



MANILA MINING CORPORATION

**2009**

ANNUAL REPORT



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*Manila Mining Corporation*

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## ***ANNUAL MEETING:***

*The Annual Meeting of Stockholders of Manila Mining Corporation will be held on Tuesday, April 20, 2010, at 3:00 p.m. at The Penthouse, Lepanto Building, 8747 Paseo de Roxas, Makati City.*



## MESSAGE FROM THE CHAIRMAN



**Manila Mining Corporation**

We pursued two important projects in 2009 in our Placer Mine in Surigao del Norte, which if prosecuted successfully will well place MMC in a position to restart its operations to take advantage of the favourable precious metals market.

The first project was centered on ore block modeling and preparation of the ore resources report for the Suyoc / Kinto Limbo and Ntina pits. The output is a Mineral Resource Inventory of 76.7 million MT of copper-gold ore with an average grade of 1.07g/t Gold Equivalent using 0.61g/t gold equivalence cut-off.

From the generated mineral resources, we undertook optimization studies to generate an open-pit design for Suyoc / Kinto Limbo.

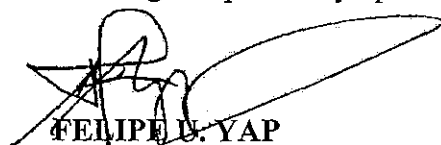
The Exploration Group also reviewed and evaluated data from exploration drilling undertaken by the Anglo American Group at the Kalayaan Project preparatory to further drilling to determine the extent and quality of the mineralization.

The second important undertaking was the evaluation of the tailings at the main tailings pond, TP 7, as a possible source of material for immediate reprocessing. The TP 7 is estimated to contain 14 million of the 15 million tonnes of MMC tails.

An initial four holes with an aggregate depth of 218 meters were drilled at TP 7, with encouraging results. The second drilling phase covered 33 holes with a total depth of 1,288 meters, virtually the entire area in the tailings pond not under water. Preliminary drilling results indicate a gold grade comparatively higher than the historical tailings grades declared previously by MMC. Further exploration and laboratory works are ongoing with the ultimate objective of coming up with the ore resource of TP 7.

The increase in the authorized capital stock of the Company from P1.8 billion to P3.0 billion which we approved on April 20, 2009 is now being implemented, supported by the offering of 1:8 stock rights to existing shareholders, which will raise a total amount of P335.6 million. The proceeds of the stock rights offering will be used principally to fund additional exploration work and the conversion of MMC's Mineral Resource to Ore Reserve and settle debts, advances from related parties and other payables.

On behalf of the Board of Directors, I would like to convey sincere thanks and appreciation to our shareholders, dedicated employees, suppliers and service providers for the unstinted support they have always given to Management to pursue our Company's objective of reviving and profitably operating the Placer Mine.

  
**FELIPE D. YAP**  
*Chairman  
and Chief Executive Officer*



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS



**Manila Mining Corporation**

The management of **Manila Mining Corporation** is responsible for all information and representations contained in the financial statements for the years ended **December 31, 2009, 2008 and 2007**. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weakness in the internal controls; and (iii) any fraud that involves management or other employees who have significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.



**FELIPE U. YAP**  
Chairman of the Board  
and Chief Executive Officer  
2/21/08  
CTC No. 14099509-1/05/10  
Davao City



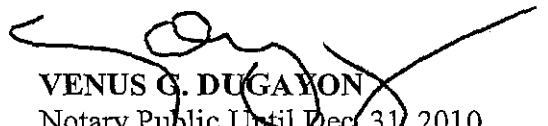
**RENE F. CHAN YUNGCO**  
Senior Vice President/Treasurer  
SSS No. 03-20829796



**MARIO L. LAVENTE**  
Financial Controller  
LTO N04-88-072822-

**SUBSCRIBED AND SWORN** to before me this 16<sup>th</sup> day of March 2010 at Makati City.

Doc. No. 046:  
Page No. 10:  
Book No. III:  
Series of 2010.



**VENUS G. DUGAYON**  
Notary Public Until Dec. 31, 2010  
PTR No. 2133750 Jan. 26, 2010/Makati  
IBP No. 07676/July 29, 2008/Pasig  
Roll No. 54469; Appt. No. M-515





## **INDEPENDENT AUDITORS' REPORT**

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 statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive 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, 2009, 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 about whether the financial statements are free of material misstatement.

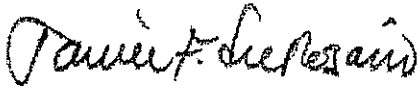
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 at December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 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-2  
Tax Identification No. 102-096-009  
PTR No. 2087529, January 4, 2010, Makati City

March 18, 2010

**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	₱1,433,412	₱1,813,976
Receivables - net (Note 5)	495,750	306,942
Inventories - net (Note 6)	27,056,433	33,789,194
Prepayments and other current assets (Note 7)	28,959,502	27,523,671
<b>Total Current Assets</b>	<b>57,945,097</b>	<b>63,433,783</b>
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) investments (Note 8)	7,500,000	12,665,571
Property, plant and equipment - net (Note 9)	1,612,679,235	1,601,999,004
Mine exploration costs (Note 20)	2,664,201	2,664,201
Other noncurrent assets (Note 10)	6,779,848	6,881,504
<b>Total Noncurrent Assets</b>	<b>1,629,623,284</b>	<b>1,624,210,280</b>
<b>TOTAL ASSETS</b>	<b>₱1,687,568,381</b>	<b>₱1,687,644,063</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 11)	₱292,349,536	₱283,427,083
Nontrade payables (Note 12)	129,828,818	139,311,139
<b>Total Current Liabilities</b>	<b>422,178,354</b>	<b>422,738,222</b>
<b>Noncurrent Liabilities</b>		
Deferred income tax liability - net (Note 17)	70,009,671	71,527,937
Retirement benefit obligation (Note 16)	6,428,266	5,438,973
<b>Total Noncurrent Liabilities</b>	<b>76,437,937</b>	<b>76,966,910</b>
<b>Total Liabilities</b>	<b>498,616,291</b>	<b>499,705,132</b>
<b>Equity</b>		
Capital stock (Note 18)	1,789,741,922	1,789,741,922
Additional paid-in capital	388,801,666	388,801,666
Deficit	(989,591,498)	(972,701,657)
Cumulative changes in fair values of AFS investments (Note 8)	—	(17,903,000)
<b>Total Equity</b>	<b>1,188,952,090</b>	<b>1,187,938,931</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,687,568,381</b>	<b>₱1,687,644,063</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For the Years Ended December 31		
	2009	2008	2007
Other income (charges) (Note 14)	(₱3,376,317)	₱555,521	₱337,905,306
Administration and overhead costs (Note 13)	(15,031,790)	(146,831,250)	(74,802,217)
Income (loss) before income tax	(18,408,107)	(146,275,729)	263,103,089
Benefit from income tax (Note 17)	1,518,266	14,238,239	13,876,801
<b>NET INCOME (LOSS)</b>	<b>(16,889,841)</b>	<b>(132,037,490)</b>	<b>276,979,890</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Changes in fair values of AFS investments (Note 8)	17,903,000	(34,038,000)	15,760,000
<b>TOTAL COMPREHENSIVE INCOME (LOSS) - NET OF TAX</b>	<b>1,013,159</b>	<b>(166,075,490)</b>	<b>292,739,890</b>
<b>EARNINGS (LOSS) PER SHARE</b>			
Basic and diluted (Note 19)	(₱0.00009)	(₱0.00074)	₱0.00155

