

# COVER SHEET

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S.E.C. Registration Number

L	E	P	A	N	T	O		C	O	N	S	O	L	I	D	A	T	E	D		M	I	N	I	N	G		C	O

(Company's Full Name)

2	1	S	T		F	L	O	O	R		L	E	P	A	N	T	O		B	U	I	L	D	I	N	G			
8	7	4	7		P	A	S	E	O		D	E		R	O	X	A	S											
M	A	K	A	T	I		C	I	T	Y																			

(Business Address: No. Street City / Town / Province)

ODETTE A. JAVIER
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Contact Person

815-9447
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Company Telephone Number

3rd Monday of April

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Month

Day

Fiscal Year

S	E	C		1	7	A
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FORM TYPE

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Month

Day

Year

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total no. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Document I.D.

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2009**
2. SEC Identification number : **101**
3. BIR Tax Identification number : **000-160-247-000**
4. Exact name of registrant as specified in its charter

**LEPANTO CONSOLIDATED MINING COMPANY**

5. Province, country or other jurisdiction of incorporation or organization: **Manila, Philippines**
6. Industry Classification Code:  (SEC Use Only)

**Mining**

7. Address of registrant's principal office:  
**21<sup>st</sup> Floor, Lepanto Building**  
**8747 Paseo de Roxas, Makati City, Philippines**

8. Registrant's telephone number, including area code:

**(632) – 815-9447**

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

10. Securities registered pursuant to Sections 4 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of each Class:

Number of shares of common stock outstanding:

**Class "A"**

**19,742,130,056**

**Class "B"**

**13,161,402,173**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x]

No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein.

**Philippine Stock Exchange**

**Classes "A" & "B"**

The Company has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months. The Company has not been subject to such filing requirements for the past 90 days.

The aggregate market value of the voting stock held by non-affiliates of the Company as of December 29, 2009 was P8,423,200,464.66.

## **Business and General Information**

### **Business**

Lepanto was incorporated in 1936 and until 1997 was operating an enargite copper mine located in Mankayan, Benguet. Lepanto shifted to gold bullion production in 1997 through its Victoria Project. Lepanto continues to produce gold from its Victoria and Teresa operations, both located in Mankayan, Benguet.

The only raw material component of Lepanto's products is the ore that it mines. Its ore reserves, per the attached Certification as of January 1, 2010 (Exhibit "F"), were 0.47 million oz. gold from the Victoria and Teresa Orebodies and 0.57 million oz. of gold and 251.11 million lbs. copper from the Enargite, or a total of 1.05 million oz. gold and 251.11 million lbs. copper as certified by Engr. Augusto C. Villaluna, the Company's Senior Vice President for Operations, a Competent Person as the term is defined in the Philippine Mineral Reporting Code.

The Company's revenues (100%) for the last 3 years (2006-2008) came from its sales of gold in bullion and copper concentrate. Under the contract with Heraeus Ltd., a Hongkong based refinery, the Company ships gold bars to the said buyer on a weekly basis, more or less. The contract has provisions regarding assay, manner of delivery, weighing and sampling, settlement/payment, pricing and refining charges. The Company also had contracts with Trafigura Beheer, B.V. Amsterdam, a metals trader based in New Jersey, U.S.A. and Shanghang County Jinshen Trading Co., a metals trader based in Fujian, China, for the sale of copper concentrate. The contracts had provisions regarding assaying, pricing, weighing, sampling, payable metals and refining/smeltering charges.

The following schedule indicates the percentage of Sales and Net Income contributed by foreign sales in the last three years:

#### **Percentage of Sales Contributed by Foreign Sales:**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Hongkong	87.02	45.22	97.37
Canada	1.19	2.15	-
Peru	5.23	18.01	-
China	0.41	34.62	-
Others	6.23	-	2.63
	-----	-----	-----
	100%	100%	100%

Percentage of Net Income/Loss Contributed by Foreign Sales:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Hongkong	-195	-42	-109
Canada, Peru, China, etc.	-12	-34	-7
Other Income	107	-24	16
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	100%	100%	-100%

The Company has Environmental Compliance Certificates, for its tailings dam 5A and mining projects.

**Subsidiaries**

SHIPSIDE, INC., based in San Fernando, La Union, was incorporated in 1958. It is engaged principally in the hauling business and supports the hauling requirements of the parent company. It has a fleet of about 12 trucks, and is a heavy user of diesoline, gasoline and tires. For the past 11 years, it has been operating a sawmill in Bauang, La Union (the only one in the province), importing logs from various suppliers in Australia, New Zealand and Malaysia. It also has warehouses and beach-front properties located at Poro Point, San Fernando, La Union, where it operates a resort/restaurant. For its lumber, it has customers in both Northern and Southern Luzon. Generally, Shipside is not dependent on any single supplier for its raw material requirements, i.e., fuel, tires and logs, and these are readily available from a number of suppliers. Sawmilling contributed 1% in 2007 and none in 2008 and 2009 to total sales. Income from hauling, rentals and resort/restaurant businesses were P13.35 million, P4.74 million and P10.83 million, respectively, of total revenues in 2009.

DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP), incorporated in 1971, is in the business of providing diamond drilling services. It has drilling contracts all over the country and services mostly mining companies. DDCP has a ready market in its parent company and affiliate.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC), incorporated in 1969, is in the insurance business. It owns 31% of Philippine Fire and Marine Insurance Corporation (Philfire) and 80% of DBPI, as discussed hereunder. Its income principally is in the form of commissions from Philfire for sales of policies to various clients, none of whom contributes more than 10% of total revenues.

Lepanto, through LIDC, owns 80% of DIAMANT BOART PHILIPPINES, INC. (DBPI), a manufacturer of industrial diamond tools for mining exploration, marble cutting and the construction industry. Most of its raw materials are imported from an affiliate, Diaboart Brussels, and are readily available. DBPI was incorporated in 1972.

Lepanto owns 60% of FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI), another mining company with resources in Mankayan, Benguet. Incorporated in 1989, FSGRI is not yet in operation.

**Cost and Effects of Compliance with Environmental Laws/Governmental Approvals**

Lepanto complies with governmental regulations, particularly those of the Department of Environment and Natural Resources with respect to mining methods, disposal of waste and

tailings, rehabilitation of environment, etc. Lepanto has Environmental Compliance Certificates from the DENR for the operation of its tailings dam and Victoria project. Lepanto has reserved substantial sums for environmental projects, foremost of which is its Tailings Dam No. 5A. For the year 2009, the amount spent for said dam was P24.77 million. (P30.10 million for 2008)

### **Research and Development Activities**

During the last three years, Lepanto spent a total of P17.018 million for Research and Development, to wit: 2007: P6.10million; 2008: P5.79 million and 2009: P5.12 million.

### **Mining Claims**

The Company's mining properties are summarized as follows:

### **Mineral Production and Sharing Agreements (MPSAs)**

Lepanto has two (2) Mineral Production and Sharing Agreements (MPSAs) docketed as MPSA Nos. 001-90 (948.9696 has.) and 151-2000-CAR (1,829.3565 has.), approved on March 3, 1990 and March 9, 2000, respectively, each having a term of twenty-five (25) years, renewable for another 25 years. Mining claims subject of the said MPSAs are located at Mankayan, Benguet wherein commercial mining operations are presently undertaken. The reportorial requirements, as required under the terms and conditions of the MPSA, are regularly submitted by Lepanto to the Mines and Geosciences Bureau (MGB) of the DENR to preserve the Company's rights and privileges under the agreements.

### **MPSA Applications**

Lepanto has two (2) MPSA Applications docketed as APSA No. 096 comprising of 1,057.1739 has. (in Mankayan, Benguet) and APSA No. 00004-VIII with a total area of 78.5220 has. (in Villaba, Leyte). Said applications are still pending with MGB. Explorations works are ongoing in these areas.

### **Patented Claims**

Lepanto was able to secure forty-six (46) patented mining claims, which was allowed under the Phil. Bill of 1902, with a total area of 335.5179 hectares, all situated in Mankayan, Benguet. Exploration works are ongoing in these areas.

### **Operating Agreements**

- a. **APSA Nos. 063, 064 and 065** – On October 12, 1992, LCMC entered into separate Operating Agreements with Jaime Paul B. Panganiban, June Prill Brett and Heirs of James D. Brett, registered MPSA applicants of APSA Nos. 063, 064, and 065, respectively, all situated in Suyoc, Mankayan. The combined total area of the subject MPSA Applications is 343.86 hectares.
- b. **APSA No. 023** – an Operating Agreement was entered into between Lepanto and Montañosa Mining Exploration Company ("Montañosa"). On October 7, 1991, Lepanto, as mining operator of Montañosa, filed an MPSA Application (APSA No. 023) with the MGB-CAR, which was opposed by a certain party. The matter is pending before the Mines Adjudication Board (MAB) of DENR.

- c. **Exploration Permit No. 2004-000003-VIII** –Lepanto has an Operating Agreement with the Philippine National Oil Company / Energy Development Corporation for the Leyte Geothermal Reservation. The corresponding application for the renewal of the pertinent exploration permit, which expired last March 19, 2006, is still pending approval by the MGB.

### **Employees**

Lepanto has 1,706 mine-based and 59 Makati-based employees. In the Lepanto Mine Division, there are 100 managerial employees; 126 Supervisory, of whom 115 are members of the Supervisors' Union (LLSU); 61 clerical and technical employees, 49 of whom are also LLSU members; 1,413 rank-and-file employees, 1,311 of whom are members of the Lepanto Employees' Union (LEU) and 24 are members of the Lepanto Security Force Union (LSFU). The CBA of LLSU will expire on June 30, 2011 while the CBAs of LEU and LSFU will both expire on November 16, 2010. There are 6 engineering trainees.

Of the 59 employees in Makati, 15 are members of the Lepanto Employees Union-Makati (LEUM) whose CBA was renewed on July 1, 2007 and will expire in July 2010; 38 are managerial/supervisory employees (including officers); and 6 are clerical non-union members.

For the first time in the Company's 67-year history, mine employees (LEU and LLSU) went on strike in February 2003 which ended on March 4, 2003. It involved such non-strikeable issues as promotions of certain personnel, reporting time for underground workers and holiday work. Due to a dispute over daily wage increases, the LEU staged another strike in June 2005 which lasted until September 12, 2005.

Lepanto provides health card benefits to its Makati employees. Mine-based employees get free housing and hospitalization.

Shipside has 51 employees, of whom 12 are administrative, 8 clerical and 31 involved in operations. They are not subject to any CBA. There is no plan to hire additional employees nor to reduce their number in the next twelve months.

DDCP has 54 employees, 47 of whom are in operations, 2 in administration and 1 with clerical position and 4 in the Company's warehouses. The employees are not covered by any CBA.

DBPI has 21 permanent employees, comprising of 3 managerial, 13 in Production, 2 in Sales and 3 in Administration. There is a plan to hire additional sales employees in the next 12 months.

LIDC and FSGRI have no employees.

### **Properties**

#### **Parent Company**

The Company owns about 2,030.2 has. of land in Mankayan, Benguet, where its plants and mining facilities are located. It has two (2) Mineral Production Agreements with the Government, namely: MPSA Nos. 001-90 and 151-2000-CAR, each with a term of 25 years and

extendible by another 25 years, for the periods March 3, 1990 to March 2, 2015 and March 9, 2000 to March 8, 2025, respectively.

It owned 7,835 sq. meters of land in Cebu City, which was useful when it was still exporting copper calcine processed at the Roaster Plant in Leyte. A total of 1,380 sq. m., is being leased out for P21,000 per month. On October 28, 2009 and March 17, 2010, the Company sold 2 parcels of the Cebu property, with a total area of 3,748 sq.m. The Company intends to sell the remaining Cebu properties.

The Roaster Plant, which the Company owns, sits on 5.5 hectares of land, which the Company had been leasing from Mahler Holdings Corporation ("Mahler") and National Development Corporation ("NDC"). The area leased from Mahler, consisting of 3.1 hectares, was purchased by the Company on December 16, 2009. The rental on the NDC property is P99,920 per month.

Lepanto owns two storeys of the Lepanto Building in Paseo de Roxas, Makati City, where its principal offices are located. It also owns a 3,493 sq. meter residential property in Baguio City and 8 has. of commercial land in Poro Point, San Fernando, La Union. Lepanto leases a 3,000 sq. meter property in Parañaque City, used for its warehouse. The lease, at the rate of P30,000 per month, is good until 2012.

Its Machinery and Equipment located in Mankayan, Benguet, consist of the following:

- Tubo Shaft Complex
- Power House
- Machine Shop
- Sandfill Tramline
- Furniture and Fixtures
- Foundry Shop
- Assay Laboratory Equipment
- Mechanical equipment
- Internal Shaft at Nayak

Further, it has various automotive equipment/vehicles in Makati City, Benguet and Leyte.

Lepanto's infrastructures include roads, rails and bridges, twin declines, river diversion and an airport, all located in Mankayan, Benguet. Its plants are located in Mankayan, Benguet (gold and copper mills).

Lepanto's assets directly utilized for the Victoria Project were mortgaged to Rothschild and Dresdner Banks in connection with a Loan and Hedging Facilities Agreement executed in 1998. These include the plants and other facilities used for the Victoria project. The real properties covered by the mortgage constitutes about 1.2% of the Company's landholdings in Mankayan, Benguet. The subject loan has been fully repaid. It is the Company's position that the hedging contracts with the said banks are null and void and therefore the mortgages are likewise not effective. In fact, the contracts with Rothschild are now subject of a case of declaration of nullity pending with the RTC Makati. Also pending with the Supreme Court is a petition filed by Rothschild questioning the RTC's denial of its Motion to Dismiss which denial had been affirmed by the Court of Appeals. Declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay any losses to Rothschild

No acquisition of any real property is intended within the next 12 months.

## **Subsidiaries**

Shipside has substantial properties in La Union. It owns about 13.1 hectares of land in Poro Point, San Fernando, La Union, used for its hauling, warehousing, beach resort and sawmilling businesses. It owns 11 units of dumptrucks and trailers for its trucking/ hauling business.

DDCP leases a 2,620 sq. meter property at P26,201 per month in Parañaque City, adjacent to that leased by Lepanto, for its warehouse. The lease is good until 2011. It also owns about 24 units of drill rigs which are vital to its operations.

