,760,000	276,979,890	292,739,890
Deposit for future stock subscriptions (Note 23)	–	–	–	–	92,028,090	–	–	92,028,090
Issuance of shares during the year	8,572,082	(8,572,082)	–	(105,502)	–	–	–	(105,502)
Refund from subscription (Note 20)	–	–	–	(86,320)	–	–	–	(86,320)
Balances at December 31, 2007	₱1,789,563,838	₱479,374	(₱104,710)	₱296,576,996	₱92,028,090	₱16,135,000	(₱840,664,167)	₱1,354,014,421

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information and Status of Operation

Manila Mining Corporation

Manila Mining Corporation (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 20, 1949, primarily to carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in precious and semi-precious metals, ores, minerals and their by-products. The Parent Company's shares are listed and traded in the Philippine Stock Exchange (PSE). On April 16, 1999, the SEC approved the extension of the Parent Company's corporate term for another fifty (50) years upon expiration of its original term on May 30, 1999. Lepanto Consolidated Mining Company (LCMC), a publicly listed Company, and its subsidiaries, has 20.15% equity interest in the Company.

The principal office of the Parent Company is located at the 20th Floor Lepanto Building, Paseo de Roxas, Makati City.

Kalayaan Copper-Gold Resources, Inc.

Upon incorporation of Kalayaan Copper-Gold Resources, Inc. (KCGRI; the Subsidiary), the Parent Company gained 100% of its voting shares.

KCGRI was incorporated on December 19, 2006, primarily to carry on the business of exploration, mining, development and utilization of all mineral resources, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in all other kinds of ores, metals and minerals, hydrocarbons acids, and chemicals, and in the products and by-products of every kind and description.

The principal office of the subsidiary is located at the 21st Floor Lepanto Building, Paseo de Roxas, Makati City.

Status of Operation

The Parent Company's mining operations remain suspended since shutdown in 2001. On January 22, 2007, the Parent Company has initiated mining activities through an exploration program adopted during the last quarter of 2006.

On May 22, 1996, the Parent Company's Board of Directors (BOD) approved the expansion of its current mill capacity from 8,000 tonnes per day (TPD) to 10,000 TPD, designed to consolidate the installation of the second Semi-Autogenous Grinding mill unit with the original 48-inch pit conveyor project. The expansion was registered with the Board of Investments (BOI) under E.O. No. 226 on October 6, 1996.

On November 5, 1997, the BOI approved the Parent Company's application for registration of its copper flotation project under E.O. No. 226 on a non-pioneer status. On June 9, 2000, the BOI likewise approved the Parent Company's application for the modernization program of the copper flotation project under a preferred non-pioneer status. As a registered enterprise, the Parent

Company is entitled to certain incentives and tax benefits which include, among others, income tax holiday for a period of four years from February 23, 1998, the actual start of commercial operations.

On November 30, 2000, the Parent Company's gold mining and milling operations were temporarily shutdown due to the landslide that occurred in one of its open pits.

On December 20, 2000, the Parent Company temporarily shut down its milling operations pending its receipt of a permit to further raise its tailing pond.

On January 29, 2001, after obtaining the necessary permit to increase the height of the tailing pond to the 65 meter limit set by the Department of Environment and Natural Resources (DENR), the Parent Company resumed its milling operations.

On July 26, 2001, the Parent Company's BOD, in its meeting on July 26, 2001, resolved to shutdown the Parent Company's mining operations due to the expiration of its temporary authority to construct and operate its tailings dam issued by the DENR. As a consequence, the Parent Company implemented a selective employee retrenchment program in order to minimize its losses. Operations of the Parent Company were concentrated to exploration works in order to enhance its existing ore reserves which are deemed critical in sustaining continuous and profitable operations. Furthermore, the Parent Company's prospects during this period were affected by the general slow down in the economy and the volatile price of copper. Also, the Parent Company did not meet its maturing debt obligations and certain financial ratios required in its loan agreements (see Note 12). These matters raise significant uncertainties as to the Parent Company's ability to continue as a going concern and recover its mine and mining properties. In view of the suspension of the Parent Company's mining operations, the registration of the Parent Company's copper flotation project was cancelled by the BOI on August 23, 2005.

The Parent Company's mining operations remain suspended since shutdown in 2001. However, several companies have expressed interest in the area that lies between the Kalaya-an district at the extreme southwest end of the Parent Company's tenement holdings and immediately north of the Anglo-American/Philex Boyongan discovery and the historical operations. This area has been named the "Corridor" as it covers important geology and structures that connect two significantly mineralized areas.

The investment and mining climate has improved significantly over the past several months as a result of the 2004 Supreme Court ruling upholding the validity of the Philippine Mining Act of 1995 and the escalating copper and gold commodity prices. The Parent Company holds excellent properties and should be able to realize significant benefits over the long term. The Parent Company's Kalaya-an Project is among the mineral exploration projects under the Ten Point Legacy of the President of the Philippines for year 2004 - 2010.

In 2006, the Parent Company made a pre-emptive rights offering of shares with a par value of ₱0.010 per share at an exercise price of ₱0.015 per share. Such rights offer shareholders the right to subscribe to one share for two shares held as of record date of August 30, 2006. Total capital stock issued and subscribed from the stock rights offering amounted to ₱889,245,832 (net of related costs).

Proceeds from the issuance of stock rights were used to settle debts and fund exploration projects. Exploration drilling activities started in 2007.

On November 9, 2006, the Parent Company and Anglo American Exploration (Philippines), Inc. ("AMEXP"), a wholly-owned subsidiary of Anglo American Plc, signed a Letter of Intent which, subject to finalizing definitive agreements, confirms the participation of AMEXP in the exploration and potential development of the Kalaya-an Property which is part of the contract area of the Exploration Permit of the Parent Company then pending renewal with the DENR.

The Exploration Permit renewal was granted by the DENR on January 29, 2007 for a term of two years from issuance covering an area of 2,462.92 hectares, of which one parcel consisting of 286.63 hectares, would be the subject of the joint venture between the Parent Company and Anglo American Plc. As discussed in Note 23, the Parent Company signed on March 26, 2007 a Farm-in Agreement with Anglo Investments BV, a wholly owned subsidiary of Anglo American Plc, covering said area.

The accompanying consolidated financial statements of Manila Mining Corporation and Subsidiary (the Group) as of and for the years ended December 31, 2007 and 2006, were authorized for issue in accordance with a resolution by the BOD on March 17, 2008.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis except for the AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Parent Company's functional and presentation currency.

Statement of Compliance

The financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements of the Group include the accounts of the Parent Company and KCGRI, a 100% owned subsidiary. The financial statements of the subsidiary are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses and profit and losses resulting from intra-group transactions are eliminated in full.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases.

Adoption of New and Revised Accounting Standards

The accounting policies adopted are consistent with those of the previous financial years except for the adoption of the following new and amended standards and Philippine Interpretations. Adoption of these new and amended standards and interpretation did not have any effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures.

- Amendments to PAS 1, *Presentation of Financial Statements*
- PFRS 7, *Financial Instruments: Disclosures*
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 7, *Applying the Restatement Approach Under PAS 29, Financial reporting in Hyperinflationary Economies*
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

The effects of these new and amended standards and interpretations in the Group's consolidated financial statements are as follows:

- Amendments to PAS 1, *Presentation of Financial Statements*
  The amendments to PAS 1 introduce disclosures about the level of an entity's capital and how it manages capital. Additional disclosures required by the amendments to PAS 1 are included in Note 25.

- PFRS 7, *Financial Instruments: Disclosures*
  PFRS 7 introduces new disclosures to improve the information about financial instruments. Additional disclosures required by PFRS 7 are included throughout the financial statements particularly the qualitative and quantitative disclosures on the Group's exposure to liquidity risk, credit risk and market risks as shown in Note 24 to the consolidated financial statements.

  On January 11, 2008, the SEC has approved an amendment to the transition provision of PFRS 7 that gives transitional relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments under paragraphs 31-42 of PFRS 7. In relation to such relief, information for the new risk disclosures under paragraphs 31-42 of PFRS 7 was presented only in the current year, unless the disclosure was previously required under Philippine Accounting Standards (PAS) 32.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
  This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. This interpretation has no impact on the Group's financial statements.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. This interpretation has no impact on the Group's financial statements.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
  This interpretation prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This interpretation has no significant impact on the Group's financial statements.

The following are the standards and interpretations that are issued but not yet effective for the financial statements as of and for the year ended December 31, 2007:

- PFRS 8, *Operating Segments* (effective beginning January 1, 2009)
  PFRS 8 adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market. The Group will assess the impact of PFRS 8 on the consolidated financial statements when the Group adopts it in January 2009.

- PAS 1, *Presentation of Financial Statements (Revised)* (effective beginning January 1, 2009)
  In accordance with the amendment to PAS 1, the statements of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

  In addition, the amendment to PAS 1 provides for the introduction of a new statement of comprehensive income that combines all items of income and expense recognized in the statements of income together with 'other comprehensive income'. The revisions specify what is included in other comprehensive income, such as gains and losses on available-for-sale assets, actuarial gains and losses on defined benefit pension plans and changes in the asset revaluation reserve. Entities can choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. The Group does not expect this amendment to have a significant impact on the financial statements.

- PAS 23, *Borrowing Costs (Revised)* (effective beginning January 1, 2009)
  The revision to PAS 23 requires capitalization of borrowing costs when such costs relate to a qualifying asset. PAS 23, as revised, has no significant impact on the Group's financial statements.

- Philippine Interpretation IFRIC 11, PFRS 2, *Group and Treasury Transactions*
  (effective beginning March 1, 2007)
  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even in certain

cases. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. This interpretation has no significant impact on the Group's financial statements.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective beginning January 1, 2008)
  This interpretation covers contractual arrangements arising from private entities providing public services. This interpretation has no impact on the Group's financial statements.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective beginning July 1, 2008)
  This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation has no impact on the Group's financial statements.

- Philippine Interpretation IFRIC 14, IAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective beginning January 1, 2008)
  This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, Employee Benefits. This interpretation has no impact on the Group's financial statements.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments

Financial instruments are recognized in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held to maturity investments and AFS investments. The consolidated financial assets are of the nature of loans and receivables and AFS investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

Loans and Receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. This accounting policy relates to the balance sheet caption 'Receivables', which arise primarily from advances to employees and other types of receivables. Loans and receivables are classified as current when these are expected to be realized within one year after the balance sheet date or the Group's normal operating cycle. All others are classified as non-current.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized costs is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in 'Finance Cost' caption in the statement of income. The losses arising from impairment of receivables are recognized in the statement of income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets).

AFS investments
AFS financial assets are nonderivatives that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They are included in noncurrent assets unless management intends to dispose of the investment within 12 months from the balance sheet date. Included in this category are equity investments in publicly listed and private companies other than subsidiaries and associates, which are shown as a separate line item in the balance sheet.

Fair values of investments are estimated by reference to their quoted market price at the balance sheet date. Unquoted equity securities are carried at cost, net of an impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as 'Cumulative changes in fair values of AFS investments' caption in the equity section of the balance sheet.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Any interest earned on holding AFS investments are reported as interest income using the effective interest rate. Any dividends earned on holding AFS investments are recognized in the statement of income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the statement of income.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income. This accounting policy applies primarily to the Group's borrowings, accounts payable and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The fair value of the interest bearing long term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. For floating rate long term debt which is repriced monthly, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For floating rate long term debt, which is repriced semi-annually, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of income when the liabilities are derecognized as well as through the amortization process.

For the current year, the Group has no outstanding loans and borrowings.

Capital Stock
Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of share over par value of share are credited to share premium.

Where the Group purchases its own shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

Impairment of Financial Assets

Assets carried at Amortized Cost

The Group assesses at each balance sheet date whether a financial or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Group first assesses whether its objective evidence of impairment, such as aging of assets and/or status of debtors, exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial asset with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

With respect to receivables, the Group maintains a provision for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly.