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Years Ended December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	(₱18,408,107)	(₱146,275,729)	₱263,103,089
Adjustments for:			
Depletion, depreciation and amortization (Note 9)	26,614,554	15,895,226	19,806,399
Loss on sale of AFS investments (Note 14)	3,380,406	—	—
Retirement benefit costs (Note 16)	989,293	793,800	483,585
Provision for:			
Impairment losses on receivables (see Note 13)	67,596	84,841	—
Impairment losses on mine exploration cost (Note 20)	—	92,028,090	—
Impairment losses on property, plant and equipment (Note 9)	—	—	58,406,009
Interest income (Note 14)	(7,880)	(537,381)	(1,177,478)
Operating income (loss) before working capital changes	12,635,862	(38,011,153)	340,621,604
Decrease (increase) in:			
Receivables	(256,404)	11,970	709,853
Inventories	6,732,761	6,523,300	61,861
Prepayments and other current assets	(1,435,831)	22,826,920	(7,172,346)
Increase (decrease) in accounts payable and accrued expenses	8,922,453	83,178,310	(78,917,746)
Cash generated from operations	26,598,841	74,529,347	255,303,226
Interest received	7,880	537,381	1,506,186
Income taxes paid	—	(6,734,557)	—
Net cash from operating activities	26,606,721	68,332,171	256,809,412
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Property, plant and equipment (Note 9)	(37,294,785)	(150,755,668)	(90,601,700)
Mine exploration costs (Note 20)	—	(2,664,201)	(92,028,090)
Proceeds from disposal of (additions to) AFS investments (Note 8)	19,688,165	(2,828,571)	(20,240,000)
Decrease (increase) in other noncurrent assets	101,656	75,486	(315,888)
Net cash used in investing activities	(17,504,964)	(156,172,954)	(203,185,678)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of nontrade payables	(9,482,321)	(29,850,261)	(146,805,284)
Deposit for future stock subscriptions (Note 20)	—	—	92,028,090
Cost incurred from issuance of shares (Note 18)	—	—	(105,502)
Refund from subscription (Note 18)	—	—	(86,320)
Net cash used in financing activities	(9,482,321)	(29,850,261)	(54,969,016)
<b>NET DECREASE IN CASH</b>	<b>(380,564)</b>	<b>(117,691,044)</b>	<b>(1,345,282)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>1,813,976</b>	<b>119,505,020</b>	<b>120,850,302</b>
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱1,433,412</b>	<b>₱1,813,976</b>	<b>₱119,505,020</b>

*See accompanying Notes to Consolidated Financial Statements.*

**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

	Capital Stock (Note 18)			Additional Paid-in Capital	Deposit for Future Stock Subscriptions	Cumulative Changes in Fair Values of AFS Investments	Deficit	Total
	Issued	Subscribed	Subscription Receivable					
Balances at December 31, 2006	P1,780,991,756	P9,051,456	(P104,710)	P296,768,818	P—	P375,000	(P1,117,644,057)	P969,438,263
Other comprehensive income	—	—	—	—	—	15,760,000	—	15,760,000
Net income for the year	—	—	—	—	—	—	276,979,890	276,979,890
Total comprehensive income recognized for the year	—	—	—	—	—	15,760,000	276,979,890	292,739,890
Deposit for future stock subscriptions (Note 20)	—	—	—	—	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 18)	—	—	—	(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
Other comprehensive loss	—	—	—	—	—	(34,038,000)	—	(34,038,000)
Net loss for the year	—	—	—	—	—	—	(132,037,490)	(132,037,490)
Total comprehensive loss recognized for the year	—	—	—	—	—	(34,038,000)	(132,037,490)	(166,075,490)
Additional paid -in capital (Note 20)	—	—	—	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

(Forward)

	Capital Stock (Note 18)			Additional Paid-in Capital	Deposit for Future Stock Subscriptions	Changes in Fair Values of AFS Investments	Deficit	Total
	Issued	Subscribed	Subscription Receivable					
Other comprehensive income	P—	P—	P—	P—	P—	P17,903,000	P—	P17,903,000
Net loss for the year	—	—	—	—	—	—	(16,889,841)	(16,889,841)
Total comprehensive income (loss) for the year	—	—	—	—	—	17,903,000	(16,889,841)	1,013,159
Balances at December 31, 2009	P1,789,563,838	P479,374	(P301,290)	P388,801,666	P—	P—	(P989,591,498)	P1,188,952,090

See accompanying Notes to Consolidated Financial Statements.

## **MANILA MINING CORPORATION AND SUBSIDIARY**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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 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 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 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 have 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 1 share for 2 shares held as at 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 on the Kalaya-an project 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 2 years from issuance covering an area of 2,462.92 hectares, of which 1 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 20, 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 20, 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 2 years. As at December 31, 2009, the Exploration Permit of the Company is still pending renewal with the DENR. KCGRI will continue the work program for the Kalaya-an Project and accordingly seek the renewal of the Exploration Permit.

On its annual stockholder's meeting last April 21, 2009, the Group's stockholders approved the Amendment of Article Seventh of the Articles of Incorporation by authorizing the increase in the authorized capital stock from ₱1.8 billion to ₱3.0 billion. As at the auditor's report date, SEC has not approved yet the increased in the authorized capital stock (see Note 18).

The accompanying consolidated financial statements of Manila Mining Corporation and Subsidiary (the Group) as at December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009, were authorized for issue in accordance with a resolution by the BOD on March 15, 2010.

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## 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. All amounts are rounded to the nearest peso except as otherwise indicated.

### 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

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations International Reporting Interpretations Committee (IFRIC) which were adopted as at January 1, 2009.