LIDC's properties consist of shares of stock in DBPI, Philfire and Manila Mining Corporation.

DBPI leases a 1,180 sq. meter property in Parañaque City where its offices and plant are located. The lease is good until 2011, at the rate of P16,000 per month.

FSGRI's is co-contractor of Lepanto in MPSA no. 001-90 issued by the government on March 3, 1990. It also co-owns with Lepanto, on a 50/50 basis, Tailings Pond. No. 5A located in Mankayan, Benguet.

## **Market for Registrant's Common Equity and Related Matters**

Lepanto's shares of stock are listed in the Philippine Stock Exchange. Following are the quarterly prices of Lepanto securities for 2008-2009:

### **Lepanto "A" (P/share)**

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	3/18/10
Low	0.34	0.24	0.17	0.06	0.06	0.07	0.17	0.22	0.215
High	0.37	0.26	0.18	0.0625	0.0925	0.22	0.32	0.22	0.225

### **Lepanto "B" (P/share)**

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q08	4Q09	3/18/10
Low	0.26	0.30	0.22	0.34	0.0675	0.0725	0.175	0.22	0.225
High	0.42	0.37	0.38	0.61	0.10	0.23	0.33	0.27	0.23

## **Securities, Shareholders and Public Ownership**

As of December 31, 2009, there were a total of 30,022 shareholders; 14,065 shareholders holding Common "A" shares, or 46.85% of total shareholders; and 15,957 shareholders with Common "B" shares, or 53.157% of total. As of the same date, Total Public Ownership constituted 84.35% of the outstanding shares.

### **Top 20 "A" and "B" Stockholders of the Company (as of December 31, 2009)**

<u>Name of Stockholder</u>	<u>Class "A"</u>	<u>%</u>
1 Metropolitan Bank & Trust Co.	2,827,408,995	14.34
2 F. Yap Securities, Inc.	2,705,263,554	13.70



3	First Metro Investment Corp.	2,550,682,926	12.93
4	F. Yap Securities, Inc. CPHC-2	538,239,214	1.84
5	F. Yap Securities, Inc. CPHC-3	448,477,606	1.71
6	F. Yap Securities, Inc. CPHC-1	432,026,678	1.53
7	Coronet Property Holdings Corp	277,556,566	1.41
8	Emma Yap	242,838,706	1.23
9	Bryan Yap	175,915,517	0.89
10	First Metro Investment Corp.	169,762,500	0.86
11	Paulino Yap	155,062,032	0.79
12	Paul Gerard B. del Rosario	119,028,000	0.60
13	Pacita K. Yap	117,176,650	0.59
14	Christine Yap	116,620,522	0.59
15	Felipe U. Yap	86,063,611	0.44
16	David Go Securities Corp.	35,963,976	0.18
17	F. Yap Securities, Inc. A/C No. PKY-89	30,942,477	0.16
18	Fairmount Real Estate, Inc.	25,080,800	0.13
19	Christine Karen Yap	24,386,376	0.12
20	Coronet Management, Inc.	23,936,541	0.12

	<u>Name of Stockholder</u>	<u>Class "B"</u>	<u>%</u>
1	F. Yap Securities, Inc.	1,994,511,297	15.15
2	F. Yap Securities, Inc. A/C 1411	1,129,238,161	8.59
3	F. Yap Securities, Inc. A/C 5217	1,020,000,000	7.76
4	F. Yap Securities, Inc. A/C 521	1,020,000,000	7.76
5	First Metro Investment Corp.	799,642,268	6.08
6	F. Yap Securities, Inc. A/C 5218	669,905,750	5.32
7	F. Yap Securities, Inc.	550,367,790	4.19
8	Coronet Property Holdings Corp	447,665,860	3.40
9	F. Yap Securities, Inc. A/C 521	323,773,000	2.46
10	YHS Holdings Corp.	87,758,339	0.67
11	Felipe U. Yap	54,643,386	0.42
12	David Go Securities Corp.	45,438,131	0.35
13	Paul Gerard B. del Rosario	36,571,000	0.28
14	Luis L., and Teresa M. Oh, Trustees	24,365,714	0.19
15	Emma Yap	24,313,091	0.18
16	F. Yap Securities, Inc. A/C no. 87-EU	23,014,545	0.18
17	Kathy Sue Trout	22,619,631	0.17
18	F. Yap Securities, Inc. A/C PKY-89	20,577,792	0.16
19	F. Yap Securities, Inc. A/C#BSUY	20,302,971	0.15
20	Felcris Realty Investment Corp.	19,769,688	0.15

### **Submission of Matters to a Vote of Security Holders**

No matter was submitted during the fourth quarter of 2009 to a vote of security holders.

### **Recent Sales of Unregistered or Exempt Securities**

A total of 4,112,364,385 shares were sold in the second quarter of 2008 in connection with a 1:7 stock rights offer. The sale was exempt from registration.

The SEC on February 1, 2008 approved the Company's 17<sup>th</sup> Stock Option Award, covering a total of 420 million common shares effective until January 30, 2013.

## **Dividends Policy**

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

## **Independent Public Accountant**

In October 2006, Sycip Gorres Velayo & Co. was designated by the Board as the Company's independent public accountant. There has not been any disagreement between the Company and said accounting firm with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure. For the 2006 financial statements, SGV's certifying partner was Mr. J. Carlitos G. Cruz. Since 2007, the certifying partner has been Mr. Jaime F. del Rosario. Such change of partner is in compliance with SRC Rule 68(30) (b) (iv).

Representatives of SyCip Gorres Velayo & Co. will be present at the Annual Meeting on April 19, 2010 to give statements in response to queries on issues they can shed light on.

## **Audit and Audit Related Fees**

For the audit of the financial statements for the year 2008, SGV & Co. billed the Company the sum of P1,575,000, the same amount agreed for the audit of the 2009 financial statements. No other services, for tax or otherwise, were provided by SGV & Co.

## **Audit Committee's Approval Policies and Procedures**

Prior to commencement of audit services, the external auditors submit their Audit Plan to the Audit Committee, indicating the applicable accounting standards, audit objectives, scope, approvals, methodology, needs and expectations and timetable, among others. A presentation on the same Plan is made by the external auditors before all the members of the Committee. All the items in the Plan are considered by the Committee, along with industry standards, in approving the services and fees of the external auditors. The Audit Committee is composed of: Atty. Ray C. Espinosa, Committee Chairman and an independent director; Mr. Wilfrido C. Tecson, member and an independent director; and Atty. Jose G. Cervantes, member.

## **Directors and Executive Officers of the Company**

<u>Directors (with term of office of one year)</u>	<u>Age</u>	<u>Citizenship</u>	<u>Period Served</u>
FELIPE U. YAP	72	Filipino	Since 1975
BRYAN U. YAP	37	-do-	Since 1997
JOSE G. CERVANTES	75	-do-	Since 2006
SOLOMON S. CUA	54	-do-	Since 2008
ETHELWOLDO E. FERNANDEZ	82	-do-	Since 2007
RAY C. ESPINOSA (Independent)	52	-do-	Since 2005
WILFRIDO C. TECSON (independent)	87	-do-	Since 1988

RICARDO V. PUNO, JR.	63	-do-	Since 2005
CRESENCIO C. YAP	64	-do-	2000-2004; 2006 to present

<u>Executive Officers</u>	<u>Citizenship</u>	<u>Position</u>
FELIPE U. YAP	Filipino	Chairman of the Board and Chief Executive Officer since 1988
BRYAN U. YAP	-do-	President/Chief Operating Officer since March 2003
RAMON T. DIOKNO	-do-	Chief Finance Officer since April 2008
AUGUSTO C. VILLALUNA	-do-	Sr. Vice President since 2003
MA. LOURDES B. TUASON	-do-	Vice President/Treasurer since 1995
RENE F. CHANYUNGCO	-do-	Vice President since 1997
ABIGAIL K. YAP	-do-	Vice President-Tech. & Planning since 1999
ODETTE A. JAVIER	-do-	Vice President since Feb. 20, 2006/ Asst. Corp. Secretary since 1993
PABLO T. AYSON, JR.	-do-	Vice President-Mining Claims since Dec.18, 2006
MAGELLAN G. BAGAYAO	-do-	Vice President/Res. Manager since Nov. 19, 2007
CHERRY H. TAN	-do-	Asst. Vice President-Purchasing since July 1, 2004
RUBEN D. QUIWA	-do-	Asst. Vice President-Metallurgy since Nov. 19, 2007
ETHELWOLDO E. FERNANDEZ	-do-	Corporate Secretary

#### **Business Experience in the Last Five (5) Years**

Mr. Felipe U. Yap became the Chairman of the Company in 1988. He was the Chairman of the Board of Governors of the Philippine Stock Exchange from March 2000 to March 2002. He is likewise the Chairman and Chief Executive Officer of Manila Mining Corporation and Far Southeast Gold Resources, Inc. He is the Chairman of the Board of Prime Orion Philippines, Inc. and Zeus Holdings, Inc. and a Director of, among others, Manila Peninsula Hotel, Inc., Cyber Bay Corporation and Philippine Associated Smelting and Refining Corp. (PASAR).

Mr. Bryan U. Yap is also a Director and Vice President of Manila Mining Corporation, a position which he has been holding since 1994. He took over the Presidency of Lepanto effective March 1, 2003. He has been the President of Lepanto Investment and Development Corporation and Shipside, Inc. since 1997. He assumed the presidency of Diamant Boart Philippines, Inc. in 2002.

Atty. Jose G. Cervantes was the Senior Vice President of the Philippine Stock Exchange from March 2000 to November 30, 2005. He has been a director of Manila Mining Corporation since 2006 and of Zeus Holdings, Inc. since 2008.

Mr. Solomon S. Cua has been the Vice Chairman of First Metro Investment Corporation since 2005. He is also the President and Chief Executive Officer of Philippine Racing Club, Inc. and a Director of Omico Corporation. He served as Undersecretary of the Department of Finance from 1998 to 2000.

Atty. Ray C. Espinosa has been in the Board of Directors of Philippine Long Distance Telephone Company since November 1998. He is the President and Chief Executive Officer of ePLDT, Inc. He is a director of the Manila Electric Company, Metro Pacific Investments Corporation; Vice Chairman of Philweb Corporation; and Director and Corporate Secretary of Cyber Bay Corp.

Atty. Ethelwoldo E. Fernandez rejoined the Company as Corporate Secretary in 2001, the same year he was reappointed Corporate Secretary and elected director of Manila Mining Corporation. He was, from 1993 to 2003, Of Counsel to the law firm Sycip Salazar Hernandez & Gatmaitan, which is the principal retained counsel of the Company. Atty. Fernandez is the Senior Vice President- Legal and Corporate Secretary of Oriental Petroleum & Mineral Resources Corporation.

Atty. Ricardo V. Puno, Jr. is a Senior Partner of Puno & Puno Law Offices. He is currently a member of the Advisory Board of Metropolitan Bank and Trust Company. He was the Press Secretary and Presidential Spokesman from April 15, 2000 to January 20, 2001.

Mr. Wilfrido C. Tecson is also a member of the Boards of J. G. Summit, Inc., Robinsons Land, Inc. and International Exchange Bank, positions he has been holding for over five years already. He serves as a Trustee of the Asian Institute of Management and the Far Eastern University. He is Chairman Emeritus of Far Eastern University-IABF and Chairman of Far Eastern University Alumni Foundation. He was for two terms President of the Bankers' Association of the Philippines.

Mr. Cresencio C. Yap is the Chairman of the Rural Bank of Tagum (Davao del Norte) and General Manager of the Felcris Supermarket and Central Warehouse Club in Davao City, positions he has been holding for over five years already.

Mr. Ramon T. Diokno rejoined the Company as CFO effective April 1, 2008. He held that same position from 1985 to 1996. Mr. Diokno is a member of the Board of Directors of Alcantara Consolidated Resources, Inc.

Engr. Augusto C. Villaluna, a mining engineer, served the Company as Resident Manager of the Lepanto Mine Division from 1994 to 2000. He rejoined the Company in May 2003. He has been a director of Manila Mining Corporation since 2004 and of Zeus Holdings, Inc. since 2008.

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

Mr. Rene F. Chanyungco is also the Senior Vice President-Treasurer of Manila Mining Corporation and Vice President of Lepanto Investment and Development Corporation.

Ms. Abigail K. Yap, Vice President for Technology and Planning, is also the Chief Executive Officer of Yapster e-Conglomerate, Inc.

Atty. Odette A. Javier has been the Company's Assistant Corporate Secretary since 1993. She was promoted to Vice President-Assistant Corporate Secretary on February 20, 2006. She is also the Assistant Corporate Secretary of Manila Mining Corporation and is a Director of Lepanto Investment and Development Corporation.

Atty. Pablo T. Ayson, Jr. was, until his promotion in December 2006, Manager of the Mining Claims Department of Lepanto. He is also a Vice President of Manila Mining Corporation.

Engr. Magellan G. Bagayao had a long stint with Benguet Corporation where his last position was Mine Manager. He has extensive experience in cut-and-fill operations. He joined Lepanto in 1998 as Mine Manager and left a few years ago to work for a mining company in Papua, New Guinea and subsequently for TVI in Zamboanga. He rejoined Lepanto as a Vice President in November 2007.

Ms. Cherry H. Tan joined the Company as Purchasing Manager in 1998. She was promoted to Assistant Vice President in 2004.

Engr. Ruben D. Quiwa worked with Philex for over 20 years before joining Lepanto as Mill Manager-LMD in 1993. He was promoted to Asst. Resident Manager in 2000 but left in 2002 to join a mining company based in Vietnam. He returned to Lepanto as Assistant Vice President-Metallurgy in November 2007.

There is no director who has resigned or declined to stand for re-election since the last annual meeting because of a disagreement with the Company.

#### **Significant Employees**

There are no significant employees expected to contribute significantly to the business other than the executive officers.

#### **Family Relationships**

Mr. Bryan U. Yap, Director and President, is the son of the Chairman and Chief Executive Officer, Mr. Felipe U. Yap. Miss Abigail K. Yap is the niece of the Chairman. The Chairman and Director Cresencio Yap are brothers.

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

None of the directors and officers were involved during the past five (5) years in any bankruptcy proceeding. Neither has any director or officer been convicted by final judgment in any criminal proceeding, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative bodies to have violated a securities or commodities law.