AFS Investments

For AFS investments, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statements of income – is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded in the statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

"Day 1" Profit or Loss

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data that is not observable, the difference between the transaction price and model value is recognized in the statement of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit or loss amount.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

Offsetting
Financial assets and liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories
Materials and supplies are stated at the lower of cost or net realizable value. Cost is determined using the moving average method. Net realizable value is the replacement cost. In determining net realizable value, the Group considers any adjustment necessary for obsolescence.

Property, Plant and Equipment
Property, plant and equipment are carried at cost less accumulated depletion, depreciation and amortization and impairment in value, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense. Mine exploration and development costs of mineral properties are capitalized as mine and mining property and are included in property, plant and equipment account.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Major maintenance and major overhaul costs that are capitalized as part of property, and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection.

Depreciation and amortization are calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life.

Type of asset	Estimated useful life in years
Machinery and equipment	5-20
Building and improvements	20
Furniture, office and other equipment	5
Tailings dam	14

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the Group's geologist and certified by an independent geologist.

The assets' residual values, if any, and useful lives and methods of depletion and depreciation are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

Mine Exploration Costs

Expenditures for mine exploration work prior to drilling are charged to operations. Expenditures for the acquisition of property rights and expenditures subsequent to drilling and development costs are deferred. When exploration work and project development results are positive, these costs and subsequent mine development costs are capitalized and carried under 'Mine exploration costs' account until the start of commercial operations when such costs are transferred to property, plant and equipment. When the results are determined to be negative or not commercially viable, the accumulated costs are written off.

Impairment of Nonfinancial Assets

Property, Plant and Equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Mine exploration costs
An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; or

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned; or

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Income Taxes
Current Income Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the balance sheet date.

Deferred Income Tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from unused NOLCO to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Provision for Mine Rehabilitation and Decommissioning

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the balance sheet date. The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the statement of income. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

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

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

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within “other noncurrent assets” on the balance sheet.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Interest Income

Interest income is recognized as it accrues using effective interest rate method.

Other Income

Other income is recognized when earned.

Provisions

Provisions are recognized when (a) the Group has a present obligation (legal and constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Employee Benefits

Pension Obligations

Pension cost and obligation are computed in accordance with Republic Act No.7641, Retirement Pay Law, which is similar to that computed under a defined benefit pension plan. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on certain factors such as age, years of credited service and salary.

The liability recognized in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of any plan assets, together with any adjustments for unrecognized gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity which approximates the terms of the related pension liability. The defined benefit obligation is calculated on a regular periodic basis by an independent actuary using the "Projected Unit Credit Cost" method.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate at the balance sheet date. Foreign exchange differences between rate at transaction date and rate at settlement date or balance sheet date are credited to or charged against current operations.

Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the parent company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares. The Parent Company has no dilutive potential common shares as of December 31, 2007 and 2006.

Dividend Distribution
Dividend distribution to the Group's stockholders is recognized as a liability in the Group's financial statements in the period in which the dividends are declared by the BOD.

Contingencies
Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group has only one business and geographical segment.

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS require management to make judgments, estimates and assumptions that affect amounts reported in the financial statements and related notes. The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Parent and the Subsidiary, the functional currency of the Parent Company and the Subsidiary has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company and the Subsidiary operate. It is the currency that mainly influences the revenues and expenses of the Parent Company and the Subsidiary.

Estimates and Assumptions
The consolidated financial statements prepared in compliance with PFRS require management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Estimating Allowances for Impairment Losses on Receivables
The provision for impairment losses on receivables is based on the Group's assessment of the collectibility of payments from employees and other third parties. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that affect the collectibilty of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

As of December 31, 2007 and 2006, the Group has receivables of ₱403,753 and ₱1,442,314, respectively, net of allowance for impairment losses of ₱421,460 and ₱455,534, respectively (see Note 5).

Estimating Allowances for Inventory Obsolescence
Mill materials, hardware and other supplies, which are used in the Group's operations, are stated at the lower of cost or net realizable value. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased were no longer in service. Inventories which are nonmoving or have become unusable are priced at their recoverable amount.

Provision for inventory obsolescence amounting to nil and ₱3,369,834 was recognized in 2007 and 2006, respectively (₱9,131,927 in 2005). Inventories, at lower of cost or net realizable value, amounted to ₱40,312,494 and ₱40,374,355 as of December 31, 2007 and 2006, respectively, net of allowance for inventory obsolescence of ₱28,847,718 (see Note 6).

Estimating Impairment on AFS Equity Investments
The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% more of the original cost of investment, and 'prolonged', greater than 6 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. There was no impairment loss on AFS equity investments as of December 31, 2007 and 2006. Fair value of AFS investments amounted to ₱43,875,000 and ₱7,875,000, as of December 31, 2007 and 2006, respectively (see Note 8).

Estimating Useful Lives of Property, Plant and Equipment
Estimated useful lives of the property, plant and equipment are determined based on the assessment by the end user and the parameters of usage indicated in the Group's manual. The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2007 and 2006, the net book value of the property, plant and equipment amounted to ₱1,467,138,562 and ₱1,454,749,270, respectively (see Note 9).

Estimating Impairment Losses on Property, Plant and Equipment
The Group assesses impairment on property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing

impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The aggregate net book values of property, plant and equipment amounted to ₱1,467,138,562 and ₱1,454,749,270 as of December 31, 2007 and 2006 respectively, net of accumulated impairment losses of ₱143,272,443 and ₱84,866,434 (see Note 9).

An impairment loss is recognized and charged to the consolidated statement of income if the recoverable amount is less than the carrying amount. The recoverable amount of the asset is incurred as the higher of its fair value less cost to sell and value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, net of direct costs of selling the asset. When value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

Recoverability of Mine Exploration Costs
Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to operations until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. Mine exploration costs amounted to ₱92,028,090 and nil as of December 31, 2007 and 2006, respectively (see Note 23).

Estimating Mineral Reserves and Resources
Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and extraction and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions.

The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of mine, stripping ratios and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning.

As of December 31, 2007 and 2006, mine and mining properties presented under property, plant and equipment amounted to ₱1,389,419,841 and ₱1,304,903,304, respectively (see Note 9).

Estimating Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Group has recognized deferred income tax asset amounting to ₱65,743,604 and ₱45,132,246 as of December 31, 2007 and 2006, respectively. Unrecognized deferred income tax assets for the Group's net operating loss carryover (NOLCO) amounted to nil and ₱60,761,783 as of December 31, 2007 and 2006, respectively (see Note 19).

Retirement Benefit Expense
The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts.

Retirement benefit expense amounted to ₱483,585 and ₱480,400 in 2007 and 2006, respectively (₱432,025 in 2005). Retirement benefit obligation amounted to ₱4,645,173 and ₱4,161,588 as of December 31, 2007 and 2006, respectively (see Note 18).

Estimating Provision for Mine Rehabilitation and Decommissioning
The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

The provision for mine rehabilitation and decommissioning costs is based on estimated future costs using information available at the balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted. Provision for mine rehabilitation and decommissioning amounted to nil as of December 31, 2007 (see Note 17).

4. Cash and Cash Equivalents

	2007	2006
Cash on hand	**₱153,427**	₱132,118
Cash in banks	**119,351,593**	10,718,184
Cash equivalents	**–**	110,000,000
	₱119,505,020	₱120,850,302

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents pertain to time deposits with a local bank having an average maturity of 30 days earning 3.0625% annual interest in 2006.

Interest income earned from cash and cash equivalents amounted to ₱1,177,478 and ₱1,337,748 for the years ended December 31, 2007 and 2006, respectively (₱6,919 for the year ended December 31, 2005; see Note 16).

5. Receivables

	2007	2006
Nontrade	**₱693,298**	₱1,718,648
Officers and employees	**131,915**	179,200
	825,213	1,897,848
Less allowance for impairment losses	**421,460**	455,534
	₱403,753	₱1,442,314

Based on assessment done by the management, the Group recognized an allowance amounting to ₱421,460 and ₱455,534 as of December 31, 2007 and 2006, respectively, covering those receivables considered as individually impaired.

The following table shows the aging of nontrade and other receivables that are past due as of December 31, 2007 and December 31, 2006 but are not considered impaired.

			Past due but not impaired			
	Total	Neither past due nor impaired	Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days
2007						
Nontrade	**₱271,838**	**₱–**	**₱–**	**₱–**	**₱10,000**	**₱261,838**
Officers and employees	**131,915**	**–**	**54,684**	**7,874**	**16,860**	**52,497**
	₱403,753	**₱–**	**₱54,684**	**₱7,874**	**₱26,860**	**₱314,335**
2006						
Nontrade	₱1,263,114	₱–	₱–	₱–	₱–	₱1,263,114
Officers and employees	179,200	–	74,960	10,795	16,589	76,856
	₱1,442,314	₱–	₱74,960	₱10,795	₱16,589	₱1,339,970

Movement of allowance for impairment losses in 2007 is as follows:

	Nontrade	Officers and employees	Total
Balances at beginning of year	₱455,534	₱–	₱455,534
Less write-off	34,074	–	34,074
Balances at end of year	₱421,460	₱–	₱421,460

There was no movement in the provision for impairment losses in 2006.

6. Inventories

	2007	2006
At net realizable value:		
Mill materials, hardware and other supplies - net	**₱22,797,569**	₱22,766,658
At cost:		
Machinery and automotive parts	**17,210,604**	17,407,351
Fuel, oil and lubricants	**304,321**	200,346
	17,514,925	17,607,697
	₱40,312,494	₱40,374,355

The allowance for inventory losses on mill materials, hardware, and other supplies amounted to ₱28,847,718 as of December 31, 2007 and 2006. Cost of mill materials, hardware and other supplies amounted to ₱51,645,287 and ₱51,614,376 as of December 31, 2007 and 2006, respectively.

7. Prepayments and Other Current Assets

	2007	2006
Miscellaneous deposits (see Note 13)	**₱32,153,400**	₱31,843,400
Input value added taxes (VAT)	**12,009,714**	6,636,453
Prepaid income tax	**2,618,898**	2,618,898
Others	**3,568,579**	2,079,494
	₱50,350,591	₱43,178,245

Miscellaneous deposits include the deposit of ₱30,000,000 for the drilling service contract entered into by the Parent Company with Diamond Drilling Corporation of the Philippines (DDCP) during the last quarter of 2006. Such agreement is with regard to exploration drilling programme involving the drilling of about 10 holes to probe the Kinto Limbo Project and possible extension of Entina ore body. Initial activities, such as accessing proposed drill pads were undertaken in 2006, however, actual drilling exploration began in January 2007. Charges incurred by DDCP such as mobilization costs, nonoperating field costs, reaming of casings, stand-by fees, contractors' fees, among others, will be applied against the miscellaneous deposits.

8. AFS Investments

	2007	2006
Listed shares	**₱36,000,000**	₱–
Unlisted shares	**7,875,000**	7,875,000
	₱43,875,000	₱7,875,000

AFS investments consist of the Parent Company's investments in ordinary shares and therefore have no fixed maturity date or coupon rate.

Listed shares consist of equity securities that are traded on the Philippine Stock Exchange. The fair values of the listed shares are based on their bid market price as of December 31, 2007.

Unlisted shares have been carried at cost since fair value of these AFS securities cannot be reliably determined as these securities have no available bid price.

The aggregate costs of these investments amounted to ₱27,740,000 and ₱7,500,000 as of December 31, 2007 and 2006, respectively. The fair values amounted to ₱43,875,000 and ₱7,875,000 as of December 31, 2007 and 2006, respectively.

Movement of cumulative changes in fair values of AFS investments recognized as a separate component of equity is as follows:

	2007	2006
Balances at beginning of year	**₱375,000**	₱375,000
Unrealized valuation gain	**15,760,000**	–
Balances at end of year	**₱16,135,000**	₱375,000

In 2005, AFS investments with an aggregate cost of ₱7,500,000 and fair value of ₱7,875,000 were sold for ₱7,875,000. Accordingly, the ₱375,000 gain was transferred from the statement of changes in equity to the statement of income.

