

ANNUAL REPORT 2004



Manila Mining Corporation

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CORPORATE DIRECTORY

ANNUAL MEETING:

The Annual Meeting of Stockholders of Manila Mining Corporation will be held on April 18, 2005, Monday, at 10:00 a.m. at the Penthouse, Lepanto Building, Paseo de Roxas, Makati City.



Manila Mining Corporation

A MESSAGE FROM THE CHAIRMAN

Manila Mining will continue to pursue two important objectives in 2005 as the company did in 2004. The vision remains consistent and solid in rebuilding the company back into an operating and productive entity. This vision will not be accomplished in the short term but will take time to identify significant reserves and then to realize production from those reserves.

Several companies have expressed interest in the area that lies between the Kalaya-an district at the extreme south west end of the tenement holdings and immediately north of the Anglo American-Philex deposit, Boyongan, and the historical operations. This area has been named the 'Corridor' as it covers important geology and structures that connect two significantly mineralized areas. Discussions with the interested parties will continue to determine if a suitable agreement can be developed. The Corridor area hosts several small gold deposits that themselves are not currently economic to develop and operate, however with additional investment and exploration, it is expected that the reserves could grow significantly.

The second objective as in 2004 is focused on the Kalaya-an (previously named Anislagan and Macalaya) area, which lies north of the Philex/Anglo Boyongan discovery. MMC continues discussions with one off shore international mining company as well as entertaining other discussions from other exploration companies as well as those solely interested in investing in the project.

In conclusion, the investment and mining climate has improved significantly over the last two months given the recent Supreme Court ruling and the escalating copper and gold commodity prices. Manila Mining holds excellent properties and should capture significant benefits over the long term.

To our faithful employees, shareholders, banks and suppliers, thank you for your valuable support and your patience.

FELIPE U. YAP

Chairman of the Board
and Chief Executive Officer



Manila Mining Corporation

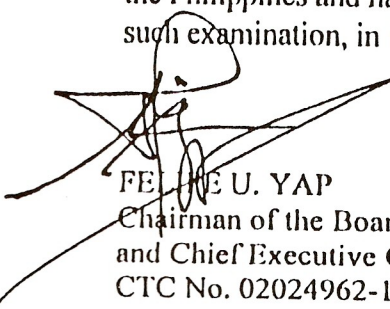
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

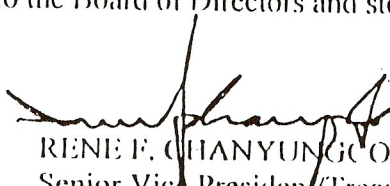
The management of **Manila Mining Corporation** is responsible for all information and representations contained in the financial statements for the years ended **December 31, 2004 and 2003**. The financial statements have been prepared in conformity with generally accepted accounting principles in the 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.

Joaquin Cunanan & Co., the independent auditors and appointed by the stockholders, 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.

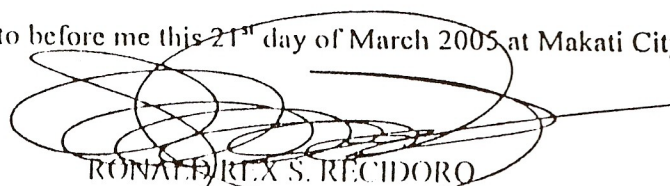

FELIPE U. YAP
Chairman of the Board
and Chief Executive Officer


RENE F. CHANYUNGCO
Senior Vice President/Treasurer
CTC No. 16156977-1/14/05-Pasig


MARIO L. LAVENTE
Financial Controller
CTC No. 15798161-
1/25/05-Q.C.

SUBSCRIBED AND SWORN to before me this 21st day of March 2005 at Makati City.

Doc. No. 344 :
Page No. 70 :
Book No. XV :
Series of 2005.


RONALD R. S. RECIDORO
Notary Public Until Dec. 31, 2005
PTR No. 9438285/Jan. 5, 2005, Makati City
IBP No. 626880/Nov. 26, 2004, Makati City

Report of Independent Auditors

To the Board of Directors and Stockholders of
Manila Mining Corporation

We have audited the accompanying balance sheets of Manila Mining Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manila Mining Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with generally accepted accounting principles in the Philippines.

Report of Independent Auditors
To the Board of Directors and Stockholders of
Manila Mining Corporation

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred continuing losses from operations resulting in accumulated deficit of P 779,916,646 (2003 - P646,359,543) and working capital deficiency of P 1,172,516,163 (2003 - P1,129,056,044). These matters including the factors mentioned in Note 1 to the financial statements raise substantial doubts as to the Company's ability to continue as a going concern for a reasonable period of time. Management's plans with regard to these matters are also discussed in Note 1 to the financial statements. The accompanying financial statements do not include any adjustments relating to the recoverability and classifications of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Joaquin Cunanan & Co.