There is a pending material legal proceeding involving the Company, to wit:

Lepanto vs. NM Rothschild & Sons (Australia) Ltd. (Civil Case No. 05-782)

The Company initiated a case for the declaration of nullity of certain hedging contracts with Rothschild on the ground that they are considered as wagering transactions under Philippine law. The case is now pending with the Regional Trial Court ("RTC") of Makati City. Also pending with the Supreme Court is a petition filed by Rothschild (G.R. No. 175799) questioning the RTC's denial of its Motion to Dismiss which denial had been affirmed by the Court of Appeals.

### Certain Relationships and Related Transactions

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 the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

- a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties.

The corresponding receivables and payables arising from the said transactions, including operational support, as at December 31, 2009 and 2008 are as follows:

	2009	2008
Due from MMC	<b>₱129,828</b>	₱139,311
Advances from Stockholders	<b>₱281,111</b>	₱139,503

Due from MMC and advances from stockholders are presented in the consolidated statement of financial position under the "Investments in and advances to associates" and "Trade and other payables" captions, respectively. No interest is charged on the amounts due from MMC as these advances are considered and will be treated as part of the parent company's investment in MMC.

- b. On April 17, 2000, the parent company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the parent company's retirement fund.

On March 31, 2003, the parent company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the LCMC Employee Pension Plans (the Plans) and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The parent company has decided to terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

- c. Compensations of the Group's key management personnel for the years ended December 31 follow:

	2009	2008	2007
Salaries and other short-term employee benefits	<b>₱30,800</b>	₱30,800	₱29,701
Retirement benefits	—	—	—
	<b>₱30,800</b>	₱30,800	₱29,701

## **Executive Compensation.**

### **Summary Compensation Table**

	2008 Total (All Cash)	Basic Salary	Bonus (13 <sup>th</sup> month in the case of executive officers)	Others
Felipe U. Yap, Chairman ) Bryan U. Yap, President ) Rene F. Chanyungco, CFO ) Augusto C. Villaluna, SVP ) Ma. Lourdes B. Tuason, Vice ) Pres./Treasurer )	P23.4 million	P21.3 million	P2.1 million	-0-
All officers and directors	P30.8 million	P27.2 million	P3.6 million	-0-
	<b>2009 (Total)</b>			
Felipe U. Yap, Chairman ) Bryan U. Yap, President ) Ramon T. Diokno, CFO ) Augusto C. Villaluna, SVP ) Ma. Lourdes B. Tuason, Vice ) Pres./Treasurer )	P23.4 million	P21.3 million	P2.1 million	-0-
All officers and directors	P30.8 million	P27.2 million	P3.6 million	-0-
	<b>2010 (Estimate)</b>			
Executive officers listed above	P23.4 million	P21.3 million	P2.1 million	-0-
All officers and directors	P30.8 million	P27.2 million	P2.1 million	-0-

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

### **Compensation of Directors/Committee Members**

Directors are paid a per diem of P1,000.00 each for attendance of every regular or special meeting in accordance with the Corporation's By-Laws. For Committee meetings attended, non-executive member-directors are paid a per diem of P5,000.00 to P10,000.00 each.

### **Voting Trusts and Change in Control**

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

### **Pension Plan**

The Parent Company and DBPI have funded, noncontributory, defined benefit retirement plans covering substantially all regular employees while DDCP and Shipside, Inc. have unfunded benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2008, 2007 and 2006.

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

The Board of Directors approved the grant of the 17<sup>th</sup> Stock Option Award, covering 420 million shares, to officers, employees and directors of the parent company and subsidiaries at the price of P0.32 per share. The Award was approved by the SEC on February 1, 2008 and by the PSE on February 29, 2008, and will be effective until January 30, 2013. In connection with the 1:7 Stock Rights Offering in 2008, an additional 60 million shares had been reserved for the stock options, resulting in the slight reduction of the option price to P0.3112 per share.

### \*Security Ownership

#### Security Ownership of Certain Record and Beneficial Owners

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

Title of Class	*Name/Address of Record Owner	Name of Beneficial Owner	Citizenship	A / B Shareholdings	%	Total Shareholdings	%
A & B	*F. Yap Securities, Inc. U-2301 & 2302, 23/F, PSE Centre, Exchange Rd., Ortigas Center, Pasig City	same	Filipino	2,705,263,554 1,994,511,297	13.72 15.17	5,640,520,415	14.30
A	** Metropolitan Bank & Trust Co. Gil Puyat Ave., Makati City	same	Filipino	2,827,408,995	14.34	2,827,408,995	8.60
A	** First Metro Investment Corp. Makati City	same	Filipino	2,550,682,926	12.93	2,550,682,926	7.76

#### Security Ownership of Management (December 31, 2009)

Title of Class	Beneficial Owner (Directly Owned)	Position	Amount and Nature of Beneficial Ownership (A / B)	Citizenship	Percent of Classes (A / B)
A & B	Felipe U. Yap	Chairman of the Board	124,406,370 / 63,777,869	Filipino	0.631 / 0.485
A & B	Bryan U. Yap	Director / President	204,178,185 / 10,810,134	-do-	1.035 / 0.082
A	Solomon S. Cua	Director	10,000	-do-	Nil
A	Jose G. Cervantes	Director	150,000	-do-	Nil
B	***Ray C. Espinosa	Director	1,000,000 / 500,000	-do-	nil
A & B	Ethelwoldo E. Fernandez	Director/Corp. Sec.	5,000 / 2,750	-do-	Nil
A	Ricardo V. Puno, Jr.	Director	1,382,678 / 914,286	-do-	0.007 / 0.007
A & B	***Wilfrido C. Tecson	Director	6,773,747 / 15,108,311	-do-	0.034 / 0.115
B	Cresencio C. Yap	Director	7,554,883	-do-	0.058
A	Ramon T. Diokno	Chief Finance Officer	200,584	-do-	nil
A & B	Ma. Lourdes B. Tuason	Vice Pres./Treasurer	5,211,393 / 1,755,974	-do-	0.026 / 0.013
	Aggregate as a group		343,317,957/100,424,207		

- \* - Power to dispose of shares is vested in: F. Yap Securities - Pacita K. Yap; Voting rights/proxies for F. Yap Securities have been granted to Mr. Felipe U. Yap.
- \*\* - Power to dispose of shares is vested in their respective Board of Directors; Voting rights/proxies have been granted to: Ricardo V. Puno, Jr. and Solomon S. Cua
- \*\*\* - Independent Directors



## Plan of Operation for 2010

Gold operations will continue at the 700 and upper levels of the Victoria. Underground development will be stepped up to attain the targeted average mine delivery of 1,400 tonnes per day and total production of 42,000 ounces gold and 65,100 ounces silver. These production levels should be sufficient to meet the company's operating requirements. Furthermore, the Company intends to sell other idle properties located in Cebu.

Exploration work will continue to replace the ores that will be extracted this year, prolong minelife and justify a higher mine delivery target for 2011.

The feasibility of resuming copper operations will be studied.

## Management's Discussion and Analysis of Financial Condition and Results of Operations for 2009, 2008 & 2007

### 2009

Consolidated revenues for 2009 amounted to P1.46 billion, compared with P1.84 billion in 2008. Net Loss amounted to P371.86 million compared with 763.3 million the previous year.

### MINING OPERATIONS

Revenues from sale of metals totaled P1.42 billion, compared with the previous year's P1.72 billion. The drop in revenue was due to lower gold copper concentrate sales, as copper operations were suspended in the last quarter of 2008. Loss from operations amounted to P218 million compared with last year's loss of P400 million despite the stringent cost-cutting measures employed by the Company. The company's average gold selling price was US\$963.62/oz compared with US\$866.98/oz last year. Silver price averaged US\$14.47/oz vs. US\$15.15/oz in 2008.

Total tonnes milled reached 357,680 as against last year's 751,930 tonnes, which included copper ores. Average gold grade was 2.81g/t versus 1.79g g/t in 2008. Average silver grade was 12.24g/t in 2009 vs. 11.75g/t in 2008. Gold produced in 2009 totaled 29,303 oz compared with 37,716 oz. in 2008. Silver production amounted to 45,518 oz compared with 178,379 oz the previous year.

Following is a summary of the financial results of mining operations:

	2009 Jan-Dec (Pesos M)	2008 Jan-Dec (Pesos M)	Difference %
Sale of Metals and Other Income	1418.9	1719.5	-17
Cost and Expenses	-1576.2	-2197.7	28
Increase (Decrease) in Inventory	-60.9	78.3	-178
Income (Loss) from Operations	-218.2	-399.9	45
Finance Costs (net)	-136.5	-314.5	57
Gain on sale of Land	16.1	-	100
Income (Loss) Before Income Tax	-338.6	-714.4	53
Benefit From Income Tax	-23.8	-22.6	-5
Net Income (Loss)	-362.4	-737.0	51

As a result of the Cost Reduction Program, Mining cost went down by P96 million as follows: labor P24 million; power P7 million; maintenance P22 million; and material usage P43 million. Milling cost decreased by P129 million as Labor cost dropped by P8 million; power P50 million; materials consumption P48 million; and maintenance P23 million. Smelting, refining and other charges were reduced by P152 million due primarily to the stoppage of copper concentrate production. Production tax went down by P7 million on account of lower revenue. Depreciation cost rose by P20 million due to the acquisition of new equipment; depletion however dropped by P180 million due to lower tonnage. Overhead cost was cut down to P68 million on account of lower labor, power and materials consumption. Administration costs were reduced by P5 million due to lower bank charges while impairment showed a reduction of P4 million.

The company sold the bulk of its copper concentrate inventory resulting in the booking of an additional cost of P61 million.

Interest cost was higher at P173 million versus P140 million in 2008 on account of the availment of export advances and suppliers' credits. The appreciation of the Peso against the US\$ from P47.52/US\$ at the start of the year to P46.20/US\$ at year-end resulted in a reversal of a foreign exchange loss in 2008 of P175 million to a foreign exchange gain of P37 million as US\$-denominated loans were revalued. A gain of P16.1 million was recorded from the sale of real properties in Cebu. Taking all these into account and the share in the net losses of the subsidiaries and associates of P9.5 million, net loss for the year totaled to P371.86 million.

Following are comparative production statistics for 2009 and 2008:

	2009 Jan-Dec	2008 Jan-Dec	Difference %
Tonnes Milled	357,680	751,930	-52
Milled Head, g/t Au	2.81	1.79	57
Milled Head, g/t Ag	12.24	11.75	4
Milled Head, (%) Cu	-	0.27	-100
Recovery, % Au	90.37	87.43	3
Recovery, % Ag	32.37	59.46	-46
Recovery, % Cu	-	71.45	-100
Production, oz Au	29,303	37,716	-22
Production, oz Ag	45,518	178,379	-74
Production, lbs Cu	-	3,544,175	-100

## BALANCE SHEET MOVEMENTS

Cash and cash equivalents increased from P8.7 million at year-end to P16.0 million due to the remainder of the proceeds from the sale of properties. Receivables went up from P145.1 million to P152.8 million composed mainly of higher trade receivables. Inventories decreased from P581.8 million to P490.0 million on account of the sale of a portion of the Copper Concentrate (from P78.3 million to P17.4 million) and the consumption of parts and supplies worth P35.1 million. Other Current Assets also decreased due largely to the reduction in Advances to suppliers and others.

Available-for-Sale Financial Assets went up by P45.2 million due mainly to the increase in the market value of shares of stock held by the Company. Deferred Income Tax Assets went

down to P89.9 million from P102.8 million on account of movements in Pension costs and Unrealized foreign exchange gains and losses. Other Non-current assets decreased by P9.9 million due to deferred charges.

Due to the Company's losses, Trade Payables and Accrued Expenses rose to P2,354.9 million from P2,135.7 million as Amounts Due to Related Parties, Trust Receipts and Employee-related payables increased. Current portion of long-term borrowings went down by P9.8 million due to repayments.

Long-term borrowings were reduced from P623.7 million to P578.9 million principally because of the net effect of repayments of P54.6 million and the restructuring of interest into a liability of P9.3 million. Retirement benefit obligation went up by P47.0 million due to additional provisions for the year.

Revaluation increment in land went down by P52.5 million due to sale of land. Cumulative changes in fair values of AFS investment improved by P47.8 million due to market rise of quoted shares. The company registered a Deficit of P225.7 million compared to the Retained earnings of P126.5 million as of end of 2008.

## **CAPITAL EXPENDITURES**

Total capital expenditures for the year reached P492.7 million as follows: mine development and special projects, P336.5 million; exploration cost, P25.6 million; Tailing Dam maintenance, P24.8 million; Mine machinery and equipment, P105.8 million.

## **SUBSIDIARIES**

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P794.7 thousand compared with last year's loss of P466.2 thousand. Shippside Incorporated recorded a net loss of P6.6 million against last year's income of P1.7 million. Likewise, Diamond Drilling Corporation of the Philippines (DDCP) reported a loss of P12.1 million versus last year's net income of P2.4 million.

\* - KEY PERFORMANCE INDICATORS-LCMC (applicable also to 2007-2008)

*Tonnes Milled which indicate the amount of ore taken for processing, Milled Head is the amount of gold per ton milled and Gold production which is the final product of the operations. Metal sales, Cost and Expenses and Net Income round up the review process on how the company is performing vis-à-vis the performance of the same period last year. Average Gold price for the period adds another parameter that needs watching notwithstanding that the company has no direct influence on its movement.*

## **2008**

Consolidated revenues for 2008 amounted to P1.84 billion, compared with P1.78 billion in 2007. Net Loss amounted to P763.3 million with the mining operations accounting for P400 million. The result of mining operations is explained below.

## MINING OPERATIONS

Revenues from sale of metals totaled P1.72 billion, compared with the previous year's P1.71 billion. Mining operations showed a loss of P400 million compared with last year's loss of P283 million. The loss was largely due to the lower gold production and the sharp and sudden decline in the copper price. Copper prices peaked at US\$3.98/lb in June 2008, only to fall to US\$1.32/lb in December which resulted in the negative adjustments on the copper concentrate sales amounting to P108 million as of year-end. Silver price peaked at US\$20.92/oz in March but was down to US\$8.88/oz by October. The price of gold improved though, averaging US\$871.96/oz in 2008 vs the 2007 average of US\$697.71/ oz.