9. Property, Plant and Equipment

	2007					
	Mine and Mining Properties	**Machinery and Equipment**	**Building and Improvements**	**Furniture, Office and Other Equipment**	**Land**	**Total**
Cost:						
Balances at beginning of year	**₱2,370,227,626**	**₱768,150,087**	**₱98,989,074**	**₱68,811,999**	**₱7,270,713**	**₱3,313,449,499**
Additions	**84,516,537**	**1,611,121**	**3,880,261**	**593,781**	**–**	**90,601,700**
Balances at end of year	**2,454,744,163**	**769,761,208**	**102,869,335**	**69,405,780**	**7,270,713**	**3,404,051,199**
Accumulated depreciation, depletion and amortization:						
Balances at beginning of year	**1,065,324,322**	**586,376,604**	**53,606,161**	**68,526,708**	**–**	**1,773,833,795**
Depletion, depreciation and amortization during the year	**–**	**15,310,638**	**4,375,117**	**120,644**	**–**	**19,806,399**
Balances at end of year	**1,065,324,322**	**601,687,242**	**57,981,278**	**68,647,352**	**–**	**1,793,640,194**
Allowance for impairment losses:						
Balances at beginning of year	**–**	**76,387,528**	**8,414,481**	**64,425**	**–**	**84,866,434**
Additions	**–**	**49,114,434**	**9,291,575**	**–**	**–**	**58,406,009**
Balances at end of year	**–**	**125,501,962**	**17,706,056**	**64,425**	**–**	**143,272,443**
Net book values	**₱1,389,419,841**	**₱42,572,004**	**₱27,182,001**	**₱694,003**	**₱7,270,713**	**₱1,467,138,562**

	2006					
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Total
Cost:						
Balances at beginning of year	₱2,362,611,759	₱767,550,087	₱98,989,074	₱68,598,074	₱7,270,713	₱3,305,019,707
Additions	7,615,867	600,000	–	213,925	–	8,429,792
Balances at end of year	2,370,227,626	768,150,087	98,989,074	68,811,999	7,270,713	3,313,449,499
Accumulated depreciation, depletion and amortization:						
Balances at beginning of year	1,043,814,398	569,866,577	48,506,125	68,508,007	–	1,730,695,107
Depletion, depreciation and amortization during the year	21,509,924	16,510,027	5,100,036	18,701	–	43,138,688
Balances at end of year	1,065,324,322	586,376,604	53,606,161	68,526,708	–	1,773,833,795
Allowance for impairment losses:						
Balances at beginning of year	–	40,926,804	3,091,325	64,425	–	44,082,554
Additions	–	38,007,980	5,323,156	–	–	43,331,136
Reversal	–	(2,547,256)	–	–	–	(2,547,256)
Balances at end of year	–	76,387,528	8,414,481	64,425	–	84,866,434
Net book values	₱1,304,903,304	₱105,385,955	₱36,968,432	₱220,866	₱7,270,713	₱1,454,749,270

Total depletion, depreciation and amortization of property, plant and equipment and certain idle assets charged to operations including amortization of tailings dam (which is included as part of mine and mining properties), amounted to ₱19,806,399 and ₱47,396,582 in 2007 and 2006, respectively (₱59,294,978 in 2005).

In 2007, the Parent Company recognized an impairment loss of ₱58,406,009 on the difference between the net book value of certain assets and their fair value as determined by independent appraisers less any costs to dispose.

The value of the land was arrived at using Market Data Approach. In this approach, the value of the land is based on sales and listings of comparable properties registered within the vicinity. The technique of this approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparable.

The value of the machinery and equipment and building and improvements was arrived using the Fair Market Value (In Orderly Liquidation) approach. This is the amount that might be realized from assembled or piecemeal disposition of the property in the secondhand market, assuming a reasonable period of time (usually more than three months) in which to complete the transaction. The liquidation value estimates consider that the property will be offered for sale in its present location and condition on an “as is, where is” basis, with the potential buyer to assume cost, if any, to dismantle and remove.

In 2006, the Parent Company recognized an impairment loss amounting to ₱43,331,136, representing the net book value of assets which were identified as damaged and obsolete. Depreciation amounting to ₱9,580,539 and ₱13,665,146 were capitalized in 2007 and 2006, respectively, as part of mine and mining properties.

10. **Other Noncurrent Assets**

	2007	2006
Environmental fund	**₱5,154,836**	₱5,031,042
Advances to landowners	**1,674,141**	1,610,061
Other assets, net of accumulated amortization and impairment loss of ₱40,054,171 in 2007 and 2006	**128,013**	–
	₱6,956,990	₱6,641,103

On November 13, 1998, the Parent Company entered into a separate Memorandum of Agreement with the Office of Municipal Mayor and Sangguniang Bayan of Placer, Surigao del Norte, DENR and Mines and Geosciences Bureau. Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and a Mine Rehabilitation Fund (MRF) amounting to ₱5,150,000. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the Group in a mutually acceptable bank is subject to annual review of the MRF committee. The funds earn interest based on the prevailing market rate.

Advances to landowners pertain to advances made to certain landowners for future purchases of parcels of land. The same will be deducted from the total acquisition cost of parcels of land purchased in the future.

Provision for impairment losses amounting to ₱6,676,682 was recognized in 2006 for the remaining net book value of idle assets.

11. **Trade and Other Payables**

	2007	2006
Trade	**₱123,724,726**	₱205,792,235
Payable to related parties (Note 13)	**46,260,834**	46,305,860
Accrued payroll	**4,575,820**	3,727,010
Unclaimed dividends	**573,097**	573,097
Other liabilities	**25,114,296**	22,768,317
	₱200,248,773	₱279,166,519

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 60 days' terms.
- Other payables are non-interest bearing and have an average term of 1 - 3 months.

12. Borrowings

In 2002, the Parent Company had loans payable to Equitable PCI Bank (EPCIB), Metropolitan Bank and Trust Group (MBTC) and International Exchange Bank (IEB) of ₱115,938,429, ₱103,282,946 and ₱35,381,177, respectively. During 2004, the Parent Company made payments to the creditor banks reducing the total loans payable to ₱193,439, 896.

The loans payable account represented what were originally foreign currency-denominated loans from EPCIB, MBTC and IEB for the importation of various mining equipment. Importations were made through existing credit lines then maintained with the local banks. The loans were restructured and were converted into peso loans fixed at certain amounts at various dates in 2002. These loans had annual interest rates ranging from 10.00% to 15.25% in 2005.

The loan agreements also provided certain restrictions such as maintenance of a ratio of current assets to current liabilities of at least 0.50:1 and a debt to equity ratio of not more than 1:1, among others.

During August 24, 2005, in accordance with the Special Purpose Vehicle Act of 2002, otherwise known as Republic Act No. 9182, EPCIB assigned to Cameron Granville Asset Management (SPV-AMC), Inc. (Cameron) all its rights, titles and interest in the receivable from the Group in the amount of ₱101,796,828. Cameron subsequently further assigned the receivable to Asia Surplus Limited. In 2005, MBTC initiated a legal action against the Parent Company to collect the principal amount of ₱72,184,588 plus interest. MBTC subsequently filed a Notice of Dismissal of the case which the Court granted.

In 2006, the full amount of the assigned borrowings was settled using a portion of the proceeds from the Parent Company's preemptive stock rights offering (see Note 20).

13. Related Party Transactions

In the normal course of business, the Parent Company has the following significant transactions with its related parties:

- Cash advances received from and expenses paid on behalf of the Parent Company by LCMC. For these advances, total finance charges amounted to ₱24,233,053 in 2006 (₱20,750,321 in 2005; see Note 15). Interest rates for these advances range from 7.50% to 16.50% in 2006 (7.86% to 13.00% in 2005). In 2007, the Parent Company partially paid these advances to LCMC. For the remaining amount of ₱169,161,400, no interest was charged by LCMC to the Parent Company. The Parent Company reclassified the amount as a current liability as this amounts become due and demandable.

- Various drilling and hauling services rendered by its affiliates to the Parent Company.

The balance sheets include the following asset and liabilities resulting from the above transactions with related parties:

	2007	2006
Miscellaneous deposits:		
Others (see Note 7)	**₱30,000,000**	₱30,000,000
Payables:		
LCMC	**₱169,161,400**	₱315,966,684
Others	**46,260,834**	46,305,860

Payable to LCMC is presented in the 2006 consolidated balance sheets as nontrade payables under noncurrent liabilities. As discussed above, in the 2007 consolidated balance sheet, the remaining payable to LCMC is reclassified under current liabilities. Payables to other related parties are presented under trade and other payables under current liabilities.

- Total compensation of the Group's key management personnel for the years ended December 31, 2007 and 2006 amounted to ₱800,800 and ₱42,000, respectively (₱84,000 for the year ended December 31, 2005).

14. **Administration and Overhead Costs**

	2007	2006	2005 (As restated; Note 26)
Provision for impairment losses on property, plant and equipment (see Notes 9 and 10)	**₱58,406,009**	₱50,007,818	₱45,046,615
Depletion, depreciation and amortization (see Notes 9 and 10)	**10,225,860**	25,886,659	37,785,055
Outside services	**2,342,275**	120,000	3,394,777
Salaries, allowances and other benefits	**938,450**	4,343,339	3,340,804
Retirement benefit cost (see Note 18)	**483,585**	480,400	432,025
Representation and entertainment	**234,507**	35,448	283,711
Transportation and travel	**185,628**	196,582	200,760
Repairs and maintenance	**118,724**	–	2,457,239
Supplies	**40,694**	530,330	283,420
Taxes and licenses	**16,548**	308,299	464,381
Amortization of tailings dam (see Note 9)	**–**	21,509,923	21,509,923
Provision for impairment losses on inventories	**–**	3,369,834	9,131,927
Other charges	**1,809,937**	1,855,961	9,448,053
	₱74,802,217	₱108,644,593	₱133,778,690

15. **Finance Costs**

	2007	2006	2005
Finance charges (see Note 13)	**₱–**	₱24,233,053	₱20,750,321
Foreign exchange loss	**–**	8,868	7,094
Others	**–**	–	4,913
	₱–	₱24,241,921	₱20,762,328

16. Other Income

	2007	2006	2005
Foreign exchange gain	**₱14,167,478**	₱–	₱–
Interest income (see Note 4)	**1,177,478**	1,337,748	6,919
Others (see Note 23)	**322,560,350**	700	–
	₱337,905,306	₱1,338,448	₱6,919

Other income includes the US$7,000,000 (₱322,560,000) nonrefundable deposit, constituting Anglo Investments BV's initial entry cost into the Kalaya-an Project. Pursuant to the Farm-in Agreement entered into by the Company with Anglo Investments BV, the US$7,000,000 nonrefundable deposit was recognized as income in the books of the Company in 2007 when Anglo Investments BV commenced exploration activities in the area.

17. Provision for Mine Rehabilitation and Decommissioning

DENR Administrative Order (DAO) No. 2007-26, which was published in the Philippine Star on August 9, 2007 and took effect 15 days thereafter, was released by the DENR, amending section 2 of DAO 2005-7 and requires Contractors with approved Environmental Protection and Enhancement Programs to submit the Final Mine Rehabilitation and Decommissioning Plan (FMR/DP) for review by the Mine Rehabilitation Fund (MRF) Committee and approval by the Contingent Liability and Rehabilitation Fund Steering Committee before December 31, 2007.

As of December 31, 2007, the Parent Company is still in the process of evaluating the timing and amount of estimated cash flows relating to the mine rehabilitation and decommissioning. Once the Parent Company has been able to complete and submit to Mines and Geosciences Bureau its FMR/DP, it will provide the necessary accrual for mine rehabilitation and decommissioning.

18. Retirement Benefit Plan

The Parent Company has an unfunded defined retirement benefit plan covering substantially all regular employees. Benefits are dependent on the years of service and the respective employee's compensation. The defined unfunded retirement benefit plan obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement in 2007, 2006 and 2005.