Makati City
March 21, 2005

Rodelio C. Acosta

RODELIO C. ACOSTA
CPA Cert. No. 53756
PTR No. 9438078

Issued January 5, 2005, Makati City
SEC A.N. (Individual) as general auditors 0054-A
Issued on September 4, 2003
SEC A.N. (Firm) as general auditors 0009-F
Issued on April 3, 2003
T.I.N. No. 182-934-430
BIR A.N. 08-000745-18-2004
Issued on October 12, 2004
Effective until October 11, 2007
BOA/PRC Reg. No. 0142
Issued on October 25, 2004

MANILA MINING CORPORATION

BALANCE SHEETS DECEMBER 31, 2004 AND 2003

	Notes	2004	2003
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash	2	P 666,992	P 858,469
Marketable securities	2	15,000,000	15,000,000
Receivables, net	2,3	8,937,460	23,981,827
Inventories, net	2,4	54,595,893	73,617,376
Prepayments and deposits		4,065,802	4,087,482
Total current assets		83,266,147	117,545,154
NON-CURRENT ASSETS			
Deferred income tax assets	2,5	5,514,077	5,514,077
Property, plant and equipment, net	1,2,6,9	1,683,107,412	1,744,003,903
Other assets	1,2,7,16	39,962,743	69,163,236
Total non-current assets		1,728,584,232	1,818,681,216
Total assets		P1,811,850,379	P1,936,226,370
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Accounts payable and other liabilities	8,10	P1,061,768,899	P1,039,719,127
Loans payable	1,9	193,439,896	206,308,556
Dividends payable		573,515	573,515
Total current liabilities		1,255,782,310	1,246,601,198
NON-CURRENT LIABILITY			
Deferred income tax liability	2,5	138,523,227	138,523,227
Total liabilities		1,394,305,537	1,385,124,425
STOCKHOLDERS' EQUITY	13	417,544,842	551,101,945
Total liabilities and stockholders' equity		P1,811,850,379	P1,936,226,370

(See accompanying notes to financial statements)

MANILA MINING CORPORATION

STATEMENTS OF INCOME FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2004

	Notes	2004	2003	2002
REVENUES	1,2			
Other operating income		P -	P 11,549,397	P 3,375,533
ADMINISTRATION, SELLING, OVERHEAD AND OTHER CHARGES	2,6,7,10,11	133,654,474	175,174,572	225,794,397
LOSS FROM OPERATIONS		133,654,474	163,625,175	222,418,864
FINANCE COSTS (INCOME), net	2,9,12	(97,371)	(103,058)	58,956,142
LOSS BEFORE INCOME TAX		133,557,103	163,522,117	281,375,006
BENEFIT FROM DEFERRED INCOME TAX	2,5	-	(1,339,673)	(604,895)
NET LOSS FOR THE YEAR		P133,557,103	P162,182,444	P280,770,111
LOSS PER SHARE	2,15			
Basic		P 0.00112	P 0.00136	P 0.00235
Diluted		0.00112	0.00136	0.00235

(See accompanying notes to financial statements)

MANILA MINING CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2004

	Capital stock (Note 13)	Capital in excess of par value	Deficit	Total
Balance at January 1, 2002	P1,193,231,314	P4,230,174	P(203,406,988)	P 994,054,500
Net loss for the year	-	-	(280,770,111)	(280,770,111)
Balance at December 31, 2002	1,193,231,314	4,230,174	(484,177,099)	713,284,389
Net loss for the year	-	-	(162,182,444)	(162,182,444)
Balance at December 31, 2003	1,193,231,314	4,230,174	(646,359,543)	551,101,945
Net loss for the year	-	-	(133,557,103)	(133,557,103)
Balance at December 31, 2004	P1,193,231,314	P4,230,174	P(779,916,646)	P 417,544,842

(See accompanying notes to financial statements)

MANILA MINING CORPORATION

STATEMENTS OF CASH FLOWS FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2004