### *New Standards and Interpretations*

- PAS 1, *Presentation of Financial Statements* effective January 1, 2009
- PAS 23, *Borrowing Costs* (Revised) effective January 1, 2009
- PFRS 8, *Operating Segments* effective January 1, 2009
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* effective July 1, 2008
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* effective October 1, 2008
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* effective July 1, 2008

### *Amendments to Standards*

- PAS 32 and PAS 1 Amendments - *Puttable Financial Instruments and Obligations Arising on Liquidation* effective January 1, 2009
- PFRS 1 and PAS 27 Amendments - *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective January 1, 2009
- PFRS 2 Amendment - *Vesting Conditions and Cancellations* effective January 1, 2009
- PFRS 7 Amendments - *Improving Disclosures about Financial Instruments* effective January 1, 2009
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments - *Embedded Derivatives* effective June 30, 2009
- Improvements to PFRS (2008)
- Improvements to PFRS (2009), with respect to the amendment to the Appendix to PAS 18, *Revenue*

Standards, interpretations or amendments that have been adopted and that are deemed to have an impact on the financial position or performance of the Group are described below:

- Amendments to PAS 1, *Presentation of Financial Statements*  
The amendments introduce new requirements for the presentation and content of consolidated financial statements to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentation: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owners changes in equity; (b) income and expenses to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income) separately from owner changes in equity; and (c) components of either comprehensive income are to be displayed in the consolidated financial statements. The Group chose to present all items in one statement.
- Revised PAS 23, *Borrowing Costs*  
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. In accordance with the transitional requirements in the standard, the Group adopted this as a prospective change.

- *Amendment to PAS 27 - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*  
 The amendment requires all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the statement of comprehensive income in the separate financial statement. The revision to PAS 27 was applied prospectively. The new requirement affects only the parent's separate financial statement and does not have an impact on the consolidated financial statements.
- *Amendment to PFRS 2 - Vesting Conditions and Cancellations*  
 The amendment to PFRS 2, *Share-based Payments*, clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. It did not have an impact on the financial position or performance of the Group.
- *PFRS 7, Financial Instruments: Disclosures*  
 The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a 3 level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 21 and the liquidity risk disclosures are not significantly impacted by the amendments.
- *PFRS 8, Operating Segments*  
 PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14.
- *Philippine Interpretation IFRIC 9 and PAS 39 Amendments-Embedded Derivatives*  
 This amendment to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss (FVPL) category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. PAS 39, *Financial Instruments: Recognition and Measurement*, now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at FVPL. This amendment does not significantly impact the consolidated financial statements.
- *Philippine Interpretation IFRIC 18, Transfers of Assets from Customers*  
 This interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009. The interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. When the transferred item meets the definition of an asset, the asset is measured at fair value on initial recognition as part of an exchange transaction. The service(s) delivered are identified and the consideration received (the fair value of the asset) allocated to each identifiable service. Revenue is recognized as each service is delivered by the entity. This interpretation does not significantly impact the consolidated financial statements.

*Improvements to PFRS in 2008*

The omnibus amendments to PFRS issued in 2008 were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes in accounting policies but did not have any impact on the financial position or performance of the Group.

- *PAS 1, Presentation of Financial Statements*  
Assets and liabilities classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analyzed whether management's expectation of the period of realization of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and noncurrent in the consolidated statements of financial position.
- *PAS 16, Property, Plant and Equipment*  
The amendment replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- *PAS 19, Employee Benefits*  
The amendments introduce the following: (a) 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; (b) accounts for amendments to plans that result in a reduction in benefits related to future services as a curtailment; (c) 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; (d) 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; and, (e) deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- *PAS 23, Borrowing Costs*  
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one-the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.
- *PAS 28, Investment in Associates*  
If an associate is accounted for at fair value 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. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with PAS 39.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

- *PAS 31, Interests in Joint Ventures*  
If a joint venture is accounted for at fair value, 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. This amendment has no impact on the Group because it does not account for its joint ventures at fair value in accordance with PAS 39.
- *PAS 36, Impairment of Assets*  
When discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosure is required about the discount rate consistent with disclosures required when the discounted cash flows are used to estimate “value in use.”
- *PAS 38, Intangible Assets*  
Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed.

#### Future Changes in Accounting Policies

The Group did not early adopt the following standards, amendments, improvements and Philippine interpretations:

#### *Effective in 2010*

- *Revised PFRS 3, Business Combinations and Amended PAS 27, Consolidated and Separate Financial Statements*  
The revised standards are effective for annual periods beginning on or after July 1, 2009. Revised PFRS 3 introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by revised PFRS 3 and amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. Revised PFRS 3 will be applied prospectively while amended PAS 27 will be applied retrospectively with a few exceptions.
- *Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners*  
This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

- **PFRS for Small and Medium-sized entities (*SME*)**

This standard has been approved for adoption by the PFRS Council on October 13, 2009 and by the SEC, on December 3, 2009. The PFRS for SME is effective for annual periods beginning on or after January 1, 2010, and is required to be used by entities that meet the definition of an SME, which include among others, an entity with total assets of between ₱3.0 million and ₱350.0 million or total liabilities of between ₱3.0 million and ₱250.0 million.

The PFRS for SME is a self-contained standard that is tailored for the needs and capabilities of smaller businesses. Many of the principles in full PFRS for recognizing and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SME have been omitted, and the number of required disclosures has been significantly reduced.

The Group currently reports under full PFRS and is not allowed to adopt the PFRS for SME in its 2010 financial statements.

#### *Amendments to Standards*

- **Amendment to PAS 39, *Eligible Hedged Items***

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, 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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- **Amendments to PFRS 2, *Group Cash-settled Share-based Payment Transactions***

The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The management has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

#### *Improvements to PFRS in 2009*

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except as otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- **PFRS 2, *Share-based Payment***

The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of revised PFRS 3, *Business Combinations*. The amendment is effective for financial years on or after July 1, 2009.

- **PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations***

The amendment clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in

PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- *PFRS 8, Operating Segment Information*  
The amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *PAS 1, Presentation of Financial Statements*  
The amendment clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- *PAS 7, Statement of Cash Flows*  
The standard explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- *PAS 17, Leases*  
The amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendment will be applied retrospectively.
- *PAS 36, Impairment of Assets*  
The standard clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- *PAS 38, Intangible Assets*  
The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- *PAS 39, Financial Instruments: Recognition and Measurement*  
The amendments clarify the following:
  - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
  - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
  - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.



- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*  
This interpretation clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*  
This interpretation states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

*Effective in 2012*

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*  
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.

The Group does not expect any significant impact in the consolidated financial statements when it adopts the above standards, amendments, improvements and interpretations. The revised and additional disclosures provided by the standard, amendments, improvements and interpretations will be included in the consolidated financial statements when these are adopted in 2010 and 2012, when applicable.

Summary of Significant Accounting Policies

Financial Instruments

*Initial Recognition and Measurement*

Financial instruments are recognized in the consolidated statement of financial position 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 settlement 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 Group determines the classification of its financial assets and liabilities at initial recognition. The Group's financial assets are in 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 in the nature of other financial liabilities.

As at December 31, 2009 and 2008, the Group does not have financial instruments at FVPL and HTM investments.