The amounts of retirement benefit cost recognized in the statements of income under cost and expenses are determined as follows:

	2007	2006	2005
Current service costs	**₱200,860**	₱200,860	₱177,009
Interest costs	**282,725**	307,097	286,789
Actuarial gains recognized	**–**	(27,557)	(31,773)
	₱483,585	₱480,400	₱432,025

The amounts of retirement benefit obligations recognized in the balance sheets are determined as follows:

	2007	2006
Present value of defined benefit obligation	**₱4,522,517**	₱4,038,932
Actuarial gains not recognized	**122,656**	122,656
	₱4,645,173	₱4,161,588

Changes in the present value of the unfunded retirement benefit obligation are determined as follows:

	2007	2006
Balances at beginning of year	**₱4,038,932**	₱3,070,969
Interest costs	**282,725**	307,097
Current service cost	**200,860**	200,860
Actuarial loss	**–**	460,006
Balances at end of year	**₱4,522,517**	₱4,038,932

Movements in the unfunded retirement benefit obligation recognized in the balance sheets are as follows:

	2007	2006
Balances at beginning of year	**₱4,161,588**	₱3,681,188
Expense recognized for the year	**483,585**	480,400
Balances at end of year	**₱4,645,173**	₱4,161,588

The principal assumptions used in determining retirement benefit plan obligations are as follows:

	2007	2006
Discount rate	**7.00%**	10.00%
Salary increase rate	**8.00%**	8.00%
Expected remaining working lives of employees	**11 years**	11 years

Amounts for the current and previous two years are as follows:

	2007	2006	2005
Defined benefit obligation	**₱4,522,517**	₱4,038,932	₱3,070,969
Experience adjustments on plan liabilities	**–**	14,801	–

19. **Income Taxes**

The current provision for income tax represents minimum corporate income tax (MCIT) in 2007. The Group has no provision for income tax in 2006 and 2005 because of its gross and net tax loss positions.

Provision for (benefit from) income tax consists of:

	2007	2006	2005
Current	**₱6,734,557**	**₱–**	**₱–**
Deferred	**(20,611,358)**	(18,850,318)	(6,741,565)
	(₱13,876,801)	(₱18,850,318)	(₱6,741,565)

A reconciliation of income tax applicable to income (loss) before income tax at the statutory income tax rate to benefit from income tax shown in the consolidated statements of income follows:

	2007	2006	2005
Tax at statutory tax rate	**₱92,086,081**	(₱46,041,823)	(₱50,101,707)
Additions to (reductions in) income tax resulting from:			
Change in unrecognized deferred income tax assets	**5,869,353**	–	–
Application of NOLCO	**(111,420,118)**	–	10,096,412
Interest income subjected to final tax	**(412,117)**	(468,212)	(2,249)
Expired NOLCO	**–**	27,378,790	34,630,374
Nondeductible interest expense	**–**	280,927	869
Change in tax rates	**–**	**–**	(1,365,264)
	(₱13,876,801)	(₱18,850,318)	(₱6,741,565)

The components of the Parent Company's net deferred income tax liability as of December 31 are as follows:

	2007	2006
Deferred income tax assets:		
Allowance for:		
Impairment losses on property, plant and equipment	**₱53,711,155**	₱33,269,051
Losses on inventories	**10,096,701**	10,096,701
Impairment losses on receivables	**159,438**	159,438
Probable losses	**150,500**	150,500
Retirement benefit obligation	**1,625,810**	1,456,556
	65,743,604	45,132,246
Deferred income tax liability:		
Excess of allowable depletion over depletion per books	**151,509,780**	151,509,780
	₱85,766,176	₱106,377,534

Deferred income tax liability is mainly provided on taxable temporary differences arising on the difference between allowed depletion under Presidential Decree 1353 and normal depletion.

As of December 31, 2007 and 2006, the Parent Company has NOLCO that can be claimed as deduction from future taxable income as follows:

		NOLCO	
Year incurred	Year of Expiration	Amount	Tax Effect
2005	2008	₱106,554,996	₱37,294,249
2006	2009	78,225,113	23,467,534
		₱184,780,109	₱60,761,783

The following are the movements of the Company's NOLCO for the years ended December 31:

	2007	2006
Balances at beginning of year	**₱318,343,195**	₱463,808,635
Applications	**(318,343,195)**	–
Additions	**–**	78,225,113
Expirations	**–**	(223,690,553)
Balances at end of year	**₱–**	₱318,343,195

In 2006, no deferred income tax asset was recognized for the above NOLCO as it is not probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Republic Act (RA) No. 9337 was enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code of the Philippines (NIRCP). Among the reforms introduced by the said RA are as follows:

- Increase in the corporate income tax rate from 32% to 35%, with a reduction thereof to 30% beginning January 1, 2009;
- Grant of authority to the Philippine President to increase the 10% VAT rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;
- Revise the invoicing and reporting requirements for VAT;
- Expand the scope of transactions subject to VAT; and
- Provide the thresholds and limitation on the amount of VAT credits that can be claimed.

On January 31, 2006, the Bureau of Internal Revenue issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12%, effective February 1, 2006.

RA No. 9361 was enacted into law effective December 13, 2006, amending Section 110B of the 1997 NIRCP and abolishing the limitation on the amount of VAT credits that can be claimed.

20. **Capital Stock**

On November 30, 2006, the SEC approved the increase in the authorized capital stock to 180 billion shares at par value of ₱0.01 per share divided into 108 billion Class “A” shares and 72 billion Class “B” shares.

Only Philippine nationals are qualified to acquire, own or hold Class "A" common shares of stock of the Parent Company. The total number of Class "B" common shares of stock subscribed, issued or outstanding at any given time shall in no case exceed two-thirds (2/3) of the number of Class "A" common shares of stock or 40% of the aggregate number of Class "A" and Class "B" common shares of stock then subscribed, issued or outstanding.

	2007		2006	
	No. of shares	**Amount**	No. of shares	Amount
Issued and outstanding				
Class "A"	**107,401,052,086**	**₱1,074,010,521**	107,216,894,805	₱1,072,168,948
Class "B"	**71,555,331,747**	**715,553,317**	70,882,280,784	708,822,808
	178,956,383,833	**1,789,563,838**	178,099,175,589	1,780,991,756
Subscribed				
Class "A"	**32,083,917**	**320,839**	216,241,198	2,162,412
Class "B"	**15,853,455**	**158,535**	688,904,418	6,889,044
	47,937,372	**479,374**	905,145,616	9,051,456
Total Shares Issued and Subscribed	**179,004,321,205**	**1,790,043,212**	179,004,321,205	1,790,043,212
Less: Subscriptions Receivable		**104,710**		104,710
		₱1,789,938,502		₱1,789,938,502

In September 2006, the Parent Company offered to its shareholders as of record date of August 30, 2006 the right to subscribe to one (1) share for every two (2) shares held covering 59,668,107,068 common shares consisting of 35,811,045,334 Class “A” shares and 23,857,061,734 Class “B” shares. Proceeds from the resulting issuance of shares amounted to ₱702,801,683, net of ₱2,818,486 amount of cost incurred from such issuance.

The offer period was from September 25 to October 4, 2006. On October 4, 2006, all shares of stock offered were fully subscribed and/or issued.

In 2007, the decrease in additional paid-in capital of ₱86,320 pertains to refund from subscription arising from overpayment of subscribed shares in 2006.

As of December 31, 2007, authorized capital stock of the Subsidiary includes 200 convertible preferred shares with par value of ₱15,000 each. The convertible preferred shares are non-voting, non-cumulative, and shall be convertible to common shares at the option of the shareholder subscribing to the convertible preferred shares under terms and conditions as may be agreed upon between the Subsidiary and the Subsidiary’s shareholders.

As of December 31, 2007, 2006 and 2005, the Parent Company has 4,305; 4,589; and 4,832 stockholders, respectively.

21. Share-based Plan

Under the Parent Company's Revised Stock Option Plan ("Plan"), as amended on September 25, 1995, employees selected by the Stock Option Committee to be important for the success or continued growth of the Parent Company based on their past performance and/or potential, are eligible for the grant. The grantees are given the option to purchase collectively not more than 5% of the total number of shares of the Parent Company's outstanding stock at a price not less than the par value and representing 80% of the average closing price of the stock for the 10 trading days immediately following the SEC's approval of the grant, as determined from the quotations in the PSE. The Plan was further amended by the Parent Company's BOD on August 25, 1997 to enable the BOD to reduce the option price in the event that the market price of the stock should fall to such a level as would dissuade the optionees from exercising their respective option provided that: (1) the reduced price shall not be lower than 80% of the closing price of the stock on the reference date; (2) any reduction in option price should be applied prospectively; and, (3) the option price could not be reduced by more than two times during the effectivity of any grant. The stock options are valid for a period of five years and are exercisable upon approval by the SEC.

There were no stock options granted or stock options activities after the last award granted by the Parent Company, the Seventh Stock Option Award, expired on January 31, 2001.

22. Earnings (Loss) Per Share

	2007	2006	2005
Net income (loss) as shown in the statements of income	**₱276,979,890**	(₱112,697,748)	(₱147,417,534)
Weighted average common shares	**179,004,321,205**	133,721,949,540	119,336,214,137
Basic and diluted earnings (loss) per share	**₱0.00155**	(₱0.00084)	(₱0.00124)

The basic and diluted earning (loss) per share are the same for the years presented as there are no dilutive potential common shares outstanding.

23. Commitments and Contingent Liabilities

- The Parent Company signed on March 26, 2007 a Farm-in Agreement (Agreement) with Anglo Investments BV (Anglo), a wholly owned subsidiary of Anglo American Plc, covering an area of 286.63 hectares (out of total of 2,462.92 hectares of the Parent Company's renewed Exploration Permit No. XIII-014 dated January 26, 2007) known as the Kalaya-an Project. The Kalaya-an Project is the subject of a partial assignment dully approved by DENR on July 30, 2007. The Agreement calls for Anglo to fund, at its sole cost over a period of two to three years, Kalaya-an Project's pre-feasibility phase at an estimated minimum cost of US$20,000,000 (less US$7,000,000 nonrefundable deposit) in order to earn an initial 40% interest in KCGRI. Part of the US$20,000,000 expenditure is by way of a US$7,000,000 nonrefundable deposit remitted by Anglo to the Parent Company on March 26, 2007. The US$7,000,000 nonrefundable deposit constitutes Anglo's initial entry cost into the Kalaya-an Project and the payment to the Parent Company took effect upon Anglo's commencement of the program in the Kalaya-an area. The deposit was recognized as income in the books of the

Parent Company in 2007 when Anglo commenced exploration drilling activities in the area. As of December 31, 2007, Anglo has incurred ₱92,028,090 (US$2.0 million) amount of exploration costs recorded in the consolidated balance sheet as "mine exploration costs" and "deposit for future stock subscriptions".

- The Parent Company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the Parent Company's legal counsel, any adverse decision on these cases would not materially affect the Parent Company's financial position and results of operations as of and for the year ended December 31, 2007 and 2006.

24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents and nontrade payables. The main purpose of the financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, AFS investments, advances to landowners included under "Other noncurrent assets", and trade and other payables which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign currency risk, equity price risk, interest rate risk and liquidity risk. The Group's BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk
Credit risk represents the loss that the Group would incur if a counterparty failed to perform its contractual obligations. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all credit is subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The table below shows the maximum exposure to credit risk for the component of the balance sheet.

	Notes	Gross Maximum Exposure December 31, 2007	Gross Maximum Exposure December 31, 2006
Cash	4		
In banks		**₱119,351,593**	₱10,718,184
Cash equivalents		**–**	110,000,000
Receivables	5		
Nontrade		**271,838**	1,263,114
Officers and employees		**131,915**	179,200
AFS investments	8		
Quoted equity securities		**36,000,000**	–
Unquoted equity securities		**7,875,000**	7,875,000
Total credit risk exposure		**₱163,630,346**	₱130,035,498

Accordingly, the Group has assessed the credit quality of the following financial assets:

- Cash are assessed as high grade since these are deposited in reputable banks, which have a low probability of insolvency.
- Non-trade receivables, which pertains to advances that are due and demandable, were assessed as high-grade since these has high probability of collection as these will be collected through application of last billing.
- Quoted equity instrument was assessed as high-grade since the share prices were projected to move upward and it can be fully recovered.
- Unquoted equity instruments were assessed as high-grade, since these are from one of the reputable hotels in the country.

There are no significant concentrations of credit risk within the Group.

Foreign Exchange Risk
The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in United States (US) dollar currencies. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies.

The Group's foreign currency denominated monetary asset as of December 31, 2007 and 2006 amounted to US$5,298 (₱218,686) and US$2,220 (₱108,847), respectively.