	Notes	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax		P(133,557,103)	P(163,522,117)	P(281,375,006)
Adjustments for:				
Depreciation, amortization and depletion	6,7,11	89,939,918	110,602,670	182,804,896
Provision for inventory obsolescence	4,11	-	4,031,406	2,225,854
Foreign exchange loss (gain) from restatement of monetary items, net		(58,775)	-	2,842,748
Gain from sale of heavy equipment		-	(2,970,157)	-
Finance charges	12	-	-	15,537,899
Interest income	12	(11,394)	(92,648)	(14,095)
Operating loss before changes in working capital		(43,687,354)	(51,950,846)	(77,977,704)
Changes in:				
Receivables	3	15,044,367	(4,701,013)	33,089,080
Inventories	4	19,021,483	(6,401,881)	15,776,553
Prepayments and deposits		21,680	(391,697)	41,859,047
Accounts payable and other liabilities		10,311,567	36,725,049	(17,361,878)
Cash generated from (absorbed by) operations		711,743	(26,720,388)	(4,614,902)
Interest received	12	11,394	92,648	14,095
Net cash provided by (used in) operating activities		723,137	(26,627,740)	(4,600,807)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	6	-	(2,074,567)	(3,377,102)
Proceeds from sale of heavy equipments and other assets	6	-	27,693,149	-
Decrease (increase) in other assets		157,066	30,494	(15,288,120)
Net cash provided by (used in) investing activities		157,066	25,649,076	(18,665,222)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payable to related parties	10	11,738,205	41,962,688	30,414,418
Payment of short-term and long-term debts, net	9	(12,868,660)	(48,293,996)	-
Net cash provided by (used in) financing activities		(1,130,455)	(6,331,308)	30,414,418
NET INCREASE (DECREASE) IN CASH FOR THE YEAR		(250,252)	(7,309,972)	7,148,389
EFFECT OF EXCHANGE RATES CHANGES IN CASH AND CASH EQUIVALENTS		58,775	-	-
CASH	2			
January 1		858,469	8,168,441	1,020,052
December 31		P 666,992	P 858,469	P 8,168,441

(See accompanying notes to financial statements)

MANILA MINING CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004 AND 2003 AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2004

Note 1 - General information and status of operation

Manila Mining Corporation (the "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 Company's shares are listed and traded in the Philippine Stock Exchange. On April 16, 1999, the SEC approved the extension of the Company's corporate term for another 50 years upon expiration of its original term on May 30, 1999. Lepanto Consolidated Mining Company has 20.15% equity interest in the Company.

The Company has its principal office at the 20th Floor Lepanto Building, Paseo de Roxas, Makati City and has a total of 543 regular employees as of December 31, 2004 (2003 - 542; 2002 - 550). Total staff costs during the year amounted to P3,883,822 (2003 - P5,370,373; 2002 - P9,583,253) (see Note 11).

On May 22, 1996, the Company's Board of Directors 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 SAG mill unit with the original 48-inch pit conveyor project. The expansion was registered with the BOI under E.O. No. 226 on October 6, 1996.

On November 5, 1997, the Board of Investments (BOI) approved the 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 Company's application for the modernization program of the copper flotation project under a preferred non-pioneer status. As a registered enterprise, the Company is entitled to certain incentives and tax benefits which include, among others, income tax holiday for a period of four years from February 23, 1998 the actual start of commercial operations.

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

On November 30, 2000, the 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 Company temporarily shut down its milling operations pending its receipt of a permit to further raise its tailing pond. Administrative operating costs incurred during the shutdown, which amounted to P26,994,122, were deferred and fully amortized in 2002.

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 Company resumed its milling operations.

The Company's Board of Directors, in its meeting on July 26, 2001, resolved to shut down the Company's mining operations due to the expiration of its temporary authority to construct and operate its tailings dam issued by the Department of Environmental and Natural Resources. As a consequence, the Company implemented a selective employee retrenchment program in order to minimize its losses. Operations of the Company were concentrated to exploration works in order to enhance its existing ore reserves which are deemed critical in sustaining a continuous and profitable operations. Furthermore, the Company's prospects are also currently affected by the general slow down in the economy and the volatile price of copper. Also, the Company did not meet its maturing debt obligations and certain financial ratios required in its loan agreements (see also Note 9). These matters raise significant uncertainties as to the Company's ability to continue as a going concern and recover its mine and mining properties.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying financial statements, the Company incurred net losses of P133,557,103 for the year ended December 31, 2004 (2003 - P162,182,444; 2002 - P280,770,111) and as of December 31, 2004 has deficit of P779,916,646 (2003 - P646,359,543; 2002 - P484,177,099) and working capital deficiency of P1,172,516,163 (2003 - P1,129,056,044).

The Company's operations remain suspended for 2004. Notwithstanding this, several companies have expressed interest in the area that lies between the Kalaya-an district at the extreme south west end of the 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. Discussions with the interested parties will continue to determine if a suitable agreement can be developed. The corridor also hosts several small gold deposits that themselves are not currently

economic to develop and operate. However, with additional investment and operation, it is expected that the reserves would grow significantly.

The Company continues to be in discussion with an offshore international mining company to secure significant financing and investment in order to pursue an aggressive and world-class drilling campaign in the Kalaya-an tenement.

The investment and mining climate has improved significantly over the past several months as a result of the recent Supreme Court ruling upholding the validity of the Philippine Mining Act of 1995 and the escalating copper and gold commodity prices. The Company holds excellent properties and should be able to realize significant benefits over the long term.