Total tonnes milled reached 751,930 as against last year's 552,090 tonnes. Average gold grade was 1.79g/t versus 3.01g /t in 2007 while average copper grade was 0.27% in 2008. Gold produced in 2008 totaled 37,716 oz compared with 48,918 oz. in 2007. Copper production amounted to 3,544,175 lbs compared with 246,386 lbs the previous year. A total of 9,963 tons of copper concentrates was produced during the year.

Following is a summary of the financial results of mining operations:

	2008 Jan-Dec (Pesos M)	2007 Jan-Dec (Pesos M)	Difference %
Sale of Metals and Other Income	1719.5	1714.9	1
Cost and Expenses	-2197.7	-1917.1	-15
Increase (Decrease) in Inventory	78.3	-80.7	197
Income (Loss) from Operations	-399.9	-282.9	-141
Finance Costs (net)	-314.5	58.0	-642
Income (Loss) Before Income Tax	-714.4	-224.9	-218
Benefit From Income Tax	-22.6	-41.2	55
Net Income (Loss)	-737.0	-266.1	-277

Major cost accounts increased due to the increase in tonnage. Milling cost rose by P42 million due to price increases of imported materials and the resumption of the copper flotation operations. Smelting, refining and other charges related to copper processing went up by P129 million because copper production in 2007 was minimal compared with 2008. Depletion cost rose by P79 million due to the higher mining tonnage while depreciation went up by P15 million as a result of additional mining equipment purchased during the year. Mining cost decreased by P6 million due to reduction in power consumption and contractual services despite increments in labor cost and major consumables.

The company recorded a copper concentrate inventory of P78.3 million vs. none the previous year.

Interest Cost was lower at P140 million versus P167 million in 2007 on account of the lower loan balance. However due to the weakening of the Peso against the US\$ from P41.28/US\$ at the start of the year to P47.52/US\$ at year-end, the company had to revalue its dollar-denominated loans. This resulted in a reversal from a foreign exchange gain in 2007 of P224 million to a foreign exchange loss of P175 million. Taking all these into account and the share in the net losses (gains) of the subsidiaries and associates of P26.1 million, net loss for the year amounted to P763.3 million.

Following are comparative production statistics for 2008 and 2007:

	2008 Jan-Dec	2007 Jan-Dec	Difference %
Tonnes Milled	751,930	552,090	36
Milled Head, g/t Au	1.79	3.01	-41
Milled Head, (%) Cu	0.27	N/A	100
Recovery, % Au	87.43	91.50	-4
Recovery, % Cu	71.45	54.26	32
Production, oz Au	37,716	48,918	-23
Production, lbs Cu	3,544,175	246,386	1338

## BALANCE SHEET MOVEMENTS

Cash and cash equivalents decreased from P10.5 million at year-end to P8.7 million due to settlement of accounts. Receivables went up from P81.7 million to P145.2 million on account of the higher trade receivables. Inventories likewise increased from P445.7 million to P581.8 million on account of the Copper Concentrate inventory of P78.3 million and increments in parts and supplies of P57.7 million. The increase in Other Current Assets was due to the increases in i) Pre-paid expenses on account of the purchase of supplies used for drilling/exploration; ii) Creditable input Vat; and iii) Advances to suppliers and others.

Available-for-Sale Financial Assets went down by P65.2 million due mainly to the decrease in fair value of shares of stock held by the Company. Investments and Advances in Associates decreased by P67.7 million due to payments made by associates. Other Non-current assets increased by P3.7 million due to deferred charges.

On the Liabilities side, Trade Payables and Accrued Expenses rose due to increases in Trust Receipts of P384.0 million and Trade Payables to suppliers of P120.4 million. Loans Payable went down by P20 million due to repayments made. Current portion of long-term borrowings went up by P21.6 million.

Long-term borrowings were reduced from P939.9 million to P623.7 million principally because of loan repayments of P363.7 million out of the stock rights offering proceeds in the second quarter.

The increases in the capital stock and additional paid-in capital were on account of the 1:7 stock rights offering in the second quarter, which raised over P1.02 billion.

Retained earnings dropped to P0.1 billion, from P0.9 billion as of end of 2007.

## CAPITAL EXPENDITURES

Total capital expenditures for the year reached P668 million, P440 million of which went to mine development and special projects, exploration cost was P65.0 million while P33.7 million was incurred for the Tailing Dam maintenance. Mine machinery and equipment purchased for the period amounted to P129.2 million.

## SUBSIDIARIES

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P467,000 compared with last year's loss of P64,400. Shipside Incorporated's net income decreased from P2.7million to P1.7 million. Net income of Diamond Drilling Corporation of the Philippines (DDCP) rose to P2.4 million from last year's P2.1 million.

### 2007

Consolidated earnings for 2007 amounted to P1.78 billion, compared with P1.84 billion in 2006. Net Loss amounted to P206 million, as explained below.

## MINING OPERATIONS

Revenues from sale of metals totaled P1.7 billion, compared with the previous year's P1.8 billion. Mining operations showed a loss of P266.1 million compared with last year's loss of P18.2 million. The loss was mainly due to lower gold production brought about by the lower tonnage of 552,090 compared with 583,665 tonnes milled last year and lower grades. The appreciation of the Peso vis-à-vis the US\$, from an average of P51.192/US\$ in 2006 to P46.19/US\$ in 2007, also adversely affected the revenues; the impact was however cushioned by the increase in the average gold price to \$697.74/oz from last year's average of P606.24/oz.

Gold produced in 2007 totaled 48,871 oz compared with 55,054 oz. in 2006, which included the gold contents of the copper concentrate amounting to 3,839 oz. and 11,194 oz., respectively. Total tonnes processed reached 552,090 as against the previous year's 583,665 tonnes. Overall grade for the whole year was 3.01g/t versus 3.16g/t last year.

Following is a summary of the financial results of mining operations:

	2007 Jan-Dec (Pesos M)	2006 Jan-Dec (Pesos M)	Difference %
Sale of Metals	1714.9	1807.1	-5
Cost and Expenses	-1917.1	-1892.2	-1
Increase (Decrease) in Inventory	-80.7	80.7	-200
Income (Loss) from Operations	-282.9	-4.4	-6313
Finance Costs (net)	58.0	-59.8	197
Income (Loss) Before Income Tax	-224.9	-64.2	-250
Benefit From Income Tax	-41.2	46.0	-190
Net Income (Loss)	-266.1	-18.2	-1362

Cost and expenses posted increases in major cost accounts. Mining cost increased by P54 million due to increments in: labor cost of P13 million arising principally from the CBA provisions; power cost by P7 million due to rate increase; and major consumables such as explosives, drill steels, tires, tubes, lubricants and LHD parts for underground equipment amounting to P34 million. Milling cost rose by P9 million due to price increases of imported materials. Smelting, refining and other charges related to Copper processing went down by P47

million as a result of the temporary suspension of the copper flotation. Depletion cost rose by P8 million due to the higher mining tonnage. There was no copper inventory in 2007.

Finance cost ended positive due to the 16% appreciation of the Peso vis-à-vis the US\$, P49.03/US\$ as of end-2006 compared with P41.28/ US\$ as of end- 2007, resulting in an incremental forex gain of P82.2 million. The loan balance had been reduced following repayments made to some creditor banks, thus the lower interest cost, P202.2 million in 2006 vs. P166.6 million in 2007.

Observance of the cut-off grades resulted in a 5% drop in milling tonnage. Milled head of gold was 5% lower than last year's. Following are comparative production statistics for 2006 and 2007:

	2007 Jan-Dec	2006 Jan-Dec	Difference %
Tonnes Milled	552,090	583,665	-5
Milled Head, g/t Au	3.01	3.16	-5
Recovery, %	91.67	92.83	-1
Production, oz Au	48,871	55,054	-11

#### **BALANCE SHEET MOVEMENTS**

Cash and cash equivalents decreased from P13.7 million at year-end to P10.5 million due to settlement of accounts and lower revenues for the year. Receivables went down by 56% to P81.7 million on account of the lower trade receivable. Prepayments and other current assets increased by P60.4 million due to the P49.6 million increment in Prepaid expenses, P31.9 million of which were for the purchase of tubings used in the drilling and exploration activities. Advances to suppliers and Creditable input Vat accounted for the remaining P10.7 million increase.

Property, plant and equipment went up by P267.6 million due mainly to mine development cost capitalized during the year. Available-for-sale financial assets rose by P50.0 million due mainly to the increase in fair value of Prime Orion Philippines. Investments and Advances in Associates decreased by P92.8 million, the net effect of a decrease due to repayments made by an associate and the recordal of the Company's share in the net income of the same associate. Deferred income tax assets went down by 28% due to the impact of unrealized forex gains.

On the Liabilities side, Trade Payables and Accrued Expenses rose by 60% due to increases in Advances from Stockholders and related parties of P355.7 million, Trust receipts of P131.3 million, Trade payables to suppliers of P81.0 million and other payables to other creditors of P46.2 million. Loans Payable went up by P50 million due to fresh loan availments. Current portion of long- term borrowings went down by 67% due to i) settlements made during the year of P133.4 million and ii) a restatement of loans to reflect the peso appreciation against the US dollar from P49. 03 to P41.28 per US\$ amounting to P7.6 million. Income tax payable decreased to nil from P3.9 million due to usage of MCIT of the prior years, sufficiency of creditable withholding taxes to cover obligations and zero tax obligation for the parent due to losses.

Long-term borrowings were reduced from P1,241.0 million to P939.8 million brought about by loan repayments (P122.3 million) and the loan restatement discussed above, amounting to P178.9 million.

Retained earnings amounted to P0.9 billion, from P1.01 billion as of end of 2007.

## **CAPITAL EXPENDITURES**

Total capital expenditures for the year reached P668.0 million, P440.1 million of which went to mine development and special projects. Exploration added P65.0 million into the costs while another P33.7 million was incurred for the Tailing Dam maintenance. Mine machinery and equipment purchased for the period amounted to P129.2 million.

## **SUBSIDIARIES**

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P64.4 thousand compared with last year's loss of P197 thousand. Shipline Incorporated's net income increased 3x from P0.9million to P2.7 million. Net income of Diamond Drilling Corporation of the Philippines (DDCP) fell to P2.1 million from last year's P5.1 million as some rigs became unavailable pending rehabilitation. DDCP is currently drilling for Manila Mining Corporation in Surigao del Norte and for the parent company's project in Benguet.

## **Compliance with Leading Practices on Corporate Governance**

Lepanto adopted a Manual on Corporate Governance to institutionalize the principles of good governance in the entire organization. Pursuant to the said Manual, the Company's Board of Directors have constituted the following committees: Audit Committee; Compensation and Remuneration Committee; and Nomination Committee. No deviation from the Manual on Corporate Governance has been noted by the Company. Through regular board and committees meetings, compliance with the principles of good governance are tracked.

## **Financial Statements**

Attached as Exhibit "A" hereof, are the Company's Audited Financial Statements for 2009 covered by the Statement of Management's Responsibility and the Auditor's Report signed by Mr. Jaime F. Del Rosario, with the following exhibits:

- Exhibits "B" - Schedule C - Long-Term Investment in Stocks and Available-For-Sale Investment
- "C" - Schedule E - Mine Exploration Costs & Other Noncurrent Assets
- "D" - Schedule F - Borrowings
- "E" - Schedule I - Capital Stock

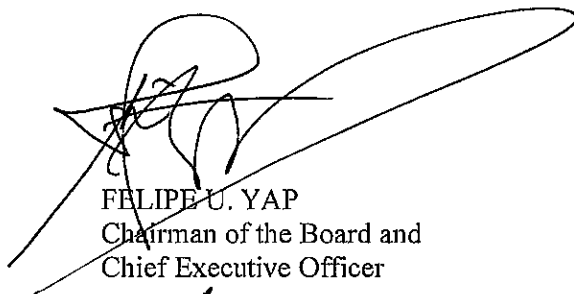


## Reports on Form 17-C

<u>Date of Report</u>	<u>Subject</u>
February 16, 2009	Setting of Annual Stockholders' Meeting and Deadline for submission of nominations of independent directors
February 17, 2009	Reply to News Article
March 11, 2009	List of stockholders as of record date
March 25, 2009	Reply to News Article
April 20, 2009	Election of Directors, Approval of Amd. Articles of Inc., etc.
May 18, 2009	(Re-) Appointment of Officers/Committee Members
July 20, 2009	Reply to News Article
July 21, 2009	Confirmation of due diligence being conducted
August 3, 2009	Update on due diligence
October 14, 2009	Effect of typhoon Pepeng
October 16, 2009	Restoration of power supply at the minesite
November 18, 2009	Reply to News Article

### SIGNATURES

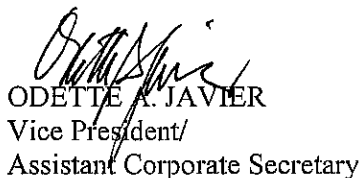
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Makati City on April 12, 2010.



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

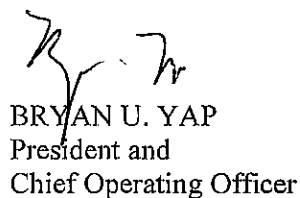


RAMON T. DIOKNO  
Chief Finance Officer

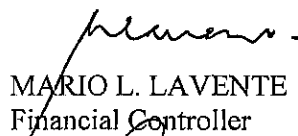


ODETTE A. JAVIER  
Vice President/  
Assistant Corporate Secretary

Lepanto Consolidated Mining Company  
Issuer



BRYAN U. YAP  
President and  
Chief Operating Officer



MARIO L. LAVENTE  
Financial Controller



TEOFILO C. SACPA  
Chief Accountant

SUBSCRIBED AND SWORN TO before me this \_\_\_\_ day of April 2009 at Makati City, affiants exhibiting their respective Community Tax Certificates:

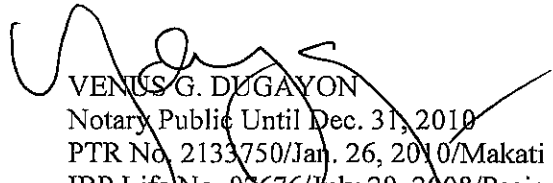
	Com. Tax Cert. No./ID	Place/Date Issued
Felipe U. Yap	17800234	Davao City/1-6-09

Bryan U. Yap  
Ramon T. Diokno  
Mario L. Lavente  
Odette A. Javier  
Teofilo C. Sacpa

18454066  
PP#XX4434-20  
LTO N04-88-072822  
19211725  
21324310

Manila - 1/28/10  
Manila - 8/24/09  
2/21/08  
Manila - 3-18-09  
La Trinidad - 1-7-10

Doc. No. 72 :  
Page No. 45 :  
Book No. 3 :  
Series of 2010.