*Subsequent Measurement*

The subsequent measurement of financial instruments depends on their classification as follows:

*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 consolidated statement of financial position captions "Cash" and "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 1 year after the financial reporting date or within the Group's normal operating cycle, whichever is longer. All others are classified as non-current.

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 "Other income (charges)" caption in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in "Provision for impairment of receivables" account or "Administration and overhead costs" caption in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability 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 12 months from the financial reporting date. Included in this category are equity investments in quoted instruments and private companies other than subsidiaries and associates, which are shown as a separate line item in the consolidated statement of financial position.

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 statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of comprehensive 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 comprehensive income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the consolidated statement of comprehensive 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.

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings and other financial liabilities 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 comprehensive income when the liabilities are derecognized as well as through the amortization process. Other financial liabilities are classified as current when these are expected to be settled within 1 year after the financial reporting date or within the Group's normal operating cycle, whichever is longer. All others are classified as non-current.

Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of comprehensive 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).

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

#### *"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 comprehensive 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 comprehensive 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*

Embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. 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. The Group has opted not to designate any embedded derivative transactions as accounting hedges. Consequently, changes in fair value are recognized directly through consolidated statement of comprehensive income. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the cash flows.

#### Impairment of Financial Assets

The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include the indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or financial payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

#### *Financial Assets Carried at Amortized Cost*

The Group first assesses individually 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 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. Time value is generally not considered when the effect of discounting is not material.

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 comprehensive 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 comprehensive income. 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 comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *AFS Investments*

For AFS investments, the Group assesses at each financial reporting 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. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original 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 comprehensive income - is removed from "Other comprehensive income" 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 "Other comprehensive income".

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income continues to be accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The interest income is recorded as part of "Other income (charges)". If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss in the consolidated statement of comprehensive 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 when:

- 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

##### *Financial Liability*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When 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 comprehensive income.

#### Fair Value

Financial instruments recognized at fair value are analyzed based on:

- Level 1 - Quoted prices in active markets for identical asset or liability;
- Level 2 - Those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 - Those with inputs for asset or liability that are not based on observable market data (unobservable inputs).

When fair values of listed equity and debt securities as well as publicly traded derivatives at the end of the financial reporting date are based on quoted market prices or binding dealer price quotations without any deduction for transaction costs, the instruments are included within level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation technique. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation model. For these financial instruments, inputs into models are market observable and are therefore included within level 2.

Instruments included in level 3 include those for which there is currently no active market.

#### Offsetting

Financial assets and liabilities are only offset and the net amount reported in the consolidated statement of financial position 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 consolidated statement of changes in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over par value of shares 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 attributable to the Group's stockholders 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 attributable to the Group's stockholders.

#### Inventories

Inventories 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.

When a mine construction project moves into production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mine site additions or improvements, underground mine development or mineable reserve development.

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.

Land is recorded at cost less any impairment in value.

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

<u>Type of Asset</u>	<u>Estimated Useful Life in Years</u>
Mine and mining properties	14
Machinery and equipment	5-20
Building and improvements	20
Furniture, office and other equipment	5

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 financial reporting 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 comprehensive 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 (CGU) is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell 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 CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive 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 comprehensive 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 CGU 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:

- 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.

### Provisions

#### *General*

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.

*Provision for Mine Rehabilitation and Decommissioning*

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailing dams dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of the related ore. Over time, the discounted liability is increased for the change in the present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in the consolidated statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

Environmental funds committed for use in satisfying environmental obligations are included within "Other noncurrent assets" on the consolidated statement of financial position.

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.

Employee Benefits

*Retirement Obligations*

Retirement cost and obligation are computed in accordance with Republic Act (RA) 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 statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the financial reporting date, 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 retirement 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 financial reporting 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 financial reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or financial reporting date are credited to or charged against current operations. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

#### 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 taxation authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the financial reporting date.

##### *Deferred Income Tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the financial reporting 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, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 income will be available against which the deductible temporary differences and carryforward of unused tax credits from unused NOLCO can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable income 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 financial reporting date and are recognized to the extent that it has become probable that future taxable income 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 financial reporting date.

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxable authority.

#### 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 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 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 at December 31, 2009 and 2008.

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 approved or 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 Reporting Period

Post year-end events that provide additional information about the Group's position at the end of the reporting period (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.

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### 3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires 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 at 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 Company 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 at the financial reporting 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 collectability 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 collectability 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 2009, 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 at December 31, 2009 and 2008, the Group has receivables of ₱495,750 and ₱306,942, respectively, net of allowance for impairment losses of ₱573,897 and ₱506,301, respectively (see Note 5).

#### *Estimating Allowance 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 for 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 ₱27,056,433 and ₱33,789,194 as at December 31, 2009 and 2008, respectively, net of allowance for inventory obsolescence of ₱41,600,380 and ₱37,170,173 as at December 31, 2009 and 2008, respectively (see Note 6).

#### *Estimating Impairment of 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 ₱7,500,000 and ₱12,665,571 as at December 31, 2009 and 2008, 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 at December 31, 2009 and 2008, the net book values of the property, plant and equipment amounted to ₱1,612,679,235 and ₱1,601,999,004, 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.

An impairment loss is recognized and charged to the consolidated statement of comprehensive income if the recoverable amount is less than the carrying amount. The estimated recoverable amount of the asset is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the 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.

The aggregate net book values of property, plant and equipment amounted to ₱1,612,679,235 and ₱1,601,999,004 as at December 31, 2009 and 2008 respectively, net of allowance for impairment losses of ₱143,272,443 (see Note 9).

*Estimating 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 ₱2,664,201, net of allowance for impairment loss of ₱92,028,090 as at December 31, 2009 and 2008, respectively (see Note 20).

*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 at December 31, 2009 and 2008, mine and mining properties included in property, plant and equipment account amounted to ₱1,555,096,405 and ₱1,533,507,850, respectively (see Note 9).

*Estimating Realizability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each financial reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable income 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 ₱59,855,855 and ₱58,337,589 as at December 31, 2009 and 2008, respectively. No deferred income tax assets was recognized for temporary differences amounting to ₱150,721,909 and ₱143,921,678 as at December 31, 2009 and 2008, respectively, since there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized (see Note 17).

*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 reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be impacted. As at December 31, 2009 and 2008, the Parent Company is in the process of evaluating, as such, no provision for mine rehabilitation and decommissioning was recorded (see Note 15).

#### *Estimating Contingencies*

The Group 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 20).

#### *Determining 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. These assumptions are described in Note 16 to the consolidated financial statements.

Retirement benefit obligation amounted to ₱6,428,266 and ₱5,438,973 as at December 31, 2009 and 2008, respectively (see Note 16).

#### **4. Cash**

	2009	2008
Cash on hand	₱139,903	₱110,000
Cash with banks	1,293,509	1,703,976
	<u>₱1,433,412</u>	<u>₱1,813,976</u>

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

Interest income earned from cash amounted to ₱7,880, ₱537,381 and ₱1,177,478 for the years ended December 31, 2009, 2008 and 2007, respectively (see Note 14).