The Company's ability to continue as a going concern and recover its mine and mining properties is dependent upon the successful completion of the restructuring negotiations with the creditor banks, the ability to obtain the necessary financing, the conduct of successful exploration/drilling work and ability to achieve profitable operations. The ultimate outcome of these uncertainties cannot presently be determined. The accompanying financial statements do not include any adjustments relating to the recoverability and classifications of the Company's recorded asset amounts and classification of liabilities that might result from the outcome of these uncertainties.

Note 2 - Significant accounting policies

The principal accounting policies and practices of the Company are set forth to facilitate the understanding of data presented in the financial statements.

Basis of preparation

The financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Philippines under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles in the Philippines requires the Company to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results may ultimately differ from those estimates.

New accounting standards effective in 2004

The Company adopted the following applicable Statement of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS) effective January 1, 2004. These standards have been approved by the Accounting Standards Council (ASC) of the Philippines.

- SFAS12/IAS 12, Income Taxes, which prescribes the accounting treatment of income taxes and requires the recognition of deferred tax liability for taxable temporary differences and deferred tax asset for deductible temporary differences if it is probable that a tax benefit will be realized.
- IAS 17, Leases, which prescribes the accounting policies and disclosures to apply to finance and operating leases.

The adoption of the new standards in 2004 did not have a material effect on the financial statements. However, additional disclosures required by the new standards have been included in the financial statements, where applicable.

New accounting standards effective in 2005

The ASC approved the issuance of new and revised accounting standards which are based on revised IAS and new International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). These new standards have been renamed Philippine Accounting Standards (PASs) to correspond to adopted IASs while the Philippine Financial Reporting Standards (PFRSs) correspond to adopted IFRs. The new Standards are effective for annual periods beginning on or after January 1, 2005.

The Company will adopt the following revised and new accounting standards effective January 1, 2005:

PAS

- PAS 1 Presentation of Financial Statements
- PAS 2 Inventories
- PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- PAS 10 Events after the Balance Sheet Date
- PAS 16 Property, Plant and Equipment
- PAS 17 Leases
- PAS 21 The Effects of Changes in Foreign Exchange Rates

- PAS 24 Related Party Disclosures
- PAS 32 Financial Instruments: Disclosure and Presentation
- PAS 36 Impairment of Assets
- PAS 39 Financial Instruments: Recognition and Measurement

PFRS

- PFRS 1 First-time Adoption of PFRS

Except for the PASs and PFRS below, the adoption of the revised and new Standards listed above will not result in substantial changes to the Company's accounting policies.

- PAS 1 - requires that the criteria for classifying liabilities as current or non-current be based solely on the conditions existing at the balance sheet date;
- prohibits the presentation of items of income and expenses as extraordinary items; and
- requires disclosures of: (a) critical judgments made by management in applying the accounting policies and; (b) those assumptions made by management that are important in determining accounting estimates that could cause material adjustment to the carrying amounts of assets and liabilities.
- PAS 19 - covers a much broader scope and categorizes employee benefits as follows: (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits and (e) equity compensation benefits;
- only allows Project Unit Credit Method to measure retirement obligation cost.
- PAS 21 - no longer permits capitalization of foreign exchange losses; upon adoption in 2005, any undepreciated capitalized foreign exchange losses will be adjusted against retained earnings and prior year's consolidated financial statements presented will be accordingly restated.
- PAS 24 - expands the definition of related parties and the disclosure requirement for related parties. In particular, the Standard requires disclosure of compensation of key management personnel by benefit type.

- PAS 32 - covers the disclosure and presentation of all financial instruments.
- requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the statements.
- PAS 39 - The requirements for presenting and disclosing information about financial instruments are set out in PAS 32. PAS 39, on the other hand, establishes principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. In particular, PAS 39 provides guidance on derecognition, when financial assets and financial liabilities may be measured at fair value, how to assess impairment, how to determine fair value and hedge accounting. The adoption of PAS 39 will result in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss. PAS 39, however, does not require classification of financial assets at fair value through profit or loss of previously recognized financial assets. PAS 39 requires simultaneous adoption with PAS 32.
- PFRS 1 - applies when an entity adopts PFRS for the first time, by an explicit and unreserved statement of compliance with PFRSs. In general, PFRS 1 requires an entity adopting PFRS for the first time to comply with each PFRS that has come into effect at the reporting date for its first PFRS financial statements. The impact of adoption of the PFRS 1 could not be reasonably estimated as of December 31, 2004.

Cash

Cash is carried in the balance sheet at cost. For the purposes of the cash flow statement, cash consists of cash on hand and deposits held at call with banks.

Marketable securities

Marketable securities represent temporary investment in stock which are carried at the lower of cost or net realizable value.