As of December 31, 2007 and 2006, the exchange rates of the Philippine peso to the US Dollar are ₱41.28 and ₱49.03 to US$1.00, respectively.

Based on the historical movement of the US Dollar and the Philippine Peso, management believes that the estimated reasonably possible change in the next twelve months would be an increase (decrease) of ₱1 against the US$. Sensitivity of the Group's 2007 consolidated pre-tax income and equity to foreign currency risks are as follows:

- A decrease of ₱5,298 and ₱3,444 in the consolidated pre-tax income and in the equity if the Peso strengthens; and
- An increase of ₱5,298 and ₱3,444 in the consolidated pre-tax income and in the equity if the Peso weakens.

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS investment in LCMC.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change was determined to be an increase (decrease) of 6.20%, resulting to a possible effect in the equity of ₱2,325,219 and (₱2,325,219).

Interest Rate Risk
In 2007, the Group has minimal exposure to market risk for changes in interest rates since the Group avails only non-interest bearing advances from a related party. In 2006 and prior years, the Group's exposure to market risk for changes in interest rates resulted from borrowings subject to floating interest rates.

The interest expense recognized from borrowings amounted to nil and ₱24,233,053 for the years ended December 31, 2007 and 2006, respectively (₱20,750,321 for the year ended December 31, 2005).

Liquidity Risk
Liquidity risk arises when there is a shortage of funds and the Group, as a consequence, could not meet its maturing obligations. The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences and forecasts from its collection and disbursement. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities. Also, the Group only places funds in the money market which are exceeding the Group's requirements. Placements are strictly made based on cash planning assumptions and covers only a short period of time.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2007 and 2006 based on contractual undiscounted payments.

2007	**On demand**	**More than 1 year**	**Total**
Trade and other payables	**₱200,248,773**	**₱–**	**₱200,248,773**
Nontrade payables	**169,161,400**	**–**	**169,161,400**
	₱369,410,173	**₱–**	**₱369,410,173**

2006	On demand	More than 1 year	Total
Trade and other payables	₱279,166,519	₱–	₱279,166,519
Nontrade payables	–	315,966,684	315,966,684
	₱279,166,519	₱315,966,684	₱595,133,203

Fair Values
The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and Cash Equivalents, Receivables, Trade and Other Payables and Nontrade Payables
The carrying amounts of cash and cash equivalents, receivables, trade and other payables and nontrade payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Investments
AFS investment of the listed shares is carried at fair market value based on quoted prices in the market. Unlisted shares are carried at cost, net of an impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities have no available bid price.

Advances to Landowners
The fair value of advances to landowners was derived by using discounted cash flow. Risk free rates of 5.79% and 6.03% as of December 31, 2007 and 2006, respectively, were used for discounting the advances to landowners.

The carrying values and fair values of the Group's financial assets and liabilities as of December 31, 2007 and 2006 are as follows:

	2007		2006	
	Carrying Value	**Fair value**	Carrying Value	Fair value
Financial Assets				
Loans and receivables				
Cash and cash equivalents	**₱119,505,020**	**₱119,505,020**	₱120,850,302	₱120,850,302
Receivables	**403,753**	**403,753**	1,442,314	1,442,314
Advances to landowners included under "other noncurrent assets"	**1,674,141**	**1,289,589**	1,610,061	1,200,572
	121,582,914	**121,198,362**	123,902,677	123,493,188
AFS investments				
Quoted equity securities	**36,000,000**	**36,000,000**	–	–
Unquoted equity securities	**7,875,000**	**7,875,000**	7,875,000	7,875,000
	43,875,000	**43,875,000**	7,875,000	7,875,000
Total financial assets	**₱165,457,914**	**₱165,073,362**	₱131,777,677	₱131,068,188
Financial Liabilities				
Other financial liabilities				
Trade and other payables	**₱200,248,773**	**₱200,248,773**	₱279,166,519	₱279,166,519
Nontrade payables	**169,161,400**	**169,161,400**	315,966,684	315,966,684
Total financial liabilities	**₱369,410,173**	**₱369,410,173**	₱595,133,203	₱595,133,203

25. Capital Management

The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support their business, pay existing obligations and maximize shareholder value. As of December 31, 2007 and 2006, the Group's capital which is composed of cash and cash equivalents amounted to ₱119,505,020 and ₱120,850,302, respectively, and common shares, amounted to ₱1,789,938,502 and ₱1,789,938,502, respectively.

The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2007 and 2006.

The Group monitors capital using the monthly cash position report and financial statements. The Group's policy is to maintain positive cash flows. The Group determines the outstanding balance of its cash in banks and summarizes collections and disbursements for the month for the analysis of the Group's cash position. As of December 31, 2007 and 2006, the Group has been able to maintain positive cash flows from operations amounting to ₱256,809,412 and from financing activities amounting to ₱481,207,028, respectively, as shown in the consolidated statements of cash flows.

26. **Other Matters**

As part of its preparation for the exploration drilling activities in 2007, the Company has initiated a review and evaluation of the mine site's fixed assets. Based on the review, the Company has determined that portions of its mine and mining properties were impaired and beyond repair. Management believes that these fixed assets should have been written-off. As a result, prior period financial statements were restated. The restatement resulted to an increase in deficit as of January 1, 2004 by ₱82,402,244. Property, plant and equipment account was also reduced by the same amount. Furthermore, net loss in, 2005 is reduced by ₱6,999,546 relating to the reversal of the recognized depreciation expense for the written-off property, plant and equipment.

ANNEX "A"

A REVIEW OF THE 2007-2008 MANILA MINING CORPORATION'S REVIVAL EXPLORATION PROGRAM RESULTS

PLACER, SURIGAO DEL NORTE, NORTHERN MINDANAO, PHILIPPINES

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TABLE OF CONTENTS

Page

Summary and Conclusion 2

Introduction..... 4

Brief Mining Background
The Manila Mining Corporation Tenement-Stats of Mineral Rights
Potentials of the MMC Mineral Holdings
The Concepts of MMC Revival Exploration Program-the MMC Deposit Types
Explorationn Done and Summary of Results
Location of the Property
Accessibility
Physiography
Geology and Mineralization
District Setting

Quality of Data Used in the Resource Estimation 10

Resource Estimation Methods..... 10

Definition of Terms 11

Comments and Recommendations 11

References 13

Appendix 14

a) Diamond Drilling Done During the 2007-2008 Revival Exploration Program

Acknowledgement 16

CERTIFICATION.....

CERTIFICATION AND CONSENT.....

SUMMARY AND CONCLUSION

Manila Mining Corporation (MMC) issued an Updated Resource statement dated November 2009 based from the results of its so-called **2007-2008 Revival Exploration Program** conducted in its Mineral Tenement holdings located in Placer, Surigao del Norte near the northern tip of Mindanao Island in the southern Philippines. The program was designed with the primary objective of defining an open- pittable epithermal copper-gold resource that could justify reviving the mining operation that was mothballed in 2001. Targeted are the remaining potential, i.e., the lateral and vertical continuity of the copper-gold mineralization within and around the abandoned Suyoc, Kinto-Limbo, Ntina, Mindoro and Nellie pits and their vicinities. A secondary target was the conjectured porphyry copper deposit lying below the epithermal system. The secondary target necessarily required deeper drilling than the shallower epithermal targets.

This technical report summarized the drilling exploration results and provides information on the delimited resources that were arrived at after the diamond drilling campaign. In this report dated January 30, 2010, the MMC Exploration Group declared a Global Resource totalling **76.7Mmt @ 1.07g/t Au Equivalent** for the three selected prospects - Ntina , Suyoc and Kinto Limbo, as follows: 1) **Measured- 5.64Mmt @ 1.12g/t AuEq**; **Indicated – 8.58Mmt @ 1.06g/t AuEq,** and; **Inferred – 62.49Mmt @ 1.06g/t AuEq .** Used in the estimates are **23, 879 meters** of drilling advance from 70 ddhs that were achieved during the 2-year exploration period. Due to the questionable reliability of Reverse Circulation (RCD) sample assays for use in resource blocking purposes, RCD data generated during the exploration program were not included in the resource estimation. The Resource Evaluation Team used GEMCOM Software Version 6.2.2 in the resource estimation.

The estimated resources @ 0.61g/t Au Eq. Cut-off and using 1.72g/t Au Conversion Factor, are tabulated in the tables below:

Table 1- Measured Resource

PROSPECT	Tonnage (X 000)	Grade (g/t Au Eq)	g/t Au	% Cu	Oz Au (X 000)	Lbs Cu (X 000)
Suyoc (N & S)	2,742	1.12	0.44	0.40	39	23,943
Kinto Limbo	231	0.97	0.94	0.02	7	87
Ntina	2,668	1.13	0.68	0.26	58	15,470
TOTAL/Ave. Grade	**5,642**	**1.12**	**0.57**	**0.32**	**104**	**39,552**

Table 2- Indicated Resource

PROSPECT	Tonnage (X 000)	Grade (g/t Au Eq)	g/t Au	% Cu	Oz Au (X 000)	Lbs Cu (X 000)
Suyoc	1,970	0.92	0.37	0.32	24	13,856
Kinto Limbo	867	0.92	0.90	0.01	25	229
Ntina	5,740	1.12	0.69	0.25	127	31,892
TOTAL/Ave Grade	**8,578**	**1.06**	**0.64**	**0.24**	**176**	**45,953**

Table 3 - Inferred Resource

PROSPECT	Tonnage (X 000)	Grade (g/t Au Eq)	g/t Au	% Cu	Oz Au (X 000)	Lbs Cu (X 000)
Suyoc	150	0.73	0.30	0.25	1.458	818
Kinto Limbo	798	0.85	0.85	0.003	22	53
Ntina	62,000	1.07	0.57	0.29	1,136	389,402
TOTAL/Ave Grade	**62,491**	**1.06**	**0.58**	**0.28**	**1,323**	**436,437**

Table 4 –Global Resource

All Drilled Prospects	Tonnage (X 1000)	Grade(g/t Au Eq)	g/t Au	% Cu	Oz Au (X 000)	Lbs Cu (X 000)
Suyoc, Kinto Limbo, Ntina	**76,700**	**1.07**	**0.583**	**0.281**	**1,438**	**475,220**

The resource estimate arrived at by the MMC Exploration Group shows the Measured and Indicated resources comprising only 19.6% of the Global Resource with the bulk (81.4%) falling in the Inferred category. Of the 19.6%, the percentage that could be converted to reserve if it could satisfy certain mining parameters, is still unknown. Considering that the preferred mining option is open pit method given the lower grade of the resource, only a limited portion of the combined Measured and Indicated resource may be convertible into reserve. Hence, it may be stated that the results of the program has not been conclusive enough to help the MMC management decide whether the mining operation could be revived or not. Given this most important concern on the reserve convertible resource, it will be prudent for MMC management to consider a second round of drilling, say, Phase 2, to try to upgrade more of the Inferred Resource into Measured and Indicated categories for mine planning purposes.

INTRODUCTION

Brief Mining Background

It was the East Mindanao Mining Company who pioneered mining operations in the Placer District as early as 1936 when the Company put up a 100tpd straight cyanidation plant to treat the gold ores extracted from its mineral property. Production was increased to 200tpd just before the outbreak of the Pacific War. The war eventually forced the Company to close the mine. In the mid '70s, Manila Mining Corporation took over the grounds formerly owned by EMMC, Mapaso Goldfields and Surigao Suyoc Mines and started exploration and development works. MMC was able to resume post war underground mining operation starting 1979. This lasted until 1982 during which, the company produced some 82, 683 tonnes of ore averaging 7.46g/t Au. In late 1982, the company decided to switch to open cut mining.

Both underground and open pit ores were earlier treated in the mill employing the CIP process. The mill initially started at 250tpd which was gradually increased to a maximum of 1500tpd. Heap leaching was later added in 1989 to process the lower grade materials. In 1995, the original mill was decommissioned in favour of a new mill that was put up to increase the production. The new mill was initially designed for 3000tpd operation which was later upgraded to of 10,000tpd capacity using CIP/CIL process. At that time, the major source of gold ore was the Heine Pit supplemented by ores from Ntina, Suyoc and Reno-Emma pits and other minor sources.