#### **5. Receivables - net**

	2009	2008
Nontrade	₱703,537	₱603,137
Advances to officers and employees	366,110	210,106
	1,069,647	813,243
Less allowance for impairment losses	573,897	506,301
	<u>₱495,750</u>	<u>₱306,942</u>

Nontrade receivables are noninterest bearing with no fixed maturities and are generally collectible on demand. Advances to officers and employees are noninterest bearing and are generally subject to liquidation.



Based on the assessment done by the management, the Group recognized an allowance for specifically identified accounts amounting to ₱573,897 and ₱506,301 as at December 31, 2009 and 2008, respectively, covering those nontrade receivables and advances to officers and employees considered as impaired.

The following table shows the aging of receivables that are past due as at December 31, 2009 and 2008 but are not considered impaired.

	Total	Past due but not impaired			
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days
<b>2009</b>					
Nontrade	₱134,031	₱101,400	₱5,000	₱—	₱ 27,631
Advances to officers and employees	361,719	57,227	47,525	73,765	183,202
	<b>₱495,750</b>	<b>₱158,627</b>	<b>₱52,525</b>	<b>₱73,765</b>	<b>₱210,833</b>
<b>2008</b>					
Nontrade	₱101,227	₱—	₱—	₱—	₱101,227
Advances to officers and employees	205,715	417	—	—	205,298
	<b>₱306,942</b>	<b>₱417</b>	<b>₱—</b>	<b>₱—</b>	<b>₱306,525</b>

Movements of allowance for impairment losses in 2009 and 2008 are as follows:

	Nontrade	Advances to officers and employees	Total
<b>2009</b>			
Balances at beginning of year	₱501,910	₱4,391	₱506,301
Additional provisions (see Note 13)	67,596	—	67,596
Balances at end of year	<b>₱569,506</b>	<b>₱4,391</b>	<b>₱573,897</b>
<b>2008</b>			
Balances at beginning of year	₱421,460	₱—	₱421,460
Additional provisions (see Note 13)	80,450	4,391	84,841
Balances at end of year	<b>₱501,910</b>	<b>₱4,391</b>	<b>₱506,301</b>

## 6. Inventories - net

	2009	2008
At NRV:		
Mill materials, hardware and other supplies	₱7,621,121	₱14,353,813
At cost:		
Machinery and automotive parts	19,359,242	19,359,311
Fuel, oil and lubricants	76,070	76,070
	<b>19,435,312</b>	<b>19,435,381</b>
	<b>₱27,056,433</b>	<b>₱33,789,194</b>

The cost of mill materials, hardware, and other supplies shown above are net of allowance for inventory obsolescence amounting to ₱41,600,380 and ₱37,170,173 as at December 31, 2009 and 2008, respectively. Cost of mill materials, hardware and other supplies amounted to ₱49,221,501 and ₱51,523,986 as at December 31, 2009 and 2008, respectively.

#### 7. Prepayments and Other Current Assets

	2009	2008
Input value added taxes (VAT)	₱22,825,538	₱21,481,852
Miscellaneous deposits (see Note 21)	2,335,545	2,253,400
Prepaid royalties	3,798,419	3,788,419
	<b>₱28,959,502</b>	<b>₱27,523,671</b>

Input VAT represents VAT paid on purchases of goods and services which can be recovered as tax credit against future tax liability of the Company upon approval by the Philippine Bureau of Internal Revenue (BIR).

#### 8. AFS Investments

	2009	2008
Unquoted shares	₱7,500,000	₱7,875,000
Quoted shares	—	4,790,571
	<b>₱7,500,000</b>	<b>₱12,665,571</b>

Unquoted shares consist of the Parent Company's investments in ordinary shares and therefore have no fixed maturity date or coupon rate. Unquoted shares have been carried at cost since fair values of these AFS securities cannot be reliably determined as they have no available bid price. As at December 31, 2009, the Parent Company has no intention to dispose its unquoted equity shares.

Quoted shares pertain to equity security that is traded on the Philippine Stock Exchange. The fair value of the quoted shares is based on the bid market price as at December 31, 2008. In 2009, all quoted shares with historical costs of ₱23,068,571 were fully disposed which resulted to "loss on sale of AFS investments" recognized in profit or loss amounting to ₱3,380,406 (see Note 14).

The aggregate costs of these investments amounted to ₱7,500,000 and ₱30,568,571 as at December 31, 2009 and 2008, respectively. The fair values amounted to ₱7,500,000 and ₱12,665,571 as at December 31, 2009 and 2008, respectively.

Movements of cumulative changes in fair values of AFS investments are as follows:

	2009	2008
Balance at beginning of year	(₱17,903,000)	₱16,135,000
Cumulative loss taken into equity	—	(34,038,000)
	<b>(17,903,000)</b>	<b>(17,903,000)</b>
Reversal of cumulative loss due to disposal of quoted shares	18,278,000	—
Reversal of cumulative gain on unquoted shares	(375,000)	—
	<b>₱—</b>	<b>(₱17,903,000)</b>

## 9. Property, Plant and Equipment - net

2009						
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Total
<b>Cost:</b>						
Balances at beginning of year	₱2,598,832,172	₱771,388,811	₱104,236,968	₱73,078,203	₱7,270,713	₱3,554,806,867
Additions	21,588,555	14,973,744	—	732,486	—	37,294,785
Balances at end of year	2,620,420,727	786,362,555	104,236,968	73,810,689	7,270,713	3,592,101,652
<b>Accumulated depreciation, depletion and amortization:</b>						
Balances at beginning of year	₱1,065,324,322	₱612,320,060	₱62,428,956	₱69,462,082	₱—	₱1,809,535,420
Depletion, depreciation and amortization during the year	—	20,838,293	4,510,162	1,266,099	—	26,614,554
Balances at end of year	1,065,324,322	633,158,353	66,939,118	70,728,181	—	1,836,149,974
Allowance for impairment losses	—	125,501,962	17,706,056	64,425	—	143,272,443
<b>Net book values</b>	<b>₱1,555,096,405</b>	<b>₱27,702,240</b>	<b>₱19,591,794</b>	<b>₱3,018,083</b>	<b>₱7,270,713</b>	<b>₱1,612,679,235</b>

2008						
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Total
<b>Cost:</b>						
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
<b>Accumulated depreciation, depletion and amortization:</b>						
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
<b>Net book values</b>	<b>₱1,533,507,850</b>	<b>₱33,566,789</b>	<b>₱24,101,956</b>	<b>₱3,551,696</b>	<b>₱7,270,713</b>	<b>₱1,601,999,004</b>

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 ₱4,106,140, ₱8,735,352 and ₱10,225,860 in 2009, 2008 and 2007, respectively (see Note 13). Depreciation amounting to ₱22,508,414, ₱7,159,874 and ₱9,580,539 were capitalized in 2009, 2008 and 2007, respectively, as part of mine and mining properties.

