

Joaquin Cunanan & Co.

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

Report of Independent Auditors

To the Board of Directors and Stockholders of
Manila Mining Corporation

Joaquin Cunanan & Co.
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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.

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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.

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Makati City
March 21, 2005

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			
Total liabilities and stockholders' equity	13	417,544,842	551,101,945
		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.