The Manila Mining Corporation Tenement / Status of Mineral Rights

Manila Mining Corporation controls some 5,071 hectares of mineral land covered by six (6) groups of mining claims located in the province of Surigao del Norte at the northern tip of Mindanao Island. The mining claims are bounded by coordinates: UTM 1,062,000N (lat. 9° 35'73.5") to UTM 1,075,000N (lat. 9°42'55.93") and UTM 776,000E (long .125° 30' 52.31") to UTM 787,000E (long. 125°36'56.10"). The tenements are spread out into separate parcels within the municipalities of Placer, Tagana-an, Sison, Tubod and Claver. Most of the mining operations conducted by MMC in the '80s and '90s, however, were within the municipality of Placer which has long been considered the centre of the Surigao Gold Mining District.

The mining rights granted to MMC for its tenements were: Mining Lease Contracts (MLC), Mineral Production Sharing Agreements (MPSA), Exploration Permits (EPA) and conversions to production sharing agreement. As mandated by the Philippine Mining Act of 1995, MMC's mining claims that were previously covered by lease contract No. V-1128, is now covered by MPSA No. 253-2007-XIII; those covered by lease contract No. MRD-67, MRD-324 and MRD- 480, are now converted to APSA No. 00083-XIII. The existing lease contracts MRD-322 and MRD-323 are presently being converted to a consolidated APSA which must be completed before June 4, 2011.

The Suyoc-Kinto Limbo deposits are covered by Mining Lease Contract MRD-322 and Parcel IV of EPA-XIII-014A. The Ntina-Mindoro deposits are covered by Mining Lease Contract MRD-67 which is being converted to APSA-00083-XIII.

Potential of the MMC Placer Mineral Holdings

The property is favourably situated at the intersection of two (2) known mineralized zones: 1) the NNW-trending major belt referred to as the East Mindanao Copper Gold Zone where most of the major porphyry copper-gold, epithermal gold deposits and mines are aligned, and; 2) the cross-cutting NE- trending belt, more popularly known as the Kalayaan Corridor, that includes the MMC mines, the Boyongan and Bayugo deposits, the MMC Kalaya-an deposit and the pre-war mine workings and prospects in Masapelid Island off the northeast coast of Surigao. Being thus situated, the MMC had enjoyed a very profitable operation during most of the '80s and '90' when it exploited several epithermal copper gold and gold deposits that were found within its tenements. The downturn in the price of metals in the late '90s forced MMC to suspend its mining operation in Placer and placed the property in care and maintenance status in 2001. With the closure of the mines, portions of the deposits that were exploited during the mining operation, were left in the ground.

The Concept of Revival Exploration Program – the MMC Deposit Types

Starting 2007, with the price metals, particularly copper and gold, soaring in the world market, MMC embarked in an aggressive and focused exploration program aimed at blocking additional resources to supplement the resources left from previous operations and justify the re-opening of the mine. The exploration program spanned over a 2-year period from 2007 to 2008. This report is the documentation of the results of this Revival Exploration Program that was wholly financed by MMC.

Two types of deposits are recognized in the MMC tenement holdings in Placer. These are: 1) the outcropping to near surface epithermal gold and copper gold deposits that include the Heine, upper Ntina, Emma, Nellie, Mindoro, Suyoc, Legaspi, and the upper Ofelia, and; 2) the porphyry type Cu-Au mineralization hosted by dioritic intrusives which are conjectured, based from limited intersections of some deep drill holes, to lie below -350-meter elevation. These include the lower Ntina and the lower Ofelia deposits.

The epithermal deposits are apparently structurally and lithologically- controlled and localized at the margins of diatremes and in permeable breccia pipes that were recognized in the mining areas. Intramineral andesitic intrusives also appear to have served as walls with 'damming effect' on the mineralizing solutions leading to the localization of economic gold mineralization. The presence of porphyry copper mineralization, as mentioned earlier, is indicated by some deep drill holes at depths below the epithermal mineralization.

In the Revival Exploration Program, the exploration strategy is anchored on the concept that MMC is in the loci of multi-episodic magmatic intrusions with their attendant hydrothermal activities that emplaced copper-gold deposits in favourable repositories such as the diatreme and breccias. The primary targets are shallow, open-pittable epithermal Au or Cu-Au deposits that could be blocked for additional ore tonnage that can justify re-opening the mine. The secondary target is the presence of potential porphyry copper deposit below the levels of epithermal gold mineralization.

Exploration Work Done and Summary of Results

At the end of the program, 70 diamond drill holes were completed with an aggregate length of 23,878.65 meters. Using the data generated from this revival drilling program, the MMC Exploration Group came out with a preliminary resource estimate totalling some 76.7 Mmt of Resource at 1.07 g/t Au equivalent). This estimate is broken down as follows: 1) Measured - 5.6Mmt at 1.12g/t AuEq; 2) Indicated – 8.6Mmt at 1.06g/t AuEq, and; Inferred – 62.5Mmt at 1.06 g/t AuEq .

Based from this exploration results, 81.4% of the estimated mineral resource falls under the category of Inferred Resource using the PMRC-prescribed criteria of resource classification. It is expected that, with additional fill in drilling exploration, a significant percentage of the Inferred Resource could be elevated to higher categories.

Location of the Property

The MMC mining property is located in the Municipality of Placer, Province of Surigao del Norte, Philippines. It lies near the northeastern tip of Mindanao Island about 25 aerial km SE of Surigao City and 3km NW of Placer town proper. Most of the Company's mining areas like Heine, Legaspi, Gold Dust, Ntina, Mindoro and Nellie are within the jurisdiction of Brgy. Magsaysay with the two other mine pits within Brgy. Suyoc.

Accessibility

The mine site can be reached from Surigao City via first class concrete roads (32km) and from Butuan City (102km). Both cities are connected to Manila by regular commercial flights provided by local airlines or by sea aboard commercial ships. Travel from Manila can also be made by land through the Pan Philippine Highway where sea crossing between islands is provided by ferry services.

MMC is just 3km and few minutes travel by land vehicle to Placer Town, the nearest population centre and the political, commercial and cultural seat of the district. The town has a small pier facing the Pacific Ocean but which can only accommodate barges and fishing boats. During its mining operation years in the '80s and '90s, MMC operate its own pier where it shipped out its copper concentrate produce to Pasar in Leyte.

Physiography

The area is characterized by low relief and rolling terrain with flat-lying narrow valleys in between elongated ridges. In and around the mine site, the topography exhibits interconnected ridges and protruding knobs reaching a maximum elevation of 202 meters above sea level. Most of the deposits are located on the eastern flank of the roughly N-S to NE- elongated ridge while on the southern part of MMC, particularly the Suyoc North and South pits, the deposits are found on the western flank.

The mine site is dissected by a number of small creeks and its intermittent tributaries that drain eastward towards Placer Bay. Vegetations are predominantly secondary growths consisting of coconut, falcata, g-melina, mangium and other tree species with intermixed wild bananas. Most of the present vegetations were reforested tree species planted by MMC after the suspension of the mining operation. Other vegetations consist of cogon and other endemic grasses and shrubs. Other areas are cultivated and planted with root crops such as cassava, vegetables and sweet potato.

Surigao province falls under climate Type II of the Modified Coronas Classification of the Philippine Atmospheric, Geophysical. Astronomical and Seismological Administration (PAGASA) characterized by no definite dry season but with a pronounced maximum rainfall from November to March. Occasional rain showers and thunderstorms may occur during the dry season. During the previous operations, surface mining was usually sustained continuously throughout the year and was rarely hampered by the inclement weather.

Geology and Mineralization

Manila Mining Corporation tenements are located near the northeastern tip of Mindanao Island along the eastern tectonic belt of the region. The area is part of the late Miocene and older rocks comprising the "Eastern Mindanao Ridge" (EMR) that extends southwards as an element of an island arc system continuing to the northern extension of the Sulawesi, Indonesia arc. The EMR was interpreted by Hamilton (1979) as an inactive west-facing arc related to eastward subduction that was developed west of the Agusan-Davao Trough (ADT) fore-arc basin during the Mio-Pliocene.

The ADT is a north trending basin consisting of a thick sequence of Eocene and younger sedimentary layers that includes upper Miocene to Pliocene coarse clastic rocks (Hashimoto 1981). Dipping eastward under the ADT is the Western Mindanao "basement" rocks. The Trough is postulated to be the suture that marked the closure of the westward subduction of the northern extension of the Molucca Sea (Hamilton, 1979; Cardwell et al, 1980; Moore and Silver, 1983).

Along the eastern margin of the ADT, the active Philippine Fault passes and splits into 2 major splays: 1) one, along the western side of Lake Mainit,and; 2) the other, along the coastline facing Mindanao Sea (Allen, 1962; Bureau of Mines, 1963). Continuing movement along this north-

trending fault appears to have played a major role in creating openings for ingress of magmatic intrusions that generated hydrothermal activities whose effects were eventually imprinted in several districts of the region.

The EMR has a basement of Mesozoic Age greenschists (considered the oldest rock unit) and meta-volcanics overthrusted by Upper Cretaceous ultramafics of the Dinagat Ophiolite Complex (Korean Proj. 2000). Overlying the basement is a thick sequence of Upper Eocene to Quaternary volcanic and sedimentary rocks with Tertiary units consisting of Upper Eocene Madanlog Conglomerates followed by Oligocene to Early Miocene Bacuag Formation and Motherlode Turbidites at the bottom. The older rock units are unconformably overlain by the Mabuhay Clastics of Middle to Late Miocene age. It consists of andesitic flows, pyroclastics, breccias and domes. This rock suite is the main host of the epithermal mineral deposits in the district of Surigao del Norte. The Mabuhay Clastics are unconformably overlain in turn by the Timamana Limestones, dated Pliocene to Upper Pliocene. The upper Tertiary rocks consist of the Tugunan Formation with the youngest assemblage made up of Ipil, Paco and Maniayao Andesites.

District Setting

On a district level, the general rock fabric is a cross-cutting dual sets of linear structures that are sub-perpendicular to each other. One set trends generally N47°W with the other set trending N50°E. The trellis drainage pattern of portions of the highlands reflects this regional structural fabric.

Three circular topographic features can be clearly identified from the satellite (google) view of the district. To the north is the "Mapawa Bulge" (MB) characterized by a domal relief formed by a core of the Naga andesite and is characterized by radial and circumferential stream pattern. About 3.5 km southeast of the MB is the "Placer Bulge"(PB) centred at the andesitic domes of Heine and Ntina characterized by three (3) concentric segments of ring fractures and forming a quadrant of an eroded mound about 3.3km in radius. Apparently, half of the eroded bulge is already submerged. The third circular feature about 4.5km southwest of PB is the "Paco Volcano", a volcanic edifice, formed by two episodes of volcanic activity. The younger Paco Andesites seems to have been stamped over the older Maniayao Andesites.

It is interesting to note that the Placer Bulge (PB) is linked to the Mapawa Bulge by a NW - trending fault in the same manner that PB is connected to the Paco Volcano Bulge (PVB) by NE trending fault. Both faults follow the attitude of the District's structural fabric. This observation brings to fore the conjecture that breccia pipes and diatremes lie on the same structural line with centres of volcanism and may be related genetically to the thermal event which generated them. Both PB and PVB are known to be sites of breccia pipes and diatreme complexes. MB seems to have the same lithologic genetic and structural characteristics.

The close structural relationship between PB and PVB is a rift zone, a series of parallel to sub-parallel northeast- trending dextral faults that run through both. These structures formed a zone of

hydrothermally mineralized volcaniclastics, breccias and intrusive rocks, popularly known as the "Kalayaan Corridor". The corridor is an 8-km wide belt that runs northeasterly across the district from the Philippine Fault to the Philippine Sea off Placer Town and includes the island of Masapelid off the coast to the northeast. The length and breadth of the MAP corridor is more distinctly defined by and confined between four NE-trending dextral faults. These are:

1.) The northwesternmost fault that bounds the north edge of the corridor; the structure is traced starting from Mayag River at Cantugas, town of Mainit, then runs northeasterly to Patag, then to Libas, finally through the town proper of Taganaan thence straight to Masapelid Island.