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

**LEPANTO CONSOLIDATED MINING CO.**  
BA-Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

**EXHIBIT "A"**

15 March 2010

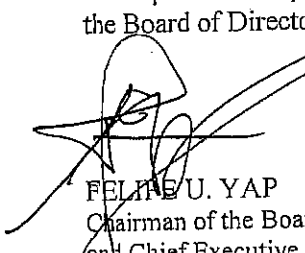
To the Securities and Exchange Commission  
Securities and Exchange Commission Building  
EDSA, Mandaluyong City


The management of **Lepanto Consolidated Mining Company** is responsible for all information and representations contained in the consolidated 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.

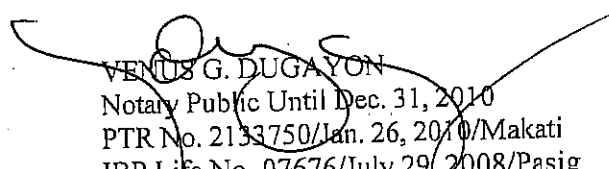
  
**FELINA U. YAP**  
Chairman of the Board  
and Chief Executive Officer  
CTC No. 14099509-1/05/10-Davao City

  
**BRYAN U. YAP**  
President  
CTC No. 18454066-1/28/10  
Manila

  
**RAMON T. DIOKNO**  
Chief Finance Officer  
Passport No. XX4424020  
Manila-8/24/09

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of March 2010 at Makati City.

Doc. No. 45 :  
Page No. 04 :  
Book No. II :  
Series of 2010.

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

## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
Lepanto Consolidated Mining Company and Subsidiaries  
21st Floor, Lepanto Buiding  
8747 Paseo de Roxas, Makati City

We have audited the accompanying financial statements of Lepanto Consolidated Mining Company (parent company) and Subsidiaries (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 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 accounting principles generally accepted in the Philippines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

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

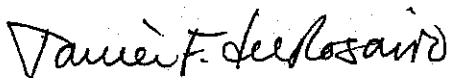
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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 Lepanto Consolidated Mining Company and Subsidiaries 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 accounting principles generally accepted in the Philippines.

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

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands)

	December 31	
	2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>	<b>₱15,946</b>	<b>₱8,712</b>
Cash (Note 4)	152,755	145,157
Receivables - net (Note 5)	489,998	581,762
Inventories - net (Note 6)	309,671	421,098
Other current assets (Note 7)	968,370	1,156,729
<b>Total Current Assets</b>		
<b>Noncurrent Assets</b>	<b>6,441,333</b>	<b>6,408,409</b>
Property, plant and equipment - net (Note 8)	130,396	85,202
Available-for-sale (AFS) investments (Note 9)	363,411	378,322
Investments in and advances to associates (Note 10)	740,208	760,275
Mine exploration costs - net (Notes 1 and 11)	89,912	102,838
Deferred income tax assets - net (Note 18)	7,010	16,940
Other noncurrent assets (Note 26)	7,772,270	7,751,986
<b>Total Noncurrent Assets</b>	<b>₱8,740,640</b>	<b>₱8,908,715</b>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>	<b>₱2,354,878</b>	<b>₱2,135,701</b>
Trade and other payables (Note 12)	82,549	92,314
Current portion of long-term borrowings (Note 14)	80,000	80,000
Loans payable (Note 13)	2,517,427	2,308,015
<b>Total Current Liabilities</b>		
<b>Noncurrent Liabilities</b>	<b>578,891</b>	<b>623,737</b>
Long-term borrowings - net of current portion (Note 14)	515,744	468,690
Retirement benefit obligation (Note 16)	113,816	127,308
Deferred income tax liabilities - net (Note 18)	107,784	111,309
Stock subscriptions payable	1,316,235	1,331,044
<b>Total Noncurrent Liabilities</b>		
<b>Equity</b>	<b>3,286,980</b>	<b>3,286,606</b>
Capital stock (Note 19)	1,446,062	1,446,062
Additional paid-in capital	511,504	564,022
Revaluation increment in land (Note 8)	(359,056)	(406,895)
Cumulative changes in fair values of AFS investments (Note 9)	(225,688)	126,470
Retained earnings (deficit)		
<b>Equity attributable to the equity holders of the parent company</b>	<b>4,659,802</b>	<b>5,016,265</b>
Minority interests (Note 20)	247,176	253,391
<b>Total Equity</b>	<b>4,906,978</b>	<b>5,269,656</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱8,740,640</b>	<b>₱8,908,715</b>

*See accompanying Notes to Consolidated Financial Statements.*

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands, Except Basic and Diluted Loss per Share)

	Years Ended December 31		
	2009	2008	2007
<b>REVENUES</b>			
Sale of metals (Note 25)	₱1,416,391	₱1,713,873	₱1,712,653
Service fees and other operating income (Note 26)	39,559	123,401	64,002
	<u>1,455,950</u>	<u>1,837,274</u>	<u>1,776,655</u>
<b>COSTS AND EXPENSES (Note 22)</b>	<u>(1,689,041)</u>	<u>(2,221,459)</u>	<u>(2,054,282)</u>
<b>FINANCE COSTS (Note 23)</b>	<u>(173,304)</u>	<u>(139,636)</u>	<u>(166,623)</u>
<b>FOREIGN EXCHANGE GAINS (LOSSES) - net</b>	<u>36,718</u>	<u>(175,234)</u>	<u>224,417</u>
<b>OTHER INCOME - net (Note 23)</b>	<u>16,704</u>	<u>268</u>	<u>2,250</u>
<b>SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES (Note 10)</b>	<u>5,428</u>	<u>(36,560)</u>	<u>55,742</u>
<b>LOSS BEFORE INCOME TAX</b>	<u>(347,545)</u>	<u>735,347</u>	<u>161,841</u>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)</b>			
Current	112	4,703	3,885
Deferred	24,201	23,249	40,719
	<u>24,313</u>	<u>27,952</u>	<u>44,604</u>
<b>NET LOSS FOR THE YEAR</b>	<u>371,858</u>	<u>763,299</u>	<u>206,445</u>
Attributable to:			
Equity holders of the Parent Company	(₱370,746)	(₱763,189)	(₱206,578)
Minority interests (Note 20)	(1,112)	(110)	133
	<u>(₱371,858)</u>	<u>(₱763,299)</u>	<u>(₱206,445)</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Changes in fair values of AFS investments (Note 9)	45,194	(66,312)	53,984
Changes in future tax rate	-	40,710	-
Changes in revaluation increment in land (Note 8)	(36,388)	-	-
	<u>8,806</u>	<u>(25,602)</u>	<u>53,984</u>
<b>TOTAL COMPREHENSIVE LOSS - net of tax</b>	<u>₱363,052</u>	<u>₱788,901</u>	<u>₱152,461</u>
Attributable to:			
Equity holders of the Parent Company	(₱356,837)	(₱788,913)	(₱153,434)
Minority interests	(6,215)	12	973
	<u>(₱363,052)</u>	<u>(₱788,901)</u>	<u>(₱152,461)</u>
<b>BASIC AND DILUTED LOSS PER SHARE (Note 21)</b>	<u>(₱0.01128)</u>	<u>(₱0.02369)</u>	<u>(₱0.00718)</u>

See accompanying Notes to Consolidated Financial Statements.

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	(₱347,545)	(₱735,347)	(₱161,841)
Adjustments for:			
Depletion, depreciation and amortization (Note 8)	401,925	575,539	469,731
Financing costs (Note 23)	173,304	139,636	166,623
Retirement benefit obligation	47,054	(2,203)	79,075
Unrealized foreign exchange losses (gains) - net	(17,334)	86,492	(186,522)
Loss (gain) on disposal of property, plant and equipment and other investments (Note 23)	(16,003)	275	(2,067)
Provision for impairment losses on receivables (Note 22)	716	724	653
Accounts receivable written-off (Note 5)	(3,483)	—	—
Share in net earnings (losses) of associates (Note 10)	(5,428)	36,560	(55,742)
Interest income (Note 23)	(117)	(271)	(183)
Dividend income	(27)	(261)	(112)
Operating income before working capital changes	233,062	101,144	309,615
Decrease (increase) in:			
Receivables	(4,831)	(64,140)	172,321
Inventories	91,764	(136,015)	(6,937)
Other current assets	111,429	(102,210)	(129,609)
Increase (decrease) in:			
Trade and other payables	240,131	501,626	609,131
Cash generated from operations	671,555	300,405	954,521
Interest received	117	271	183
Income taxes paid	(112)	(3,989)	(7,950)
Net cash provided by operating activities	671,560	296,687	946,754
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of:			
Property, plant and equipment (Note 8)	(589,746)	(870,716)	(794,148)
AFS investments (Note 9)	—	(16)	—
Proceeds from disposal of property, plant and equipment and other investments	60,796	66,555	62,863
Increase in other noncurrent assets	9,930	(3,700)	(133)
Collection of advances to associate	9,483	30,270	148,533
Dividends received	27	261	112
Additions to mine exploration costs	—	(2,651)	(240)
Net cash used in investing activities	(509,510)	(779,997)	(583,013)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance (cancellation) of shares	374	1,024,701	(21)
Payments of:			
Borrowings	(37,275)	(381,015)	(255,397)
Interest	(117,915)	(142,136)	(161,581)
Availment (payment) of loans	—	(20,000)	50,000
Net cash provided by (used in) financing activities	(154,816)	481,550	(366,999)
<b>NET INCREASE (DECREASE) IN CASH</b>	7,234	(1,760)	(3,258)
<b>CASH AT BEGINNING OF YEAR</b>	8,712	10,472	13,730
<b>CASH AT END OF YEAR (Note 4)</b>	₱15,946	₱8,712	₱10,472

See accompanying Notes to Consolidated Financial Statements.



# **LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**

## **CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

**(Amounts in Thousands)**

	Attributable to Equity Holders of the Company					Minority Interest (Note 20)	Total
	Capital Stock (Note 19)	Subscribed	Paid-in Capital (Note 19)	Revaluation Increment in Land (Note 8)	Changes in fair values of AFS investments (Note 9)	Retained Earnings	
	Issued						
Balances at December 31, 2006	₱2,876,644	₱1,053	₱830,291	₱523,735	(₱394,028)	₱1,096,237	₱5,186,338
Cancellation of subscription of shares	-	(21)	-	-	-	-	(21)
Net income (loss) for the year	-	-	-	-	-	133	(206,445)
Other comprehensive income	-	-	-	-	53,144	840	53,984
Total comprehensive income (loss) recognized for the year	-	-	-	-	-	(206,578)	(152,461)
Balances at December 31, 2007	2,876,644	1,032	830,291	523,735	(340,884)	889,659	5,033,856
Issuance/subscription of shares during the year	410,599	(1,669)	615,771	-	-	-	1,024,701
Net loss for the year	-	-	-	-	-	(110)	(763,299)
Other comprehensive income	-	-	-	40,287	(66,011)	122	(25,602)
Total comprehensive income (loss) recognized for the year	-	-	-	40,287	(66,011)	12	(788,901)
Balances at December 31, 2008	3,287,243	(637)	1,446,062	564,022	(406,895)	253,391	5,269,656
Issuance/subscription of shares during the year	442	(68)	-	-	-	-	374
Net loss for the year	-	-	-	(52,518)	47,839	(1,112)	(371,858)
Other comprehensive income (loss)	-	-	-	-	-	(5,103)	8,806
Total comprehensive income (loss) recognized for the year	-	-	-	(52,518)	47,839	(6,215)	(363,052)
Balances at December 31, 2009	₱3,287,685	(₱705)	₱1,446,062	₱511,504	(₱359,056)	₱247,176	₱4,906,978

See accompanying Notes to Consolidated Financial Statements.



**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Thousands unless otherwise stated)

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**1. General Information**

Lepanto Consolidated Mining Company

Lepanto Consolidated Mining Company (the parent company; the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1936, primarily to engage in the exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products. On January 29, 1985, the SEC approved the extension of the parent company's corporate term for another 50 years after the expiration of its original term on September 8, 1986.

The parent company's shares are listed and traded on the Philippine Stock Exchange (PSE). In January 1999, the parent company and the Bank of New York, as depository, formed a depository receipt facility to facilitate secondary market trading in the international capital markets of the parent company's Class "B" common shares. On January 28, 2005, the Company formally closed the depository receipt facility.

On January 14, 1997, the parent company was registered with the Board of Investments (BOI) under Executive Order No. 226 as a new export producer of gold bullion on a preferred non-pioneer status. This registration entitled the parent company to a 4 year income tax holiday (ITH), which can be further extended for another three (3) years subject to compliance with certain conditions, and lower tariff rates on acquisition of capital equipment. It is required to maintain a base equity of at least twenty-five percent (25%) as one of the conditions of the registration.

On April 1, 1997, the parent company started the commercial operations of its gold mine (Victoria Project) located in Mankayan, Benguet, Philippines and suspended its copper mining operations. Consequently, in October 1997, the Company temporarily ceased operating its roasting plant facilities in Isabel, Leyte, Philippines for an indefinite period. The Roasting plant facility was registered with the Philippine Economic Zone Authority (PEZA) on December 17, 1985 pursuant to the provisions of Presidential Decree No. 66, as amended, and Executive Order No. 567 as a zone export enterprise to operate a roasting plant for the manufacture of copper calcine at the Isabel Special Export Processing Zone.

On March 30, 2000, the parent company registered its copper flotation project with the BOI as a new producer of copper concentrates on a preferred non-pioneer status. This registration entitled the parent company to a 4 year ITH, subject to compliance with certain conditions, simplified customs procedures, additional deduction for labor expense and unrestricted use of consigned equipment for a period of 10 years. It is required to maintain a base equity of at least twenty-five percent (25%) as one of the conditions of the registration. The Copper Flotation project was suspended at the end of 2001; the BOI registration was cancelled on July 11, 2006.