The Parent Company recognized impairment losses amounting to ₱58,406,009 in 2007, 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 (see Note 13). There were no impairment losses recognized in 2009 and 2008.

The fair value of the land amounting to ₱14.0 million 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 3 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

	2009	2008
Environmental fund (see Note 21)	<b>₱5,108,808</b>	₱5,210,464
Advances to landowners	<b>1,645,141</b>	1,645,141
Idle and other assets, net of accumulated amortization of ₱32,413,431 and allowance for impairment losses of ₱7,640,740 as at December 31, 2009 and 2008	<b>25,899</b>	25,899
	<b>₱6,779,848</b>	₱6,881,504

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 (MGB). 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.

#### 11. Accounts Payable and Accrued Expenses

	2009	2008
Accounts payable (see Note 12)	<b>₱176,482,024</b>	₱180,577,575
Due to related parties (see Note 12)	<b>89,845,436</b>	84,547,496
Accrued payroll	<b>9,456,227</b>	5,962,665
Accrued taxes	<b>4,150,240</b>	—
Unclaimed dividends	<b>573,097</b>	573,097
Other liabilities	<b>11,842,512</b>	11,766,250
	<b>₱292,349,536</b>	₱283,427,083

Terms and conditions of the above financial liabilities:

- Accounts payables are noninterest bearing and are normally settled on 60 days' terms.
- Accrued payroll are normally payable in 30 days.

- Accrued taxes are payable within 90 day's term.
- Other payables are noninterest bearing and have an average term of 1 - 3 months.

## 12. Related Party Disclosures

The Parent Company, in the normal course of business, enters into transactions with related parties.

The consolidated statements of financial position include the following asset and liabilities resulting from the above transactions with related parties:

Related Party	Relationship	Year	Nontrade Payables	Due to Related Parties
LCMC	Affiliate	2009	₱129,828,818	₱—
		2008	₱139,311,139	₱—
DDCP	Affiliate	2009	—	89,845,436
		2008	—	84,547,496
Others	Stockholders	2009	—	22,642,073
		2008	—	16,084,896
Total 2009			₱129,828,818	₱112,487,509
Total 2008			₱139,311,139	₱100,632,392

The above outstanding balances with related parties are unsecured, interest-free and will be settled in cash. There have been no guarantees provided or received for any related party receivables or payables.

- LCMC, holds a 20.08% equity interest in the Company, provides cash advances and pays expenses on behalf of the Parent Company. In 2009 and 2008, the Parent Company partially paid these advances to LCMC. The outstanding balance of ₱129,828,818 and ₱139,311,139 as at December 31, 2009 and 2008, respectively, is due and demandable.
- In the normal course of business, DDCP, a wholly owned subsidiary of LCMC, provides various drilling and hauling services to the Parent Company.
- The Parent Company receives noninterest bearing advances from stockholders for working capital requirements. These advances have no fixed maturities and are payable on demand.

Total compensation of the Group's key management personnel in 2009, 2008 and 2007 amounted to ₱468,950, ₱359,500 and ₱800,800.

## 13. Administration and Overhead Costs

	2009	2008	2007
Provision for inventory obsolescence (see Note 6)	₱4,430,207	₱8,322,455	₱-
Depletion, depreciation and amortization (see Note 9)	4,106,140	8,735,352	10,225,860
Taxes and licenses	2,806,979	38,495	16,548
Retirement benefit cost (see Note 16)	989,293	793,800	483,585

(Forward)

	2009	2008	2007
Outside services	₱965,855	₱914,059	₱2,342,275
Salaries, allowances and other benefits	604,871	905,790	938,450
Repairs and maintenance	68,478	36,870	118,724
Provision for impairment of receivables (see Note 5)	67,596	84,841	—
Transportation and travel	62,446	41,241	185,628
Supplies	39,029	29,763	40,694
Representation and entertainment	17,925	96,569	234,507
Provision for impairment of mine exploration cost (see Note 20)	—	92,028,090	—
Interest expense	—	33,125,696	—
Provision for impairment losses on property, plant and equipment (see Note 9)	—	—	58,406,009
Other charges	872,971	1,678,229	1,809,937
	<b>₱15,031,790</b>	<b>₱146,831,250</b>	<b>₱74,802,217</b>

#### 14. Other Income (Charges)

	2009	2008	2007
Loss on sale of AFS investments (see Note 8)	(₱3,380,406)	₱—	₱—
Foreign exchange gains (losses) - net	(3,791)	18,140	14,167,478
Interest income (see Note 4)	7,880	537,381	1,177,478
Others (see Note 20)	—	—	322,560,350
	<b>(₱3,376,317)</b>	<b>₱555,521</b>	<b>₱337,905,306</b>

Other income in 2007 includes the United States (US) \$7,000,000 (₱322,560,350) 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.

#### 15. 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 at December 31, 2009 and 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 MGB its FMR/DP, it will provide the necessary accrual for mine rehabilitation and decommissioning.

**16. 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 planned termination, curtailment or settlement in 2009, 2008 and 2007.

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

	2009	2008	2007
Current service costs	₱477,224	₱477,224	₱200,860
Interest costs	512,069	316,576	282,725
	<u>₱989,293</u>	<u>₱793,800</u>	<u>₱483,585</u>

The amounts of retirement benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2009	2008
Present value of defined benefit obligation	₱7,136,576	₱6,147,283
Actuarial losses not recognized	(708,310)	(708,310)
	<u>₱6,428,266</u>	<u>₱5,438,973</u>

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

	2009	2008
Balances at beginning of year	₱6,147,283	₱4,522,517
Interest costs	512,069	316,576
Current service cost	477,224	477,224
Actuarial loss	—	830,966
Balances at end of year	<u>₱7,136,576</u>	<u>₱6,147,283</u>

Movements in the unfunded retirement benefit obligation recognized in the consolidated statements of financial position are as follows:

	2009	2008
Balances at beginning of year	₱5,438,973	₱4,645,173
Expense recognized for the year	989,293	793,800
Balances at end of year	<u>₱6,428,266</u>	<u>₱5,438,973</u>

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

	2009	2008
Discount rate	8.33%	8.33%
Salary increase rate	8.00%	8.00%
Expected remaining working lives of employees	10 years	11 years

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

	2009	2008	2007
Defined benefit obligation	<b>₱7,136,576</b>	₱6,147,283	₱4,522,517
Experience adjustments on plan liabilities	–	1,626,083	–
Change in assumptions	–	(795,117)	–

## 17. Income Taxes

The Group has no provision for current income tax in 2009 and 2008 because of its tax loss position.