2.) The second structure to the southeast, the Tinup-an (also sometimes called Heine) structure starting from Mayag River passing through Binga of Mainit Municipality then northeasterly through the centre of Silop village and its crater pond, then to Sta. Cruz, Placer passing through Suyoc Pit, then along the edge of Ntina Pit, then through Heine Pit then out to the sea and into Masapelid Island.

3.) The third structure farther southeast was traced starting from Mayag River at centre of Matin-ao, then up to Paco crater and its plug, slicing through the MMC Kalayaan porphyry deposit, then to Bad-as, then Mapaso, then across the northern tip of Placer townsite then out towards Masapelid passing through South Layab.

4.) The southeasternmost structure started from edge of Lake Mainit, through San Isidro Village, skirting the northwestern cliff of Mt. Maniayao, then across the Boyongan Porphyry Copper deposit of (Anglo) Philex, passing Makalaya, then out to sea towards Masapelid Island passing across Gumod.

The mineral deposits covered by the MMC-controlled mining tenement that are the subject to this report are localized within the land occupied by the roughly circular topographic feature particularly designated (in this report) as the "Placer Bulge" (PB). The Bulge is a broad eroded domal structure where two prominent fault structures intersect and is made up of hydrothermally altered rocks about 3.3 km in radius, characterized by three (3) concentric ring fractures at the core of which a number of economic deposits (e.g. Heine, Ntina, Suyoc, Mindoro, Emma, Nellie) are located. These deposits are distributed within a l x lkm area. The other MMD deposits occur at favorable structures in the southern portion of the PB.

What appears to be the main conduit through which the hydrothermal fluids were channeled from the source, is the Tinup-an fault (also known as the "Heine Fault"). It is a NE-trending dextral fault that is traceable from Mayag River passing through the centre of Silop village, and which passed through or along the Suyoc, Ntina and Heine deposits. There is a general consensus that the sinistral Philippine Fault has influenced movements along the Tinup-an Fault. It is conjectured that, repeated

movements, probably from time to time throughout geologic time, changing directions along Tinup-an and other related NE faults, have caused the structures to open allowing ingress of hydrothermal solutions that carried metal values that eventually formed the mineral deposits that are found in the district.

Other major factors that apparently exerted localization control on the formation of the MMC deposits are the nature of the lithologies or rock formations and the primary and secondary permeability of the host rocks to mineralization. The local geologic setting is characterized by the occurrence of a complex overlapping system of diatremes and breccia pipes which, by their fragmental nature, render inherent rock permeability favourable to inflow of hydrothermal solutions and subsequent depositions of its contained valuable minerals.

QUALITY OF DATA USED IN THE RESOURCE ESTIMATION

MMC was in operation in the Placer District from 1979 to 2001 when it had a very profitable operation particularly during most of the 1990s and up to 2000 before metal prices forced it to ceased mining activities in 2001. Being an affiliate of Lepanto Consolidated Mining Company, a long time copper and gold producer in the Philippines, MMC also strictly observed the collation and recording of exploration and mining data in its mining operations and exploration projects. With the recent Revival Exploration Program, all the safeguards and SOPs to protect the quality of data entered into the project's database like core handling and recording, chain of custody as well as QA/QC in sampling and assaying, the use of blank, duplicate and certified reference materials (CRM), were put in place. This was given strict emphasis and closely monitored by the MMC exploration staff during the duration of the Revival Exploration Program such that the quality of data used in the recent estimates had not been compromised in any way.

RESOURCE ESTIMATION METHOD USED BY MMC

The recent resource estimation made by MMC's Resource Estimation Team employed the Gemcom software (GEMCOM Version 6.2.2). Given the distribution of the values used in the estimates, the resource classification satisfies limited portions of the delimited Resource in the Measured (7.4%) and Indicated (11.4) categories with the Inferred Resource comprising the bulk of the delimited Resource (81.4%). As the MMC epithermal 'ore' materials commonly contain both Au and Cu, the MMC exploration Group estimated the grades of the resource using Au Equivalent values to account for the contained Cu which could also be recovered economically in the mill. This was done by assigning a computed value to the amount of Cu present in the 'ore' and adding it to the Au value. The formula used: ***1 MT x Cu/100 x 80% Rec x 2204.62 lbs/MT x 2.00/lb x 47.50/$ = 1 MT x gpt Au x 75% Rec x 1 Oz/31.10347gm x $850/Oz x Php 47.50/$.***

DEFINITION OF TERMS

The Philippine Mineral Reporting Code (PMRC) prescribes the grouping of Resources into three categories depending on the level of confidence that can be assigned to the data gathered during exploration. By definition, these are:

1. **Measured Mineral Resource**- that part of a Mineral Resource for which densities, tonnage, 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.

2. ***Indicated Mineral Resource*** - that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed".

3. ***Inferred Mineral Resource***- 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, sampling 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."

Only resource in the Measured and Indicated categories may be used in the generation of reserve and only if they could satisfy certain mining and economic parameters to allow it to be elevated to reserve category.

COMMENTS AND RECOMMENDATIONS

a.) The recent estimate of the MMC Resource made by the MMC Revival Exploration Staff and the Resource Evaluation Team shows a large percentage of the deposit in the Inferred category. Inferred Resource, following the guidelines set up by the Philippine Mineral Reporting Code (PMRC), could not be given any weight for mine planning purposes as only resources in the Measured and Indicated classes may be converted into reserve and only if it could satisfy certain economic parameters to allow them to be used in mine planning. Thus, MMC might have to consider the 2007-2008 drilling campaign as Phase 1 or preliminary and may have to design a follow up drilling program to drill more holes, i.e., fill in holes to upgrade more of the Inferred resources that could be usable to the Mine planners.

b.) In the MMC Revival Exploration Program, it was stated that the primary objective of the exploration drilling campaign was to block additional open- pittable, epithermal Cu-Au deposits within and around the vicinity of the old pits that could justify the revival of the

mining operation in MMC's mineral properties in Placer. MMC therefore, is targeting shallow-seated 'ore-grade' mineralization similar to that the company mined in the '80 and the '90s.

c.) During the visit at the Placer mine sites, it was noted that north wall of the abandoned Heine Pit was alive with highgrading activities with numerous adits dotting the now vegetated slope. It would only indicate that substantial resource was left there by MMC when it was mining the Heine deposit which was considered the richest among the various deposits exploited by the company in the '80s and '90s. We are informed that, in the 2007-2008 Revival Exploration Program, Heine had been given low priority as the plan was to utilize the Heine Pit as possible tailings pond in case the mining operation is revived. We suggest that MMC Management reconsider this option if alternative tailings ponds could be found. Heine possibly still contain substantial gold resource left from the previous operation that should be systematically and exhaustively explored considering that it was the number one producer during the time and its gold ore was considered 'clean ore' (with minor Cu content compared to the other deposits) when MMC was mining the deposits.

d.) The occurrence of the Heine deposit appears to be associated with a diatreme where the deposit is localized along the diatreme's margin. If MMC has not done it yet, it is suggested that the Company have the margin of the diatreme traced and explored for possible "GW-type breccias deposits" that are in big numbers along the margin of the Balatoc Plug, also a diatreme, found in Acupan Mine in Benguet. The GWs were great ore contributors to the Acupan Mine production during its heyday.

e.) The geological sections presented by the MMC minesite geological staff which are also part the 2007-2008 Revival Exploration Program Report dated January 30, 2010 that are the subject of this review, shows that most of the drill holes were sunk well below the old pits' bottoms and below what might be considered 'economical' pit limits. This is, however, understandable as drilling depths during the initial phase of any drilling program, should not be limited by preset depths given their exploratory nature. Limiting the depths to the upper horizon during this initial phase of the program might lead to opportunities missed in case there are higher grade deposits that lie just below the surface-mineable horizon. The drilling of a few deep holes to test the conjectured porphyry system down below the epithermal system is also justified. The results, although largely inconclusive, give hints that a potential porphyry copper system or systems might below the epithermal horizon and, therefore, could guide future exploratory drilling programs should MMC opts to pursue deep drilling to probe its existence. If MMC plans to pursue deep drilling for porphyry copper mineralization, its geologists could be guided by the results of the few deep holes that were sunk to probe its existence. Based from initial results of these drill holes, the porphyry system, if it exists, probably lies below 800 meters from surface. If initial drilling results indicate lower grade mineralization that may not support the cost of underground mining, the deep drilling program should be re-evaluated if it's worth continuing.

f.) A closer examination of the drill cores from selected holes produced from the 2007-2008 drilling campaign showed most of the observed copper and inferred gold mineralization difficult to reconcile with the assay records. Quartz veinlets and quartz-lined fractures that are observed to contain chalcopyrite are generally few and far between to account for the elevated Cu values in many cases. Also the 'ore grade'Au values when checked against the cores, usually manifest only as stronger oxidation in the cores with no clearly defined structures much less, quartz veins to account for the high Au values. This might require further checking in the Assay laboratory and may be, some research works in ore microscopy. Furthermore, the train of elevated or 'ore grade' values that could be used to define 'ore blocks' are generally discontinuous and erratic. The GEMCOM generated resource noted the skewness of the value plots to the right indicating a generally few extremely high values and abundance of low values. In this type of mineralization, closer-spaced drilling could minimize uncertainties in ore block projections.

g.) In summary, the results of the 2007-08 resource evaluation campaign conducted by MMC in its Placer mineral property in Surigao are far from being conclusive to justify reactivating the mining operations. The combined percentage of Measured and Indicated resources comprise only 19.6% of the delimited Resource with the bulk (81.4%) in the Inferred category. For mine planning purposes, only 19.6% of the 76.7Mmt of the Global Resource blocked by the diamond drills could qualify for categorizing as reserve. But even then, not all of this 19.6% may pass as reserve or mineable if open pittable resource is the target as spelled out in MMC's objective in the revival exploration program.

h.) It might be prudent for MMC to pursue a Phase 2 or follow up drilling program using the results from the 2007-08 drilling campaign in locating fill in holes. The drilling should, as much as possible, limit the depth to shallow horizon if it aims to block only open pittable resources unless there is compelling reasons to deepen the hole or the assay shows that the hole is still in 'ore'and should not be terminated. Limiting the drilling depths would maximize intersections of 'ore' materials that could pass as mineable if mining option would have to be limited to open pit. Defining mineralized zones in the deeper levels can only be justified if the grade of mineralization and potential tonnage could support the more expensive underground development. A deposit in the "Boyongan Class" should be the target, otherwise, investing in deep drilling could be an exercise in futility.