On April 10, 2001, the BOI approved the parent company's request for ITH bonus year for a period of one year from April 2001 to March 2002 for its gold bullion project. On June 21 and September 21, 2005, the parent company obtained the necessary approval for the ITH bonus periods of April 2002 to March 2003 and April 2003 to March 2004, respectively.



On January 5, 2004, the parent company was registered with the BOI under Executive Order No. 226 as new export producer of gold bullion on a non-pioneer status for its Victoria II (renamed Teresa) Project located also in Mankayan, Benguet, Philippines. This registration entitles the parent company to ITH with the same incentives that were granted on their registration with BOI on January 14, 1997. The Teresa Project commenced its commercial operations in April 2004.

On November 21, 2006, the parent company was registered with the BOI under Executive Order No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years.

On May 20, 2009, the BOI approved the parent Company's request for ITH bonus year for the period April 2008 to March 2009 for its Teresa Project.

The registrations mentioned above enable the parent company to avail of the rights, privileges and incentives granted to all registered enterprises.

The parent company has its principal office at the 21st Floor, 8747 Lepanto Building, Paseo de Roxas, Makati City.

Diamond Drilling Corporation of the Philippines (DDCP)

DDCP is 100% owned by the Company and was incorporated and registered with the SEC on August 8, 1971, primarily to provide technical, engineering and management services for the purpose of engaging in mining, mineral or oil exploration, construction or other business activity, particularly but not limited to drilling, boring and sinking holes for the purposes of mineral exploration.

In 1994, DDCP's Articles of Incorporation was amended to include in Article II the following secondary purpose: to engage in the business of exploration, development, processing and marketing of minerals that may be found anywhere in the Philippines either by original acquisition, joint venture or operating agreements with other holders of existing mining rights. On April 21, 2008, the stockholders of the Company passed a resolution authorizing the Company to engage directly in the business of mining or otherwise make investments in mining projects.

As of March 15, 2010, it is in full commercial operations of its drilling services, which serves primarily the parent company and Manila Mining Corporation (MMC), an associate.

Its principal office is located at 344 South Superhighway, Parañaque City.

Shipside, Incorporated (SI)

SI, a company existing and incorporated in the Philippines on November 12, 1958, is 100% owned by the parent company and was originally organized to engage in handling all kinds of materials, products and supplies in bulk and maintaining and operating terminal facilities such as pier and warehouses.

On July 18, 2008, the SEC approved the extension of SI's corporate term for another 50 years after the expiration of its original term on November 13, 2008.

With the expiration in 1985 of the Company's 25-year Grant of Development Right to construct and operate pier and wharfage facilities in Poro, San Fernando, La Union, SI included in its activity the leasing of its properties which include apartments/ guesthouses and warehouses. Pier-related activities continued to be limited to handling materials and supplies of the parent company. As of March 15, 2010, it is in full commercial operations.

Its principal office is located at 20th Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Lepanto Investment and Development Corporation (LIDC)

LIDC, a 100%-owned subsidiary of the parent company, was incorporated and registered with the SEC on April 8, 1969, primarily to act as a general agent, broker or factor of any insurance company, whether domestic or foreign, or as a commercial broker, real estate dealer or broker, agent or factor of any person, partnership, corporation or association engaged in any lawful business, industry or enterprise. As of March 15, 2010, it is in full commercial operations.

LIDC's principal office is located at 20th Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Far Southeast Gold Resources, Inc. (FSGRI)

FSGRI, a 60%-owned subsidiary of the parent company and 40%-owned by Pacific Mining Ltd. (a company incorporated in Cayman Islands), was incorporated and registered with the SEC on July 20, 1988, primarily to operate coal mines and prospect, explore, mine and deal with all kinds of ores, metals and minerals.

Deferred exploration costs incurred for the project are expected to be recovered upon the start of commercial operations. Despite technical difficulties in developing the ore body, the current improving trend in metal prices and integration of recent breakthroughs in both mining and milling technologies enhance the economic feasibility of the project. This project is considered one of the priority mining projects of the Philippine Government.

The Company will continue to provide financial and administrative support to FSGRI. As of March 15, 2010, it is still in its pre-operating stage.

FSGRI's principal office is located at 20th Floor Lepanto Building, 8747 Paseo de Roxas, Makati City.

Diamant Boart Philippines, Inc. (DBPI)

DBPI, which was incorporated and registered with the SEC on September 7, 1972, is a 80% owned subsidiary of LIDC. DBPI is primarily engaged in manufacturing, distributing, selling and buying machinery and equipment of all kinds and descriptions, general merchandise and articles of every nature, particularly but not limited to diamond core and non-core bits, reamer shells, casing bits, diamond circular segmental and diamond gang saws, tubular and other products allied to the diamond core drilling industry. As of March 15, 2010, it is in full commercial operations.

Its principal office address is at 345 Km. 14, West Service Road, South Superhighway, Brgy. Sun Valley, Paranaque City.

The consolidated financial statements of the Group as at December 31, 2009 and 2008 and for the three years in the period ended December 31, 2009, were authorized for issue by the Board of Directors (BOD) on March 15, 2010.

## 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 and land classified under "Property, plant and equipment" in the consolidated statements of financial position that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the parent company's and its subsidiaries' functional currency, rounded to the nearest thousands (P000) except when otherwise indicated.

The specific accounting policies followed by the Group are disclosed in the following section.

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Company prepared its financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the exemption from the fair value requirement of Philippine Accounting Standard (PAS) 39 of long-term commodity hedging contracts entered into by the Company and outstanding as of January 1, 2005, which was permitted by the SEC (see Note 26).

### Basis of Consolidation

The consolidated financial statements include the accounts of the parent company and the following subsidiaries:

Subsidiaries	Nature of Business	% of Ownership	
		Direct	Indirect
DDCP	Service	100	—
SI	Service	100	—
LIDC	Investment	100	—
FSGRI*	Mining	60	—
DBPI	Manufacturing/Selling	—	80 <sup>a</sup>

\* Pre-operating subsidiary

<sup>a</sup> Held by the Company through LIDC

These companies are all based in the Philippines and are duly registered with the SEC.

The financial statements of the subsidiaries 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 significant intercompany balances and transactions, including intercompany income and losses, are eliminated.

Subsidiaries are included in consolidation from the date on which control, directly or indirectly, is transferred and cease to be consolidated from the date on which control is transferred out from the parent company.

Minority interests represent the portion of profit or loss and net assets in the subsidiary not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent company's equity. Acquisitions of minority interests are accounted for using the parent entity

extension method, whereby, the difference between the consideration and book value of the share of the net assets acquired is recognized as goodwill.

#### 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, 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 PFRSs (2008)
- Improvements to PFRSs (2009), with respect to the amendment to the Appendix to PAS 18, *Revenue*

Standards or interpretations 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 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 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 statements. The revision to PAS 27 was applied prospectively. The new requirement affects only the parent's separate financial statements 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 27 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.

#### *Improvements to PFRSs in 2008*

The omnibus amendments to PFRSs 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 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 consolidated statement of financial position.

- *PAS 19, Employee Benefits*  
The amendment introduces 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, Investments 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 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.”

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

The Group currently reports under full PFRS and is not required to adopt the PFRS for SMEs 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 PFRSs in 2009*

The omnibus amendments to PFRSs 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 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 PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.
- *PFRS 8, Operating Segments*  
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, Cash Flows Statements*  
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. The amendment 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.
- 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 of Financial Instruments*

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.

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 statements 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. After initial measurement, loans and borrowings and other financial liabilities are subsequently measured at amortized cost using the effective interest rate 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 statements of comprehensive income when the liabilities are derecognized as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are also recognized in the consolidated statement of comprehensive income. Other financial liabilities are classified as current when these are expected to be settled within one year after the financial reporting period date or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's trade and other payable, loans payable, long-term borrowings and other obligations 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.

#### *Fair Value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the financial reporting period.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exists and discounted cash flow analysis or other valuation models.

#### *"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 values are recognized directly through consolidated statement of comprehensive income. The Group assesses whether embedded derivatives are required to be separated to the host contracts when the Company first become a party to the contract. 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.

#### *Assets Carried at Amortized Cost*

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 shall be 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.

The Group first assesses whether objective evidence of impairment, such as age analysis and status of counterparty, 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. The factors in determining whether objective evidence of impairment exist, include, but are not limited to , the length of the Group's relationship with the debtors, their payment behavior and known market factors. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment losses are estimated by taking into consideration the following information: current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period.

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 Carried at Fair Values*

For AFS investments, the Group assesses at each 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 equity and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in the consolidated statement of 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. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through 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 where:

- the rights to receive cash flows from the asset have expired or have been transferred;
- 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial Liability*

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

#### *Fair Value of Financial Instrument*

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 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 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 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 the 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 share 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

Copper concentrates inventories are valued at the lower of cost or NRV. NRV is the estimated selling prices in the ordinary course of business less the costs of completion and selling expenses. Copper concentrates inventories are determined using the weighted average method.

Parts and supplies are stated at the lower of cost or net realizable value (NRV). Costs of parts and supplies on hand are determined at moving average. Parts and supplies in-transit are valued at invoice cost. NRV is the replacement cost. In determining the NRV, the Group considers any adjustments necessary for obsolescence.

#### Investments in Associates

Investments in associates are accounted for under the equity method of accounting. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group.

Under the equity method, the investments in associates are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any allowance for impairment losses. Goodwill relating to an associate included in the carrying amount of the investment is not amortized.

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associates. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income. Fair value is determined with reference to its market prices at the reporting date.

The consolidated statements of comprehensive income reflect the Group's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The following are the Group's associates with the corresponding percentage of ownership:

	Percentage of Ownership
MMC	20.08%
Philippine Fire and Marine Insurance Corporation (PhilFire)	30.85%



The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made, bringing the accounting policies in line with those of the Group.

### 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.

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 carried at revalued amount less any impairment in value. Valuations are performed frequently enough to ensure that the fair value of a revalued property and equipment does not differ materially from its carrying amount.

Any revaluation surplus is credited to the "Asset Revaluation Reserves" account included in the consolidated statement of changes in equity, except to the extent that it reverses a revaluation decrease of the land previously recognized in profit or loss, in which case the increase is recognized in statement of changes in equity. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation increment in land. Upon disposal, revaluation increment relating to the land being sold is transferred to retained earnings.

Construction in-progress is recorded at cost and the related depreciation starts upon transfer to the appropriate account of the completed project.

Depreciation and amortization on assets 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, as follows:

Type of asset	Estimated useful life in years
Buildings and improvements	2-15
Plant machinery and equipment	2-20
Office furniture and fixtures	7

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 parent company's geologist and certified by an independent geologist.

The assets' residual values, if any, and useful lives are reviewed and adjusted, if appropriate, at each 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. Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense.

Mine exploration and development costs of mineral properties are capitalized as mine and mining property and are included in "Property, plant and equipment" account.

#### 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 and Other Noncurrent Assets*

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

##### *Investments in Associates*

After application of the equity method for investment in associates, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognizes the amount in the consolidated statement of comprehensive income. Fair value is determined with reference to its market prices at the reporting date.

#### *Mine exploration costs*

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

- 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*

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the reporting date.

The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the consolidated statement of comprehensive income. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

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

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

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within "Other noncurrent assets" in 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:

#### *Sale of metals (i.e gold, silver and copper)*

Income from the sale of metals (i.e gold, silver and copper) concentrate is recognized upon delivery. Revenue is measured based on shipment value price based on quoted metal prices in the London Bullion Market for gold and silver and in the London Metal Exchange for copper and weight and assay content. Contract terms for the Group's sale of metals (i.e gold, silver and copper) in bullion and concentrate allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the content.

The terms of metal in concentrate sales contracts with third parties contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the "quotation period"). Mark-to-market adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement, and such adjustments are recorded as part of revenue. The period between provisional invoicing and final settlement can be between one and six months. Provisional shipment of ninety eight (98%) for gold and silver and ninety percent (90%) for copper based on provisional prices is collected upon shipment, while the remaining two percent (2%) for gold and silver and ten percent (10%) for copper is collected upon the determination of the final shipment value on final weight and assay for metal content and prices during the applicable quotational period less deduction for smelting charges.

#### *Service fees*

Service fees are recognized upon performance of the services.

#### *Interest income*

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

### Leases

#### *Determination of Whether an Arrangement Contains a Lease*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset;
- or
- (d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Operating Lease - Company as a Lessor*

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased assets and are recognized over the lease term on the same basis as rental income.

*Operating Lease - Company as a Lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Employee Benefits

*Retirement Benefit Obligations*

The parent company and certain subsidiaries maintain separate defined benefit retirement plans. Defined benefit plans are retirement plans that define an amount of retirement 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 reporting date less the fair value of plan assets, together with any adjustments for unrecognized gains or losses and past service costs. The present value of the defined benefit retirement 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 retirement 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 fair value of plan assets or 10% of the defined benefit retirement 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 reporting date are discounted to present value.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of qualifying asset.

### Foreign Currency Transaction

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 of exchange at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or reporting date are credited to or charged against current operations.

### Income Taxes

#### *Current Income Tax*

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

#### *Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the 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 profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates 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, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses 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 profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

#### 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 Group's financial statements in the period in which the dividends are approved or declared by the Group's 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 Financial Reporting Date

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

#### Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. For management purposes, the Group is organized into business units based on their products and services, and has three reportable operating segments. Financial information on business segments is presented in Note 29. The Group operates in one geographical segment, being the location of its current mining activities; therefore, geographical segment information is no longer presented.

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

The preparation of the Group's financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments assumptions used in arriving at the estimates to change. The

effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these 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. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the parent company and each of its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates.

The functional currency of the individual companies within the Group has been determined by the management based on the currency that most faithfully represents the primary economic environment in which the individual company operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the individual companies within the Group.

#### *Operating Lease Commitments - Group as Lessee*

The Group has entered into leases on its various locations. The Group has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased on operating lease.

#### *Determining the Appraised Value of Land*

The appraised value of the land is based on a valuation of an independent appraiser firm, which management believes, holds a recognized and relevant professional qualification and has recent experience in the location and category of the land being valued. The appraiser firm used the market data approach in determining the appraised value of land. Total cost of the land amounted to ₱793,885 and ₱857,592 as at December 31, 2009 and 2008 (see Note 8).