Benefit from income tax consists of:

	2009	2008	2007
Deferred	<b>(₱1,518,266)</b>	(₱14,238,239)	(₱20,611,358)
Current	–	–	6,734,557
	<b>(₱1,518,266)</b>	(₱14,238,239)	(₱13,876,801)

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

	2009	2008	2007
Tax at statutory tax rates	<b>(₱5,522,432)</b>	(₱51,196,505)	₱92,086,081
Additions to (reductions in) income tax resulting from:			
Change in unrecognized deferred income taxes	<b>2,169,069</b>	49,243,129	5,869,353
Nondeductible expenses	<b>1,837,461</b>	155,531	–
Interest income subjected to final tax	<b>(2,364)</b>	(188,083)	(412,117)
Effect of change in tax rate	–	(12,252,311)	–
Application of NOLCO	–	–	(111,420,118)
	<b>(₱1,518,266)</b>	(₱14,238,239)	(₱13,876,801)

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

	2009	2008
Deferred income tax assets:		
Allowances for:		
Impairment losses on property, plant and equipment and idle assets	<b>₱45,273,955</b>	₱45,273,955
Inventory obsolescence	<b>12,480,114</b>	11,151,052
Impairment losses on receivables	<b>172,169</b>	151,890
Probable losses	–	129,000
Retirement benefit obligation	<b>1,928,480</b>	1,631,692
Unrealized foreign exchange loss	<b>1,137</b>	–
	<b>59,855,855</b>	58,337,589
Deferred income tax liability:		
Excess of allowable depletion over depletion per books	<b>129,865,526</b>	129,865,526
	<b>₱70,009,671</b>	₱71,527,937



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 for the years ended December 31:

	2009	2008
Balances at beginning of year	₱45,159,031	₱1,340
Additions	6,800,231	45,157,691
Balances at end of year	₱51,959,262	₱45,159,031

As at December 31, 2009, 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
2009	2012	6,800,231	2,040,069
		₱51,959,262	₱15,587,778

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

In 2009, no deferred income tax assets were recognized for the following temporary differences 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.

NOLCO	₱51,959,262
MCIT	6,734,557
Allowance for impairment losses on mine exploration costs	92,028,090
	₱150,721,909

## 18. Capital Stock

The Parent Company has authorized capital stock of 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.

	2009		2008	
	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	32,083,543	320,836
Class "B"	15,853,829	158,538	15,853,829	158,538
	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		301,290
	179,004,321,205	₱1,789,741,922	179,004,321,205	₱1,789,741,922

In 2007, additional paid-in capital decreased by ₱86,320 due to refund from subscription arising from overpayment of subscribed shares in 2006.

As at December 31, 2009 and 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.

On its annual stockholder's meeting last April 21, 2009, the Group's stockholders approved the Amendment of Article Seventh of the Articles of Incorporation by authorizing the increase in the authorized capital stock from ₱1.8 billion to ₱3.0 billion. As at the auditor's report date, SEC has not approved yet the increased in the authorized capital stock.

On November 10, 2009, to support the increase in the capital stock, the Group's BOD approved an offer to shareholders to subscribe 1 share of common stock for every 8 shares held as at record date, at an offer price of ₱0.015 per share. The subject shares will be listed with the PSE. The Group will also engage the service of an underwriter for the sale or distribution of the offer shares.

As at December 31, 2009, 2008 and 2007, the Parent Company has 4,803, 4,249 and 4,305 stockholders, respectively.

#### 19. Earnings (Loss) Per Share

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

	2009	2008	2007
Net income (loss) as shown in the consolidated statements of comprehensive income	(₱16,889,841)	(₱132,037,490)	₱276,979,890
Weighted average common shares	179,004,321,205	179,004,321,205	179,004,321,205
Basic and diluted earnings (loss) per share	(₱0.00009)	(₱0.00074)	₱0.00155

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## 20. 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 2 to 3 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 at December 31, 2007, Anglo has incurred ₱92,028,090 (US\$2.0 million) amount of exploration costs recorded in the consolidated statement of financial position 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 statement of financial position. Simultaneously, management provided an allowance for impairment loss of ₱92,028,090 on the cost of drilling made by Anglo during the 18-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 2 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 at and for the years ended December 31, 2009, 2008 and 2007.

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## 21. 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, miscellaneous deposits, environmental fund, AFS investments and accounts payable and accrued expenses which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, market risk (i.e. 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 Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets. The table below shows the gross maximum exposure to credit risk without consideration to collateral or other credit enhancements for the components of the consolidated statements of financial position as at December 31, 2009 and 2008.

	Notes	2009	2008
Cash with banks	4	<b>₱1,293,509</b>	₱1,703,976
Receivables	5		
Nontrade		<b>134,031</b>	101,227
Advances to officers and employees		<b>361,719</b>	205,715
Miscellaneous deposits included under			
"Prepayments and other current assets"	7	<b>2,335,545</b>	2,253,400
AFS investments	8		
Quoted equity securities		—	4,790,571
Unquoted equity securities		<b>7,500,000</b>	7,875,000
Environmental fund included under			
"Other noncurrent assets"	10	<b>5,108,808</b>	5,210,464
<b>Total credit risk exposure</b>		<b>₱16,733,612</b>	<b>₱22,140,353</b>

The Group has assessed the credit quality of the following financial assets:

- Cash with banks and environmental fund are assessed as high grade since these are deposited in reputable banks in the country as approved by the BOD and which have a low probability of insolvency.
- Quoted equity instrument was assessed as standard grade since the share prices are projected to move upward and investment can be fully recovered.
- Unquoted equity instrument was assessed as high grade, since this relates to one of the reputable hotels in the country.
- Miscellaneous deposits are assessed as high grade since these relate to advances made to local government agency for pending project agreement.

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

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices and other market changes. The Group's market risk originates from its holdings of equity instruments as well as foreign currency-denominated financial instruments.

*Foreign Currency Risk*

The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in 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\$3,266 and US\$3,249 as at December 31, 2009 and 2008, respectively.

As at December 31, 2009 and 2008, the exchange rates of the Philippine peso to the US dollar are ₱46.20 and ₱47.52 to US\$1.00, respectively.

The following table demonstrates the sensitivity to a reasonable possible change in exchange rates, with all other variables held constant, of the Group's pre-tax income due to changes in fair value of monetary assets and liabilities.

	Peso Strengthens (Weakens) by	Effect on pre-tax income
2009	₱0.67 (0.43)	(₱2,188) 1,404
2008	0.70 (0.91)	(2,274) 2,957

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive 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 its 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 at December 31, 2008. There was no sensitivity analysis prepared as at December 31, 2009 since all quoted shares were fully disposed in 2009.