Receivables

Receivables are carried at original invoice amounts less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the carrying amounts and recoverable amounts of receivables. Receivables arising from ordinary transactions of the business reasonably expected to be collected within the next accounting period are classified as current assets in the balance sheet.

Inventories

Bullion inventory is valued at estimated realizable value based on the current free market quotations at the London Gold Market, less certain deductions as agreed upon between the Company and the buyers.

Gold in-process inventory is valued at cost per tonne of ore treated.

Copper concentrate and ore inventories are valued at cost per tonne of ore mined.

Materials and supplies are stated at the lower of cost or net realizable values. Cost is determined using the moving average method. In-transit items are valued at invoice cost. The excess of inventories carrying value against net realizable value is charged to operations and credited to allowance for inventory obsolescence.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, depletion and impairment loss, if any. The initial cost of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company. Major renovations are depreciated over the remaining useful life of the related asset. When assets are retired or otherwise disposed of, the cost and related depreciation and impairment loss, if any, are removed from the accounts and resulting gain or loss is reflected in current operations.

Mine exploration and development costs for existing ore bodies of mineral properties are capitalized as mine and mining properties and are included in property, plant and equipment account. Depletion is computed based on the volume of ore extracted and treated at the plant over the estimated volume of ore reserves as certified by the Company's geologists. No depletion is provided during the period when extraction is suspended.

Depreciation is computed on the straight-line method to write off the cost of each asset to its residual values over the estimated useful lives of the related assets as follows:

Name of assets	Number of years
Machinery and equipment	5 - 20
Buildings and improvement	20
Furniture, office and other equipment	5
Tailings dam	14

Land is stated at cost and is not depreciated.

Impairment of assets

Property, plant, equipment and other long-lived assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

Other assets

Other assets, which include idle equipment, are recorded at the lower of net book value or net realizable value.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Revenue, cost and expense recognition

Income from gold and silver bullion is recognized at the time of production because its sale is both assured and measurable. Income from sale of copper is recognized upon shipment and in accordance with the pricing and other terms of the covering agreements with the buyer.

Interest and other income are recognized when earned. Cost and expenses are recorded when incurred.

Transactions in foreign currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Philippine Pesos, which is the functional currency of the Company.

Transactions in foreign currency are translated into Philippine Pesos at the rates of exchange prevailing at transaction date. Foreign currency denominated monetary assets and liabilities are translated at exchange rates prevailing at balance sheet date. The resulting exchange differences from the settlements and conversions are credited or charged to operations.

Borrowing costs

Interest and other borrowing costs are expensed in the period incurred except those which are directly attributable to the acquisition or construction of a qualifying asset which are capitalized as part of the cost of the asset up to the time the asset is put into its intended use provided the resulting carrying amount does not exceed its recoverable or net realizable value.

Dividends

Dividends are recorded in the period in which they are approved by the Company's Board of Directors.

Stock options

Proceeds from the exercise of stock options are credited to capital stock at par value. The excess of the option price over par value is credited to capital in excess of par value.

Income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases and their carrying amounts in the financial statements except where the timing of the reversal of the temporary difference can be controlled and it is probable that temporary difference will not reverse in the foreseeable future. Currently enacted tax rates are used in the determination of deferred income tax. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Earnings (loss) per share

Basic earnings (loss) per share is computed based on the weighted average number of shares outstanding and subscribed for each respective periods with retroactive adjustments for stock dividends declared, if any. When shares are dilutive, the unexercised portion of stock options is included as stock equivalents in computing diluted earnings (loss) per share.

Related party transactions and relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with reporting enterprise, or between and/or among the reporting enterprises and its key management personnel, directors, or its stockholders. Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

Comparatives

When necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Note 3 - Receivables

Receivables at December 31 consist of:

		2004		2003
Non-trade	P	3,678,159	P	14,115,838
Value added tax (VAT)		5,714,835		10,321,523
		9,392,994		24,437,361
Less allowance for doubtful accounts		455,534		455,534
	P	8,937,460	P	23,981,827

Bad debts expense charged to operations in 2003 amounted to P155,069 (2002 - P139,109) while bad debts written off in 2002 amounted to P267, 472 (Note 11).

Note 4 - Inventories

Inventories at December 31 consist of:

		2004		2003
Mill materials, hardware and other supplies	P	52,664,255	P	53,926,690
Machinery and automotive parts		18,077,248		35,836,296
Fuel, oil and lubricants		200,346		200,346
		70,941,849		89,963,332
Less allowance for inventory obsolescence		16,345,956		16,345,956
	P	54,595,893	P	73,617,376

Note 5 - Deferred income tax; provision for income tax

Deferred income tax assets and liability at December 31 consist of:

		2004		2003
Deferred income tax assets				
Allowance for doubtful accounts	P	145,771	P	145,771
Allowance for inventory obsolescence		5,230,706		5,230,706
Allowance for possible loss		137,600		137,600
	P	5,514,077	P	5,514,077
Deferred income tax liability				
Excess of allowable depletion over depletion per books		P(138,523,227)		P(138,523,227)

Deferred income tax assets are recognized for net operating loss carryover (NOLCO) arising from the Company's non-BOI registered activities to the extent that the realization of the related tax benefit through the future taxable profits is probable. The NOLCO from the Company's non-BOI registered activities amounting to P92,122,326 recognized in 2003 was written off during the year.