REFERENCES:

1. The Philippine Mineral Reporting Code for Reporting of Exploration Results, Mineral Resource and Ore Reserve, THE PMRC 2007 Edition

2. A Report on the 2007-2008 MMC Exploration Program as of January 30, 2010 – MMC Exploration Group

APPENDIX

a.) 2007-2008 Revival Drilling Program Summary

Area	Drill Hole Location	Hole-ID	Meterage	Total meterage by area
didjo	Didjo, Taganaan	**RV-07-07**	**269.50**	
didjo	Didjo, Taganaan	**RV-07-09**	**490.40**	759.90
heine	Magsaysay(Heine)	RV-22	439.15	
heine	Magsaysay(Heine)	RV-27	806.80	
heine	Magsaysay(S. of Heine)	RV-32	55.20	
heine	Magsaysay(S. of Heine)	RV-32A	575.90	
heine	Magsaysay(S. of Heine)	RV-32B	659.20	2,536.25
ntina	Magsaysay (Ntina)	RV-07-11	354.80	
ntina	Suyoc, Placer	RV-07-12	771.20	
ntina	Magsaysay (Ntina)	RV-07-15	798.80	
ntina	Magsaysay (Ntina)	RV-07-16	826.50	
ntina	Magsaysay(Mindoro)	RV-07-18	280.20	
ntina	Magsaysay(Mindoro)	RV-07-19	194.10	
ntina	Magsaysay(Mindoro)	RV-07-20	419.00	
ntina	Magsaysay(S. of Ntina)	RV-21	254.20	
ntina	Magsaysay(Mindoro)	RV-23	192.30	
ntina	Magsaysay (Ntina)	RV-24	40.90	
ntina	Magsaysay(S. of Ntina)	RV-24A	97.50	
ntina	Magsaysay(S. of Ntina)	RV-25	409.20	
ntina	Magsaysay (Ntina)	RV-26	427.60	
ntina	Magsaysay, Placer	RV-28	99.00	
ntina	Magsaysay, Placer	RV-28A	136.60	
ntina	Magsaysay(N. of Ntina)	RV-29	444.70	
ntina	Magsaysay(S. of Ntina)	RV-30	145.80	
ntina	Magsaysay(S. of Ntina)	RV-31	281.40	
ntina	Magsaysay(S. of Ntina)	RV-30A	172.10	
ntina	Magsaysay(Nellie)	RV-34	239.20	

ntina	Magsaysay(S. of Ntina)	RV-21A	196.20	
ntina	Magsaysay(Nellie)	RV-33	350.10	
ntina	Magsaysay(Admin)	RV-35	290.10	
ntina	Magsaysay(Mindoro)	RV-36	241.70	
ntina	Magsaysay(Admin)	RV-37	255.10	
ntina	Magsaysay(Admin)	RV-38	192.60	
ntina	Magsaysay(N. of Ntina)	RV-29A	711.90	
ntina	Magsaysay(North-Ntina)	RV-25A	538.10	
ntina	SW-So. Of Ntina	RV-55	78.50	
ntina	SW of Ntina Pit	RV-56	98.30	
ntina	SW of Ntina	RV-57	108.90	9,646.60
ofelia	Magsaysay-Ofelia	RV-42	718.80	
ofelia	Magsaysay-Ofelia	RVO-46	602.40	
ofelia	Magsaysay-Ofelia	RV-42A	740.20	
ofelia	Magsaysay-Ofelia	RV-42A-D	223.70	2,285.10
suyoc	Suyoc, Placer	**RV-07-01**	**605.70**	
suyoc	Bugas-bugas, Placer	RV-07-02	185.10	
suyoc	Suyoc, Placer	**RV-07-03**	**214.80**	
suyoc	Suyoc, Placer	**RV-07-04**	**368.80**	
suyoc	Bugas-bugas, Placer	RV-07-05	171.70	
suyoc	Bugas-bugas, Placer	**RV-07-06**	**275.70**	
suyoc	Suyoc, Placer	**RV-07-08**	**752.20**	
suyoc	Bugas-bugas, Placer	**RV-07-10**	**273.90**	
suyoc	Suyoc, Placer	RV-07-14	1,090.20	
suyoc	Suyoc, Placer	**RV-07-17**	**149.60**	
suyoc	Suyoc, Placer	**RV-07-17A**	**44.50**	
suyoc	Northwest-Suyoc	RV-39	725.70	
suyoc	Suyoc North	RV-40(SU)	211.20	
suyoc	Suyoc North	RV-41(SU)	340.40	
suyoc	Suyoc North	RV-43(SU)	236.20	
suyoc	Bugas-bugas(So. Suyoc)	RV-44(SU)	184.70	
suyoc	Suyoc North	RV-45(SU)	269.20	
suyoc	Suyoc South	RV-47(SU)	247.10	
suyoc	Suyoc South	RV-48(SU)	150.20	

suyoc	Suyoc North	RV-49(SU)	241.90	
suyoc	Kinto Limbo	RV-50(KL)	171.40	
suyoc	SW- Suyoc South	RV-51(SU)	335.20	
suyoc	Kinto Limbo	RV-52	146.40	
suyoc	SW-Suyoc South	RV-53	785.10	
suyoc	Kinto Limbo	RV-54	191.20	8,368.10
td	Tailings Dam 7	TP7DH-1	78.30	
td	Tailings Dam 7	TP7DH-2	63.50	
td	Tailings Dam 7	TP7DH-3	49.20	
td	Tailings Dam 7	TP7DH-4	91.70	282.70
	Grand Total	**71**	**23,878.65**	**23,878.65**

ACKNOWLEDGEMENT

My gratitude to Mr. Froilan C. Conde, Exploration Manager for Lepanto Consolidated Mining Company, for the opportunity to evaluate the report of the MMC 2007-2008 Revival Exploration Program Team and for taking time to accompany him at the minesite for physical inspection and evaluation of the Project geology. I wish to thank also Mr. Roberto A. Mabini, MMC Exploration Manager and head of the MMC Exploration Group, his Exploration geologists and resource estimation Staff - Ms. Arlene D. Aguila, Ms. Maireen T. Mamitag and Mr. Segundo A. Villanueva, who accompanied and oriented us on the geology of the project area and the methodologies that the Team applied in the estimation of the MMC resources declared in the 2007-2008 Revival Exploration Program Report. Special thanks to Mr. John Sulapas, MMC Finance Manager and concurrent Exploration Manager and his wife for the hospitality accorded us in Surigao City.

Prepared by: ***TOMAS D. MALIHAN***
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CP Exploration Results and Mineral Resource Estimatio, PMRC/GSP
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ANNEX "A-1"

TOMAS D.MALIHAN
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CERTIFICATION

08 February 2010

Review of the MMC Revival Exploration Program Results

The undersigned was engaged by Mr. Froilan C. Conde, Exploration Manager of Lepanto Consolidated Mining Company, to review the results of the **2007-2008 Revival Exploration Program of Manila Mining Company,** in his capacity as a Philippine Mineral Reporting Code (PMRC) - accredited Competent Person (CP). MMC, which owns the subject mining tenements in Placer, Surigao del Norte, is an affiliate of LCMC. It is understood that the purpose of this review is to obtain certification on the validity and soundness of the exploration results contained in the Revival Exploration Program Report prepared by the MMC Exploration Group which the Company intends to submit to the Philippine Stock Exchange as part of the disclosure on the exploration results obtained in the exploration program.

Findings and Recommendations

MMC's so-called 2007-2008 Revival Exploration Program was initiated by Manila Mining Corporation (MMC) in its tenement holdings in Placer, Surigao del Norte. The program utilized diamond drilling in an effort to define shallow- seated mineral resources within and around the abandoned mining pits from its operations in the '80s and '90s that could justify reviving the mining operation in the light of the prevailing favourable metal markets. The program also targeted deeper-seated porphyry copper gold systems that are conjectured to lie below the known epithermal copper-gold horizon. The program recorded a total of 23,878.65 meters of drilling advance made over a two year period.

The Revival Drilling Program results as collated and synthesized by the MMC Exploration Group, blocked an estimated **76.7Mmt** of copper-gold resource with

an average grade of **1.07g/t Au Equivalent** using **0.61g/t Au Equivalent cut-off**. Of this blocked resource, **5.24Mmt @ 1.12g/t Au Equivalent** was categorized as **Measured, 6.92Mmt @ 1.04g/t Au Equivalent, Indicated**, while the bulk, **62.5Mmt @1.06g/t Au Equivalent** grade falls under the **Inferred** category. In the computation of the Au Equivalent for the Cu contents, the Group used conservative figures of **USD850/Oz for Au and USD2.00/lb for Cu.**

MMC has observed the industry accepted procedures and guidelines in the management of its exploration data during the execution of the drilling program and employed the latest resource estimation tools in its processing of the data stored in its database. The resources estimated by the Exploration Group from the drilling results, however, appear inadequate to help the MMC management decide whether the revival of the mining operation could be justified or not. If MMC limits its option to open-pittable resource, then, it needs to upgrade more of the blocked resource from Inferred to Measured and Indicated. MMC may have to pursue a Phase 2 Drilling Program based on the results of Phase 1 and design more fill in holes for closer-spaced drilling. The program should also limit the drilling depths within the open-pittable horizon to maximize the meterage that really counts in the resource blocking.

In summary, the Manila Mining Corporation Revival Exploration Program Report prepared by the MMC Exploration Group is a well written report and was based on the exploration data diligently gathered, collated, processed and interpreted by the Group. The Group also applied all the required safeguards to protect the integrity and validity of the data stored in the database used in the report preparation. However, the Resource estimated is deemed inadequate to help the MMC Management to decide to go ahead with the revival of the mining operation in the subject tenement that was mothballed in 2001. Additional drilling is suggested to upgrade more resources to higher categories that can be useful for the mine planners.

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CP- Exploration Results and Mineral Resource Estimation, PMRC/GSP
CP Registration No. 07-08-06

ANNEX "A-2"

CERTIFICATION AND CONSENT

1. I, ***Tomas D. Malihan***, do hereby certify:
   - That I am a Professional Geologist registered with the Professional Regulation Commission of the Republic of the Philippines
   - That I am presently connected with Benguet Corporation with office address at Universal Re Bldg, 106 Paseo de Roxas, 1226 Makati City, Philippines, holding the position of Vice President for Exploration, Research and Development & concurrent Chief Geologist
2. I graduated and hold the following degrees:
   - BSc in Geology 1971– University of the Philippines. Diliman, Quezon City, Philippines
   - Completed the Management Development Program (MDP) 1987 at the Asian Institute of Management (AIM), Makati City
3. I hold the following Professional Qualifications and has been in good standing with the following professional organizations:
   - Member, Geological Society of the Philippines
   - Member, Association of Filipinos for the Advancement of Geological Sciences, Inc.
   - Accredited Competent Person (CP) Philippine Mineral Reporting Code (PMRC)
4. I have worked as an exploration and mining geologist and, occasionally, as part time consultant for a total of 39 years since graduation from college. I have extensive experience and knowhow in the evaluation of mining properties, in particular, exploration, evaluation and exploitation of porphyry copper-gold and epithermal gold vein deposits.
5. I am aware of the definition of 'Competent Person' as defined in the Philippine Mineral Reporting Code (PMRC) and certify that by

virtue of my education. Training, related work experience as well as affiliations with mining professional organizations, that I fulfil the requirements for a 'Competent Person' set out by the Philippine Mineral Reporting Code.

6. I am responsible for the content of the Technical report titled "A Review of the Manila Mining Corporation's Revival Exploration Results" dated February 8, 2010.

7. I have no prior involvement with Manila Mining Corporation who engaged me to review the exploration results of the MMC Revival Exploration Program. That I have no vested interest in Manila Mining Corporation, whatsoever.

8. For this Technical Report, I am an independent reviewer and resource estimator applying all of the necessary guidelines set out in the Philippine Mineral Reporting Code in the conduct of the review and evaluation.

9. I have read the guidelines spelled out in the Philippine Mineral Reporting Code and this review/technical report has been prepared in accordance with the Code.

10. I consent to the filing of the technical report with the Philippine Stock Exchange and other regulatory authorities and any publication by them for regulatory and disclosure purposes, including electronic publication in the public company files on their websites accessible by the public, of the Technical Report.

11. Copies of this report are submitted both in hard copies and as digital file in pdf format to the Manila Mining Corporation management.

Dated at Baguio City, Philippines, 08 February 2010

Tomas D. Malihan
Registered Geologist, Registration No 387
Professional Regulation Commission
Competent Person, Registration No. 07-08-06
Philippine Mineral Reporting Code

ACKNOWLEGDGMENT

REPUBLIC OF THE PHILIPPINES)
D O N E : In the City of Baguio) S.S.

BEFORE ME, a Notary Public for and in the City of Baguio, Philippines, this 8th of February, 2010, personally appeared the above person, with Community Tax Certificate bearing No. 23447172, issued on January 23, 2009, in the City of Baguio, who presented to me an integrally complete instrument, known to me and to me known to be the same person or identified by me through competent evidence of identity, who executed the foregoing instrument/document, and who represented to me that his signature appearing on the foregoing instrument/document was voluntarily affixed by him in my presence and that he has declared the same to be his free and voluntary act and deed.

This instrument, consisting of sixteen (16) pages, has been signed by the above-named person in my presence on each and every page hereof.

WITNESS MY HAND AND SEAL, on the date and in the place above written.

Doc. No. 427;
Page No. 86;
Book No.: LI;
Series of 2010.

ATTY. OMAR R. EVANGELISTA
Notary Public
Until December 31, 2010
PTR NO. 2654500/January 4, 2010/Baguio City
Roll of Attorneys No. 40195/May 3, 1995
IBP O.R. NO. 777427/Nov. 11, 2009
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N.A. NO. 91-NC-09-R