The equity impact is arrived using the reasonably possible change of the relevant market indices and the specific adjusted beta of each stock the Group 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% (9.79%)	₱413,361 (413,361)

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 at December 31, 2009 and 2008, all of the Group's financial liabilities amounting to 421,572,024 and ₱422,405,106, 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, Miscellaneous Deposits, Environmental Fund, Accounts Payable and Accrued Expenses and Nontrade Payables*

The carrying amounts of cash, receivables, miscellaneous deposits, environmental fund, 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 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 at December 31, 2009 and 2008 are as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
<i>Loans and receivables</i>				
Cash	₱1,433,412	₱1,433,412	₱1,813,976	₱1,813,976
Receivables	495,750	495,750	306,942	306,942
Miscellaneous deposits included under "Prepayments and other current assets"	2,335,545	2,335,545	2,253,400	2,253,400
Environmental fund included under "Other noncurrent assets"	5,108,808	5,108,808	5,210,464	5,210,464
	<u>9,373,515</u>	<u>9,373,515</u>	<u>9,584,782</u>	<u>9,584,782</u>

(Forward)

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>AFS investments</i>				
Quoted equity security	—	—	4,790,571	4,790,571
Unquoted equity security	7,500,000	7,500,000	7,875,000	7,875,000
	7,500,000	7,500,000	12,665,571	12,665,571
Total financial assets	₱16,873,515	₱16,873,515	₱22,250,353	₱22,250,353
<b>Financial Liabilities</b>				
<i>Other financial liabilities</i>				
Accounts payable				
and accrued expenses	₱291,743,206	₱291,743,206	₱283,093,877	₱283,093,877
Nontrade payables	129,828,818	129,828,818	139,311,139	139,311,139
Total financial liabilities	₱421,572,024	₱421,572,024	₱422,405,016	₱422,405,016

As at December 31, 2009, the Group's financial assets at AFS unquoted equity securities are under Level 3. As at December 31, 2008, the Group's financial assets at AFS quoted and unquoted equity securities are under Level 1 and Level 3, respectively.

## 22. 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 at December 31, 2009 and 2008, the Group's capital is composed of cash amounting to ₱1,433,412 and ₱1,813,976, respectively, common shares amounting to ₱1,789,741,922, and additional paid-in capital amounting to ₱388,801,666.

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 in 2009.

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 at December 31, 2009 and 2008, the Group has been able to maintain positive cash flows from operations amounting to ₱26,606,721 and ₱68,332,171, respectively, as shown in the consolidated statements of cash flows.





# CORPORATE DIRECTORY



**Manila Mining Corporation**

DIRECTORS	PLACER STAFF	MAKATI - BASED
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**FELIPE U. YAP**  
**EDUARDO A. BANGAYAN**  
**JOSE G. CERVANTES**  
**RENE F. CHANYUNGCO**  
**ETHELWOLDO E. FERNANDEZ**  
**RODOLFO S. MIRANDA**  
**AUGUSTO C. VILLALUNA**  
**BRYAN U. YAP**  
**PATRICK K. YAP**

**ISAGANI C. SULAPAS**  
 Finance Group Manager

**AGRECIO S. AMBRAY**  
 OIC Security Dept

**JOSEPHINE DC. SUBIDO**  
 Chief Accountant

**ROBERTO A. MABINI**  
 Exploration Manager

**VERNIE S. REYES**  
 Environment Supt. & PCO

**JOANNA M. GATDULA**  
 Accountant

**SEGUNDO A. VILLANUEVA**  
 Mine Eng'g. & Design Head

**RANIL B. ORABA**  
 Tailings Dam Supt.

**TYRONE R. CHANCO**  
 Purchasing Officer

## CORPORATE OFFICERS

**FELIPE U. YAP**  
 Chairman of the Board  
 and Chief Executive Officer

**WILLIAM C. HOFIENÑA**  
 Sr. Geologist

**CESAR B. BUTRON**  
 Mine Production Supt.

**TERESITA D. LAGMAN**  
**JONATHAN P. ARANETA**  
 Purchasing Assistants

**RENE F. CHANYUNGCO**  
 Sr. Vice President-Treasurer  
 Compliance Officer - Good Governance

**ARLENE D. AGUILA**  
 Project Geologist

**ABELARDO F. MAGPILI, JR.**  
 Mine Engineering Supt.

**AUDITORS**  
 Sycip Gorres Velayo & Co.  
 6760 Ayala Avenue  
 1226 Makati City

**PATRICK K. YAP**  
 Senior Vice President

**TESSIE T. SARDOVIA**  
 Acting Chief Accountant

**SERAPIO B. PAGAR, JR.**  
 Mill Superintendent

**TRANSFER AGENT**  
 Bank of the Phil. Islands

**BRYAN U. YAP**  
 Vice President

**ALEXANDER M. DACYON**  
 Administration Manager

**JOSE A. RICAÑA**  
 Grinding Plant Supt.

**GENERAL COUNSEL**  
 Sycip, Salazar, Hernandez  
 & Gatnaitan Law Offices

**PABLO T. AYSON**  
 Vice President

**HONORIO F. DE LEON**  
 Mine Manager

**ROGELIO A. VILLANUEVA**  
 Sr. Geologist

**BANKS**  
 Bank of the Phil. Islands  
 Equitable-PCI Banking Corp.  
 Phil. Bank of Communication

**MA. LOURDES B. TUASON**  
 Asst. Treasurer

**FEDERICO B. LAGAZO**  
 Inventory Management Supt.

**FAUSTINO C. ORTUYO, JR.**  
 Acting PED Supt.

**ETHELWOLDO E. FERNANDEZ**  
 Corporate Secretary

**ROBERTO B. ZAGADO**  
 Medical Superintendent

**DIOSDADO R. PARAISO**  
 Mill Shift Supt.

**EXECUTIVE OFFICES**  
 20<sup>th</sup> Floor, Lepanto Bldg.  
 8747 Paseo de Roxas  
 Makati City 1226  
 Tel. 815-9447 812-7241  
 Fax 894-6268

**ODETTE A. JAVIER**  
 Asst. Corporate Secretary

**REYNALDO A. ALGARME**  
 Safety & Loss Control Supt.

**JOEL J. DALAGAN**  
 Asst. Mine Mech'l. Supt.

**MARIO L. LAVENTE**  
 Financial Controller

**HENRITO L. ABELLA**  
 Chief Assayer

**NEIL J. RUBILLOS**  
 Asst. Planning Supt.

**CRISANTO O. MARTINEZ**  
 HR Manager

**ROGELIO A. ARROYO**  
 Chief Surveyor

**BILLY S. REYES**  
 Mill Shift Supt.

**MAILING ADDRESSES**  
 Domestic Surface Mail  
 P.O. Box 1460,  
 Makati Central Post Office  
 Makati City 1254

**RONALD REX RECIDORO**  
 Legal Officer

**EMMA P. GONZALES**  
 Land Nego. & Doc. Officer

**Minesite Office:**  
 Barangay Magsaysay  
 Placer, Surigao del Norte  
 Tel No. (086) 826-1416

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

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