The Company did not recognize deferred income tax assets of P42,740,187 in respect of NOLCO amounting to P133,563,086 that may not be realized in the future.

The reconciliation of the benefit from income tax for the years ended December 31 computed at the statutory income tax rate to actual benefit in the statement of income is shown below:

	2004	2003	2002
Tax at 32%	P(42,738,273)	P(52,327,077)	P(90,040,002)
Addition (reduction) in income taxes resulting from tax effects of:			
Non-deductible expenses	42,740,187	51,002,969	89,437,475
Interest income subject to final tax	(1,914)	(15,565)	(2,368)
Actual tax benefit	P -	P (1,339,673)	P (604,895)

Note 6 - Property, plant and equipment

Property, plant and equipment at December 31 consist of:

	Notes	Mine and mining properties	Machinery and equipment	Building and improvements	Furniture, office and other equipment	Land	Total
Cost							
December 31, 2004 and 2003		P2,362,611,759	P859,733,420	P121,571,303	P68,563,074	P7,270,713	P3,419,750,269
Accumulated depreciation and depletion							
January 1, 2004		1,000,794,550	564,181,584	45,917,289	64,852,943	-	1,675,746,366
Depreciation and amortization during the year	2	21,509,924	30,528,630	6,071,380	2,786,557	-	60,896,491
December 31, 2004		1,022,304,474	594,710,214	51,988,669	67,639,500	-	1,736,642,857
Net book value at							
December 31, 2004	9	P1,340,307,285	P265,023,206	P 69,582,634	P 923,574	P7,270,713	P1,683,107,412
Net book value at							
December 31, 2003	9	P1,361,817,209	P295,551,836	P 75,654,014	P 3,710,131	P7,270,713	P1,744,003,903

There were no additions or disposals during the year. Total depreciation charged to operations during the year, including amortization of tailings dam of P21,509,924 (2003 - P21,435,423; 2002 - P85,284,353), amounted to P60,896,491 (2003 - P73,845,175; 2002 - P149,118,461) (see Note 11).

In 2002 and prior years, the tailings dam is being amortized using straight-line method over its estimated life of 10 years. Effective January 1, 2003, as allowed by SFAS 16/IAS 16 on "Property, Plant and Equipment", the Company extended its useful life to 14 years as its estimated future benefits has been prolonged relative to the temporary suspension of its operation. Based on SFAS 16/IAS 16, if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted. Accordingly, annual amortization of tailings dam beginning in 2003 and for each of the next three years is P21,435,423.

Fully depreciated property and equipment that is still being used by the Company has a total gross carrying amount of P584,460,389 at December 31, 2004 and 2003.

Note 7 - Other assets

Other assets at December 31 consist of:

	Note	2004	2003
Idle assets, net of accumulated depreciation		P37,778,499	P66,821,926
Environmental fund and others	16	2,184,244	2,341,310
		P39,962,743	P69,163,236

Total depreciation of idle heap leaching plant and equipment and certain old mill machinery and equipment charged to operations during the year amounted to P24,861,699 (2003 - P36,757,495; 2002 - P33,686,435) (see Note 11).

Note 8 - Accounts payable and other accrued expenses

Accounts payable and other accrued expenses at December 31 consist of:

	Note	2004	2003
Trade payables	10	P 527,304,056	P 526,103,244
Non-trade payables	9,10	521,208,586	504,663,301
Accrued payroll and employee benefits		4,248,380	1,980,850
Advances from stockholders		3,652,256	-
Other liabilities		5,355,621	6,971,732
		P1,061,768,899	P1,039,719,127

Note 9 - Loans payable

In 2002, the Company had loans payable to Equitable PCI Bank (EPCIB), Metropolitan Bank and Trust Company (MBTC) and International Exchange Bank (IEB) of P115,938,429; P103,282,946 and P35,381,177, respectively. During 2004 and 2003, the Company made payments to the creditor banks reducing the total loans payable as of December 31, 2004 and 2003 to P193,439,896 and P206,308,556, respectively.