#### *Revenue Recognition*

The parent company recognizes revenue from sale of metals (i.e. gold and silver bullions and copper concentrates) at the time these are delivered to buyer smelters. Revenue is measured based on shipment value based on quoted metal prices in the London Bullion Market or Shanghai Gold Exchange, for gold and silver, and in the London Metal Exchange or Shanghai Nonferrous Metals, for copper concentrates, and weight and assay for metal content. Provisional shipment values of ninety eight percent bullion and ninety percent copper concentrate is collected upon shipment, while the remaining balance is collected upon determination of the final shipment value based on final weights and assays for metal content and prices during the applicable quotational period less deduction for smelting and treatment charges. Total recognized revenue relating to sale of metals amounted to ₱1,416,391, ₱1,713,873 and ₱1,712,653, in 2009, 2008 and 2007, respectively (see Note 25).



#### Estimates and Assumptions

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

#### *Estimating Allowances for Impairment Losses on Receivables and Advances to Associates*

The provision for impairment losses on receivables and advances to associates is based on the Group's assessment of the collectability of payments from customers, employees, other third parties and associates. 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.

Receivables and advances to associates, net of provision for impairment of receivables, amounted to ₱129,828 and ₱139,311 as at December 31, 2009 and 2008, respectively (see Notes 5 and 10).

#### *Estimating Allowance for Inventory Obsolescence*

Inventories of parts and supplies, which are used in the Group's operations, are stated at the lower of cost or net realizable value. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased for were no longer in service. Materials which are non-moving or have become unusable are priced at their recoverable amount.

Inventories carried at cost, at lower of cost or NRV, amounted to ₱489,998 and ₱581,762 as at December 31, 2009 and 2008, respectively (see Note 6).

#### *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 value of the property, plant and equipment, excluding land, amounted to ₱5,647,448 and ₱5,550,817, respectively (see Note 8).

*Estimating Impairment 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. 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 recoverable amount of the asset is incurred as the higher of its 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 between knowledgeable and willing parties, net of direct costs of selling the asset. When value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

The aggregate net book values of property, plant and equipment amounted to ₱6,441,333, and ₱6,408,409 as at December 31, 2009 and 2008 respectively (see Note 8).

*Estimating Impairment of Investments in Associates*

The Group assesses whether there are any indicators of impairment for investments in associates at each reporting date. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount.

*Estimating Impairment on AFS Equity Investments*

The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

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 ₱130,396 and ₱85,202, as at December 31, 2009 and 2008, respectively (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 ₱740,208 and ₱760,275 as at December 31, 2009 and 2008, respectively (see Note 11).

*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 depletion, depreciation, amortization and testing for impairment, the assessment of life of mine, 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 presented under property, plant and equipment amounted to ₱5,158,377 and ₱4,958,147, respectively (see Note 8).

*Assessing Recoverability of Deferred Income Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit and taxable temporary timing differences will be available to allow all or part of the deferred income tax assets to be utilized. Deferred income tax assets that will reverse during the ITH period are not recognized.

The Group has deferred income tax assets amounting to ₱176,697 and ₱214,739 as at December 31, 2009 and 2008, respectively (see Note 18). No deferred income tax assets was recognized for temporary differences resulting from the Group's net operating loss carryover (NOLCO), excess minimum corporate income tax (MCIT) and provision for impairment losses on mine exploration costs amounted to ₱731,535 and ₱386,498 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 18).

*Retirement Benefit Expense*

The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 16 to consolidated financial statements.

Retirement benefit obligation amounted to ₱515,744 and ₱468,690 as at December 31, 2009 and 2008, respectively (see Note 16).

*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, no provision for mine rehabilitation and decommissioning was recorded since the parent company has yet to complete and submit its final mine rehabilitation and decommissioning (see Note 15).

*Estimating Fair Values of Financial Assets and Liabilities*

PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect the income or loss and equity. Fair value of financial assets as at December 31, 2009 and 2008 amounted to ₱303,785 and ₱244,177, respectively. Fair value of financial liabilities as at December 31, 2009 and 2008 amounted to ₱3,034,533 and ₱2,844,903, respectively (see Note 27).

*Estimating Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

4. Cash

	2009	2008
Cash on hand	₱1,052	₱1,235
Cash in banks	14,894	7,477
	₱15,946	₱8,712

Cash in banks earn interest at respective bank deposit rates. Total interest income amounted to ₱117, ₱271 and ₱183 in 2009, 2008 and 2007, respectively (see Note 23).

5. Receivables - net

	2009	2008
Trade	₱150,702	₱147,422
Nontrade and other receivables	5,666	6,862
Officers and employees	5,888	3,141
	162,256	157,425
Less allowance for impairment losses	9,501	12,268
	₱152,755	₱145,157

The parent company's trade receivables arise from its shipments of gold, silver and copper to refinery and smelter customers under the consignment and Refining Agreements (see Note 25).

Trade receivables and nontrade and other receivables are non-interest bearing and are generally payable on demand. Receivables to officers and employees are non-interest bearing and are generally subject to liquidation.

Most of the receivables of the Group consist of individually significant accounts and were therefore subject to the specific impairment approach. Based on assessment done, the Group recognized an allowance amounting to ₱9,501 and ₱12,268 as at December 31, 2009 and 2008, respectively, covering those receivables specifically identified as impaired. Receivables which were not individually significant and individually significant loans for which no specific impairment were assessed were subjected to collective assessment. Based on the assessment done, the Group has not recognized any provision for receivables which were assessed collectively.

Movements of allowance for impairment losses are as follows:

	Trade Receivables	Nontrade and Other Receivables	Total
2009			
Balances at beginning of year	₱11,524	₱744	₱12,268
Provision during the year (see Note 22)	716	—	716
Write-off during the year	(2,977)	(506)	(3,483)
Balances at end of year	₱9,263	₱238	₱9,501

	Trade Receivables	Nontrade and Other Receivables	Total
2008			
Balances at beginning of year	₱10,800	₱744	₱11,544
Provision during the year	724	—	724
Balances at end of year	₱11,524	₱744	₱12,268

The following table shows the aging of receivables that are neither past due nor impaired as at December 31, 2009 and 2008:

	Total	Neither past due nor impaired	Past due but not impaired			
			Less than 30 days	30 to 60 days	61 to 90 days	over 90 days
2009						
Trade	₱141,439	₱128,935	₱543	₱421	₱461	₱11,079
Nontrade	5,428	1,270	1,802	855	1,056	445
Officers and Employees	5,888	988	3,835	249	419	397
Total	₱152,755	₱131,193	₱6,180	₱1,525	₱1,936	₱11,921

	Total	Neither past due nor impaired	Past due but not impaired			
			Less than 30 days	30 to 60 days	61 to 90 days	over 90 days
2008						
Trade	₱135,898	₱116,485	₱489	₱379	₱415	₱18,130
Nontrade	6,118	774	2,978	860	1,061	445
Officers and Employees	3,141	526	2,046	133	224	212
Total	₱145,157	₱117,785	₱5,513	₱1,372	₱1,700	₱18,787

#### 6. Inventories - net

	2009	2008
Copper concentrates (at NRV)	₱17,416	₱78,276
Parts and supplies:		
On hand (at NRV)	456,832	491,920
In-transit (at cost)	15,750	11,566
	472,582	503,486
	₱489,998	₱581,762

Cost of copper concentrates amounted to ₱22,631 and ₱114,483 as at December 31, 2009 and 2008, respectively. Inventory writedown on decline of market price of copper concentrates amounted to ₱5,215 and ₱36,207 as at December 31, 2009 and 2008, respectively. Parts and supplies on hand include materials and supplies stored at Makati, Mankayan and Leyte. These include spare parts for the machineries and equipment used in the mine site and in the Roaster plant. The allowance for inventory obsolescence on parts and supplies on hand amounted to ₱33,805 and ₱32,833 as at December 31, 2009 and 2008, respectively. Cost of parts and supplies on hand amounted to ₱490,637 and ₱524,753 as at December 31, 2009 and 2008, respectively.

#### 7. Other Current Assets

	2009	2008
Creditable input value added tax (VAT)	₱139,088	₱137,991
Advances to suppliers	89,584	204,800
Prepaid expenses	77,607	64,998
	3,392	13,309
Others	₱309,671	₱421,098

By virtue of Revenue Memorandum Order 9-2000 dated March 29, 2000, all sales of goods, property and services made by a Value Added Tax (VAT)-registered person to the parent company being a 100% exporter, are automatically zero-rated for VAT purposes effective August 8, 2001.

Claims for refund and creditable input VAT in 2009 and 2008 amounting to ₱98,943 and ₱81,659, respectively, represent VAT on importations.

## 8. Property, Plant and Equipment - net

	2009					
	Mine and mining properties	Buildings and improvements	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱6,733,432	₱441,490	₱2,494,519	₱857,592	₱78,614	₱10,605,647
Additions	390,633	23,975	136,061	—	39,077	589,746
Retirements/disposals/transfers	—	(4,786)	(134,558)	(63,707)	(67,767)	(270,818)
Balances at end of year	7,124,065	460,679	2,496,022	793,885	49,924	10,924,575
<b>Accumulated depletion, depreciation and amortization:</b>						
Balances at beginning of year	1,775,285	377,947	2,020,074	—	—	4,173,306
Depletion, depreciation and amortization during the year	190,403	17,867	193,655	—	—	401,925
Retirements and disposals	—	(4,786)	(111,135)	—	—	(115,921)
Balances at end of year	1,965,688	391,028	2,102,594	—	—	4,459,310
<b>Allowance for impairment:</b>						
Balances at beginning and end of the year	—	19,241	4,691	—	—	23,932
<b>Net book values</b>	<b>₱5,158,377</b>	<b>₱50,410</b>	<b>₱388,737</b>	<b>₱793,885</b>	<b>₱49,924</b>	<b>₱6,441,333</b>

	2008					
	Mine and mining properties	Buildings and Improvements	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱6,185,949	₱354,872	₱2,413,432	₱857,592	₱73,522	₱9,885,367
Additions	547,483	86,624	180,281	—	56,328	870,716
Retirements/disposals/transfers	—	(6)	(99,194)	—	(51,236)	(150,436)
Balances at end of year	6,733,432	441,490	2,494,519	857,592	78,614	10,605,647
<b>Accumulated depletion, depreciation and amortization:</b>						
Balances at beginning of year	1,404,461	309,245	1,967,665	—	—	3,681,371
Depletion, depreciation and amortization during the year	370,824	68,708	136,007	—	—	575,539
Retirements and disposals	—	(6)	(83,598)	—	—	(83,604)
Balances at end of year	1,775,285	377,947	2,020,074	—	—	4,173,306
<b>Allowance for impairment:</b>						
Balances at beginning and end of the year	—	19,241	4,691	—	—	23,932
<b>Net book values</b>	<b>₱4,958,147</b>	<b>₱44,302</b>	<b>₱469,754</b>	<b>₱857,592</b>	<b>₱78,614</b>	<b>₱6,408,409</b>

In 2005, the Group adopted the revaluation model and engaged an independent firm of appraisers to determine the fair value of all its real properties classified under "property, plant and equipment" in the consolidated statement of financial position, which is equal to the amount in terms of money at which the property would exchange in the current real estate market, between willing parties both having knowledge of all relevant facts. The assigned value was estimated using the market data approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as location, size and shape of the properties.

In adopting the revaluation model, the Group applied the fair value as deemed cost exemption under PFRS 1 to measure the Group's land at fair value at January 1, 2004. Based on the appraiser's report dated January 6, 2006, on the revaluation of the Group's real properties as of January 1, 2004, the Group recognized a revaluation increment of ₱814,204 to land with carrying amount of ₱61,868 on January 1, 2004, of which ₱523,735 was credited to "Revaluation increment in land" account shown as part of equity in the consolidated statement of financial position, net of related deferred income tax. On December 31, 2008, the revalued amount, net of tax, was increased to ₱564,022 due to the decrease in tax rate from 35% to 30% effective January 1, 2009 (see also Note 18). As at December 31, 2009, carrying amount of land amounted to ₱58,769. In 2009, the revalued amount, net of tax, was decreased to ₱511,504 due to disposals of parcels of land. The amounts are not available for distribution to stockholders until fully realized.

Property, plant and equipment with a carrying value of ₱8,654 and ₱12,001 as at December 31, 2009 and 2008, respectively are used as collateral to the parent company's long-term borrowings (see Note 14).

#### 9. Available-for-Sale (AFS) Investments

	2009	2008
Quoted instruments	₱82,000	₱36,788
Unquoted instruments	48,396	48,414
	<b>₱130,396</b>	<b>₱85,202</b>

Movements of AFS investments are as follows:

	2009	2008
Balance at beginning of year	₱85,202	₱151,498
Change in fair value of AFS investment	47,839	(66,011)
Purchases during the year	—	16
Minority interest in change in fair value of AFS investments	(2,645)	(301)
Balance at end of year	<b>₱130,396</b>	<b>₱85,202</b>

The unrealized loss on the temporary decline in fair value of these investments amounting to ₱359,056 and ₱406,895, as at December 31, 2009 and 2008, respectively, are shown as a separate component in the consolidated statements of changes in equity.

Quoted AFS investments pertain to investment in common shares of various local public companies and golf club shares. The fair value of the quoted instruments is based on the bid market price as at December 31, 2009 and 2008, respectively.



Unquoted AFS investments pertain to investments in private local companies and therefore have no fixed maturity date or coupon rate. Unquoted investments have been carried at cost since fair value of AFS investments cannot be reliably determined as they have no available bid price.

As at December 31, 2009, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱490,801 as at December 31, 2009 and 2008.

In 2007, the Group has sold some of its other quoted ordinary shares with a fair value of ₱3,250. Cost of the sold AFS investment amounted to ₱3,957 (see Note 23).