The loans payable account represents what were originally foreign currency denominated loans from EPCIB, MBTC and IEB for the importation of various mining equipment. Importations were made through existing credit lines maintained with the local banks. The loans were restructured and were converted into peso loans fixed at certain amounts at various dates in 2002. These loans bear annual interest ranging from 10% to 15.25%. As a result of the conversions, deferred foreign exchange losses realized and charged to operations in 2002 amounted to P43,432,338. As of December 31, 2004 and 2003, there were no foreign exchange losses deferred in the balance sheet.

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

The Company's buildings, machinery and equipment, heavy equipment, parcels of land and materials and supplies with an appraised value of P578.48 million as well as authority to sell mining concessions, were covered by the collateral security agreement with certain banks.

The Company did not meet its maturing debt obligations and the financial ratios required by the loan agreements. In the absence of a waiver from the creditor banks, long-term portions of the loans were classified as current liabilities in 2004 and 2003. At present, management is negotiating with the creditor banks for the restructuring of the said loans.

Note 10 - Related party transactions

In the normal course of business, the Company transacts with its associated companies. These transactions include drilling services, hauling services and operational support from related companies. Accounts payable to associates as of December 31, 2004 are composed of trade and non-trade payables amounting to P216,349,690 (2003 - P216,817,723) and P489,264,780 (2003 - P477,058,542), respectively.

The significant related party transactions of the Company not separately shown elsewhere in the financial statements as of and for the years ended December 31 follow:

	2004	2003	2002
Drilling	P -	P -	P 10,435,213
Hauling	-	-	-

Note 11 - Administration, selling, overhead and other charges

The account consist of the following administration, selling, overhead and other charges for the years ended December 31:

	Notes	2004	2003	2002
Depreciation and amortization	6,7	P 68,429,994	P 89,167,247	P 97,520,543
Amortization of tailings dam	6	21,509,924	21,435,423	85,284,353
Salaries, allowances and other benefits	1	3,883,822	5,370,373	9,583,253
Outside services		3,233,551	3,688,018	10,304,180
Electricity		1,744,121	18,737,414	2,910,160
Representation and entertainment		425,418	254,324	434,072
Supplies		395,991	2,124,865	6,851,852
Taxes and licenses		377,725	2,651,247	2,472,211
Transportation and travel		333,249	295,188	762,585
Repairs and maintenance		211,763	-	10,531
Communication		151,103	149,085	247,678
Insurance		132,872	7,760	1,390,070
Rental		100,000	-	129,900
Water		16,071	25,788	323,788
Provision for inventory obsolescence		-	4,031,406	2,225,854
Bad debts	3	-	155,069	139,109
Other charges		32,708,870	27,081,365	5,204,258
		P133,654,474	P175,174,572	P225,794,397

Note 12 - Finance costs (income), net

Details of finance costs (income), net for the years ended December 31 consist of:

	Notes	2004	2003	2002
Finance charges	9	P -	P -	P15,537,899
Interest income		(11,394)	(92,648)	(14,095)
Foreign exchange (gain) loss, net	9, 17	(85,977)	(10,410)	43,432,338
		P(97,371)	P(103,058)	P58,956,142

Note 13 - Capital stock

The Company has authorized capital stock consisting of 120 billion shares at P.01 par value each, divided into 72 billion Class "A" and 48 billion Class "B" common shares.

Only Philippine nationals are qualified to acquire, own or hold Class "A" common shares of stock of the 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.

The details of subscribed, issued and outstanding capital stock at December 31, 2004 and 2003 are shown below:

	Class	No. of shares	Par Value
Issued and outstanding	"A"	71,608,561,984	P 716,085,620
	"B"	47,707,456,936	477,074,569
		119,316,018,920	1,193,160,189
Subscribed	"A"	13,528,685	135,287
	"B"	6,666,532	66,665
		20,195,217	201,952
Total shares issued and subscribed		119,336,214,137	1,193,362,141
Less subscriptions receivable			130,827
			P1,193,231,314

Note 14 - Stock options

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

There were no stock options granted nor stock options activities in 2004, 2003 and 2002. The last award granted by the Company, the Seventh Stock Option Award, expired on January 31, 2001.

Note 15 - Loss per share

Following are the basis for the computation of loss per share:

		2004		2003		2002
Net loss as shown in the statements of income	P	133,557,103	P	162,182,444	P	280,770,111
Weighted average common shares		119,336,214,137		119,336,214,137		119,336,214,137

The basic and diluted loss per share are the same for the years presented as there are no dilutive stock options.

Note 16 - Commitments and contingent liabilities

On November 13, 1998, the Company entered into a separate Memorandum of Agreement with the Office of Municipal Mayor and Sangguniang Bayan of Placer, Surigao del Norte, DENR and Mine and Geoscience Bureau. Under the agreement, the Company is mandated to establish and maintain a Monitoring Trust Fund and a Mine Rehabilitation Fund (MRF) amounting to P50,000 and P5 million, respectively. 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 Company in a mutually acceptable bank is subject to annual review of the MRF committee. As of December 31, 2004, the rehabilitation fund of P570,184 (2003 - P681,749) is included in "Other assets" in the balance sheet (see Note 7).

Note 17 - Foreign currency denominated asset

As of December 31, 2004 and 2003, the Company's foreign currency denominated asset pertains only to cash which amounts to P126,632 and P88,858 (\$1,601 and \$1,601), respectively.

At December 31, 2004 and 2003, the exchange rates were P56.28 per US\$1.00 and P55.50 per US\$1.00, respectively. Net foreign exchange gain credited to operations during the year amounted to P85,977 (2003 - P10,410).

Note 18 - Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on March 21, 2005.

CORPORATE DIRECTORY



Manila Mining Corporation

DIRECTORS	PLACER STAFF		MAKATI - BASED STAFF
FELIPE U. YAP EDUARDO A. BANGAYAN CHARLES L. BRADISH RENE F. CHANYUNGCO ETHELWOLDO E. FERNANDEZ PATRICIO L. LIM AUGUSTO C. VILLALUNA BRYAN U. YAP	ALEXANDER M. DACYON Admin. Group Manager ISAGANI C. SULAPAS Finance Group Manager HONORIO F. DE LEON Mine Group Manager MILES E. TROCIO Acting CMMD Manager JOSE S. GARCIA, JR. Chief Geologist ROBERTO B. ZAGADO Medical Superintendent FEDERICO B. LAGAZO Inventory Management Supt. TESSIE T. SARDOVIA Acting Chief Accountant EMMA P. GONZALES Land Nego. & Doc. Officer HENRITO L. ABELLA Chief Assayer JON FELIPE S. AGCOL Personnel Dept. Head REYNALDO A. ALGARME Safety & Loss Control Supt. LOWITO R. AMOR Water Supply Supt. ROGELIO A. ARROYO Chief Surveyor VERNIE S. REYES Environment Supt. & PCO	RANIL B. ORABA Tailings Dam Supt. JAIME B. BOAQUIÑA OIC Security Dept CESAR B. BUTRON Mine Production Supt. ABELARDO F. MAGPILI, JR. Mine Engineering Supt. RAPUL T. DUMORAN Mobile Superintendent SERAPIO B. PAGAR, JR. Mill Superintendent JOSE A. RICAÑA Grinding Plant Supt. ROGELIO A. VILLANUEVA Sr. Geologist FAUSTINO C. ORTUYO, JR. Acting PED Supt. DIOSDADO R. PARAISO Mill Shift Supt. JOEL J. DALAGAN Asst. Mine Mech'l. Supt. NEIL J. RUBILLOS Asst. Planning Supt. BILLY S. REYES Mill Shift Supt. Minesite Office: Barangay Magsaysay Placer, Surigao del Norte Tel No. (086) 826-1416	JOSEPHINE DC. SUBIDO Chief Accountant EDMUND C. MEER SAMUEL G. ZUÑIGA Accountants TYRONE R. CHANCO Purchasing Officers TERESITA D. LAGMAN JONATHAN P. ARANETA Purchasing Assistants AUDITORS Joaquin Cunanan & Co. A member firm of Price Waterhouse Coopers TRANSFER AGENT Bank of the Phil. Islands GENERAL COUNSEL Sycip, Salazar, Hernandez & Gatmaitan Law Offices Sycip, Gorres, Velayo & Co. BANKS Bank of the Phil. Islands Metropolitan Bank & Trust Co. China Banking Corp. International Exchange Bank Equitable-PCI Banking Corp. EXECUTIVE OFFICES 20 th Floor, Lepanto Bldg. 8747 Paseo de Roxas Makati City 3117 Tel. 815-9447 Fax: 819-3786 MAILING ADDRESSES Domestic Surface Mail P.O. Box 1460, Makati Central Post Office Makati City 1254 Domestic & Foreign Air Mail P.O. Box 7507 Domestic Airport Post Office, Domestic Road 1300 Pasay City, Philippines
CORPORATE OFFICERS			
FELIPE U. YAP Chairman of the Board and Chief Executive Officer * CHARLES L. BRADISH President and Chief Operating Officer RENE F. CHANYUNGCO Sr. Vice President-Treasurer BRYAN U. YAP Vice President VIRGILIO G. MEDINA Vice President MA. LOURDES B. TUASON Asst. Treasurer ETHELWOLDO E. FERNANDEZ Corporate Secretary ODETTE A. JAVIER Asst. Corporate Secretary MARIO L. LAVENTE Financial Controller CRISANTO O. MARTINEZ HR Manager VLADIMIR B. BUMATAY RONALD REX RECIDORO Legal Officers			

* Effective May 24, 2004