#### 10. Investments in and Advances to Associates

	MMC		PhilFire		Total	
	2009	2008	2009	2008	2009	2008
Acquisition cost						
Balances at beginning and end of year	₱314,279	₱314,279	₱9,519	₱9,519	₱323,798	₱323,798
Accumulated equity:						
Share in net earnings (loss)						
Balances at beginning of year	(115,842)	(86,248)	31,055	38,021	(84,787)	(48,227)
Net income (loss) for the year	(204)	(29,594)	(5,224)	(6,966)	(5,428)	(36,560)
Balances at end of year	(116,046)	(115,842)	25,831	31,055	(90,215)	(84,787)
Advances to associate (see Note 17)	129,828	139,311	—	—	129,828	139,311
	₱328,061	₱337,748	₱35,350	₱40,574	₱363,411	₱378,322

PhilFire is engaged in insurance activities and is not listed in any public exchange while MMC shares are publicly traded on the PSE. PhilFire and MMC prepare financial statements for the same reporting period as the parent company.

As at December 31, 2009 and 2008, the fair value of MMC shares amounted to ₱0.026 and ₱0.0065, respectively. Fair market value of the investment in MMC amounted to ₱1,128,582 and ₱234,151 as at December 31, 2009 and 2008, respectively.

The following table illustrates summarized financial information of the Group's investments in associates:

	MMC		PhilFire	
	2009	2008	2009	2008
Assets				
Current Assets	₱57,945	₱63,434	₱—	₱—
Noncurrent Assets	1,629,623	1,624,210	467,201	376,547
Total Assets	1,687,568	1,687,644	467,201	376,547
Liabilities				
Current Liabilities	422,178	422,738	—	—
Noncurrent Liabilities	76,437	76,967	307,259	233,539
Total Liabilities	498,615	499,705	307,259	233,539
Net Assets	₱1,188,953	₱1,187,939	₱159,942	₱143,008
Net Income (loss)	(₱16,889)	(₱132,038)	₱19	₱191

# 11. Mine Exploration Costs

	2009	2008
Mine exploration costs	₱747,987	₱768,054
Less allowance for impairment losses	7,779	7,779
	₱740,208	₱760,275

In 2006, the parent company has recognized provision for an impairment loss of ₱7,779 relating to its Tampakan Project. There were no provision for impairment loss for the three years ended December 31, 2009.

# 12. Trade and Other Payables

	2009	2008
Trust receipts	₱642,374	₱642,914
Trade	592,051	569,074
Accrued utilities	385,314	350,889
Due to related parties (see Note 17)	339,266	193,480
Employee related expenses	141,755	101,282
Payable to regulatory authorities	61,783	86,849
Unclaimed dividends	27,106	27,106
Advances from customers	15,835	29,671
Accrued production tax	13,960	18,354
Accrued expenses and other liabilities	135,434	116,082
	₱2,354,878	₱2,135,701

Terms and conditions of the above financial liabilities:

- Trust receipts are interest bearing and have an average term of 90 - 120 days.
- Trade payables are non-interest bearing and are normally settled on 60 days' terms.
- Other payables are non-interest bearing and have an average term of 1 - 3 months.

Advances from stockholders, included as part of due to related parties, consisting of short-term borrowings, amounted to ₱281,111 and ₱139,503 as at December 31, 2009 and 2008 (see Note 17).

# 13. Loans Payable

Loans payable consists of unsecured short-term loans from local financial institutions to finance working capital requirements. The loans have various maturities ranging from one to three months and carry annual interests at prevailing market rates ranging from 7.50% to 14.50% in 2009, 2008 and 2007. Total interest on the above mentioned loans for the years 2009, 2008 and 2007 amounted to ₱9,959, ₱15,392 and ₱9,816, respectively.

#### 14. Long-term Borrowings

	2009	2008
Gold Delivery Agreement (US\$9.8 million in 2009 and US\$11.0 million in 2008)	P454,828	P445,560
Obtained from Local Banks:		
US Dollar-denominated loans	157,912	218,337
Peso-denominated loans	40,045	40,153
	197,957	258,490
Suppliers' trade credits	8,655	12,001
	661,440	716,051
Less current portion	82,549	92,314
	P578,891	P623,737

##### Gold Delivery Agreement:

In December 1998, the parent company entered into a Loan and Hedging Facilities Agreement (the Agreement) with NM Rothschild & Sons (Australia) Ltd. (Rothschild) and Dresdner Bank AG (Dresdner) which provides for borrowings up to US\$30 million and hedging facility up to 300,000 ounces of gold as may be agreed upon by the parties up to December 2002. A minimum hedging amount of 250,000 ounces was imposed to secure the payment of the loan. The loan was intended to finance the working capital requirements of the Victoria project (see Note 1).

The loan was secured by real and chattel mortgages of all the parent company's present and future properties and its rights, title and interests under the Mineral Production Sharing Agreement (MPSA) with the Philippine Government in connection with the Victoria project. The Agreement contains certain covenants which include, among others, payment of interest, the maintenance of certain financial and project ratios such as debt service, loan life, project life, total liabilities to net worth and current ratios; prohibition from incurring additional long-term indebtedness; limitation on certain advances or loans; and restrictions as to substantial asset sales, capital expenditures and cash dividends.

The Agreement was first amended in 2000, and further amended in 2002 principally with respect to the repayment of terms of the loan. The 2002 deed of amendment provides for the extension of the loan agreement up to September 2007. As at December 31, 2004, the loans obtained from Rothschild and Dresdner have been fully paid.

In accordance with the hedging facility, the parent company entered into various forward gold contracts with Rothschild and Dresdner (Lenders) which provide for the buying or selling of gold in fixed quantities at certain fixed prices for delivery in various maturity dates in the future. Any gains or losses on the forward sales contracts are recognized upon closing of the pertinent contracts.

At December 31, 2004, the parent company's forward gold contracts to sell 169,043 ounces of gold at an average price of US\$295 per ounce will mature on various dates in the future and are being rolled forward relative to the ongoing discussion with Lenders. These contracts had a negative mark-to-market valuation of US\$24 million based on the spot rate of US\$437 per ounce as at December 31, 2004.

The parent company does not recognize any derivative financial liability under the hedging contracts with Dresdner. After months of discussion and negotiations, the Company and Dresdner agreed in December 2005 on a commercial resolution to their controversy which was formalized through a Gold Delivery Agreement (GDA) that was signed on January 25, 2006. Under the GDA,

a gold loan of about US\$14 million shall be repaid by way of minimum monthly installments starting from February 1, 2006 up to September 30, 2009 of the cash equivalent in US dollars of 200 ounces of gold computed at the spot price in the market and any remaining balance to be fully repaid by the final delivery on September 30, 2009. This amount equivalent to ₱745 million was charged against retained earnings. The Company also has an option to settle by delivery of quantity of gold.

The GDA contains certain covenants, which include, among others, payment of interest, strict compliance with regulatory provisions regarding internal revenue taxes and environmental requirements, restrictions in the incurrence of indebtedness and certain derivative transactions, limitation in the disposal and transfer of assets and prohibitions in the purchase of issued shares, reduction in capital and issuance of shares other than for cash or make a distribution of assets or other capital to its stockholders.

The parent company has filed a civil case against Rothschild for the declaration of the nullity of the forward gold contracts to sell 97,476 ounces of gold. Rothschild filed a motion to dismiss and this was denied by the Regional Trial Court (RTC) and subsequently by the Court of Appeals in December 2006. Rothschild elevated the matter to the Supreme Court in February 2007. As of March 15, 2010, the case is still pending before the Supreme Court. The parent company does not and did not recognize any liability to Rothschild.

An amendment to the GDA was entered into by the parent company and Dresdner in 2008, providing for i.) a 12-month moratorium on gold deliveries effective November 21, 2008; ii.) an increase in gold deliveries from 200 ounces to 250 ounces of gold effective October 21, 2010; and iii.) an extension of the final delivery to September 30, 2011.

The Company entered into another amendment with Dresdner in 2009, wherein gold deliveries of 200 ounces will be made starting October 10, 2010. Final delivery of gold for the payment of total amount owed shall be on October 31, 2011.

#### Bank Loans

Borrowings from local banks are all clean loans with interest rates ranging from 7.79% to 13.11% in 2009 and 2008, most of which are renewable for a year under the Group's existing credit line agreement with certain local banks.

#### Suppliers' Trade Credits

Supplier's trade credits include various US Dollar-denominated loans from foreign suppliers for the importation of various mining equipment. Importations were made through existing letters of credit lines maintained with certain local banks. These loans are payable upon maturity on various dates from 2006 to 2009 and carry certain interest rates above London Interbank Offered Rate (LIBOR) ranging from 2.5% to 3.0% in 2009, 2008 and 2007. These payables are secured by chattel mortgage over certain mine machineries with a carrying amount of ₱8,654 and ₱12,001 as at December 31, 2009 and 2008, respectively.

Total interest on the above mentioned loans for the years 2009, 2008 and 2007 amounted to ₱163,345, ₱124,244 and ₱156,807, respectively (see Note 23).

# 15. Provision for Mine Rehabilitation and Decommissioning

Department of Environment and Natural Resources (DENR) Administrative Order (DAO) No. 2007-26, which was published in the Philippine Star on August 9, 2007 and took effect 15 days thereafter 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. In 2007, the parent company has filed for an extension for the submission of its FMR/DP. The parent company is in the process of evaluating the timing and amount of estimated cash flows relating to mine rehabilitation and decommissioning. Once the parent company has completed and submitted to Mines and Geosciences Bureau its FMR/DP, it will provide the necessary provision for mine rehabilitation and decommissioning in its financial statements.

# 16. Retirement Plan

The parent company and DBPI have funded, noncontributory defined benefit retirement plans covering substantially all regular employees (see Note 17) while DDCP and SI have unfunded defined benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2009, 2008 and 2007.

The amounts of defined retirement benefit expense recognized in the consolidated statements of comprehensive income under costs and expenses follow:

	Funder	2009 Unfunded	Total	Funded	2008 Unfunded	Total	Funded	2007 Unfunded	Total
Current service cost	P1,957	P1,905	P3,862	P50,342	P1,867	P52,209	P61,747	P1,993	P63,740
Interest cost	72,559	2,333	74,892	77,562	2,178	79,740	72,666	2,045	74,711
Expected return on plan assets	(12,616)	-	(12,616)	(90,559)	-	(90,559)	(72,637)	-	(72,637)
Actuarial losses (gains)	-	-	-	19,828	517	20,345	40,845	604	41,449
	P61,900	P4,238	P66,138	P57,173	P4,562	P61,735	P102,621	P4,642	P107,263
Actual return (loss) on plan assets	P37,470	P-	P37,470	(P412,625)	P-	(P412,625)	P234,124	P-	P234,124

The amounts of defined retirement benefit obligation recognized in the consolidated statements of financial position follow:

	2009			2008		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of defined retirement benefit obligation	P1,144,840	P35,325	P1,180,165	P1,136,454	P32,595	P1,169,049
Fair value of plan assets	(27,551)	-	(27,551)	(60,934)	-	(60,934)
	1,117,289	35,325	1,152,614	1,075,520	32,595	1,108,115
Unrecognized actuarial losses	(634,274)	(2,596)	(636,870)	(636,829)	(2,596)	(639,425)
	P483,015	P32,729	P515,744	P438,691	P29,999	P468,690

Changes in present value of defined retirement benefit obligation follow:

	2009			2008		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Balances at beginning of year	₱1,136,454	₱32,595	₱1,169,049	₱1,216,790	₱35,049	₱1,251,839
Interest cost	72,559	2,333	74,892	77,562	2,178	79,740
Current service cost	1,957	1,905	3,862	50,342	1,867	52,209
Benefits paid	(66,130)	(1,508)	(67,638)	(42,057)	(1,656)	(43,713)
Actuarial gains on obligation	—	—	—	(166,183)	(4,843)	(171,026)
Balances at end of year	₱1,144,840	₱35,325	₱1,180,165	₱1,136,454	₱32,595	₱1,169,049

Movements in defined retirement benefit obligation recognized in the consolidated statements of financial position follow:

	2009			2008		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Balances at beginning of year	₱438,691	₱29,999	₱468,690	₱443,799	₱27,093	₱470,892
Expense recognized for the year	61,900	4,238	66,138	57,173	4,562	61,735
Contributions/benefits paid	(17,576)	(1,508)	(19,084)	(62,281)	(1,656)	(63,937)
Balances at end of year	₱483,015	₱32,729	₱515,744	₱438,691	₱29,999	₱468,690

Changes in the fair value of the Group's plan assets follow:

	2009	2008
Balances at beginning of year	₱60,934	₱453,336
Expected return on plan assets	12,616	90,559
Actual contributions	17,576	62,281
Benefits paid	(66,130)	(42,057)
Actuarial gains (losses) on plan assets	2,555	(503,185)
Balances at end of year	₱27,551	₱60,934

The overall expected return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled.

The Group expects to contribute ₱60,000 to its defined retirement benefit plans in 2010.

The major categories of the Group's plan assets as a percentage of the fair value of total plan assets follow:

	2009	2008	2007
Cash and cash equivalents	2.70%	1.61%	0.05%
Equity investments:			
Quoted	97.22%	98.14%	99.92%
Unquoted	0.08%	0.25%	0.03%
	100.00%	100.00%	100.00%

The principal assumptions used in determining pension and post-retirement benefits for the Group's plan assets in 2009, 2008 and 2007 follow:

	2009	2008	2007
Discount rate	6.58%	6.58%	6.38%
Expected rate of return on plan assets	20.00%	20.00%	12.00%
Salary increase rate	5.00%	5.00%	6.00%

Amounts for the current and previous two years follow:

	2009		2008		2007	
	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded
Defined benefit obligation	₱1,144,840	₱35,325	₱1,136,454	₱32,595	₱1,216,790	₱35,049
Fair value of plan assets	27,551	-	60,934	-	453,336	-
Experience adjustments on plan liabilities	-	-	(166,183)	-	-	-
Experience adjustments on plan assets	-	-	(503,185)	-	161,487	-

## 17. Related Party Disclosures

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 the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

- a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties.

The corresponding receivables and payables arising from the said transactions, including operational support, as at December 31, 2009 and 2008 are as follows:

	2009	2008
Due from MMC	₱129,828	₱139,311
Advances from Stockholders	₱281,111	₱139,503

Due from MMC and advances from stockholders are presented in the consolidated statement of financial position under the "Investments in and advances to associates" and "Trade and other payables" captions, respectively. No interest is charged on the amounts due from MMC as these advances are considered and will be treated as part of the parent company's investment in MMC.

- b. On April 17, 2000, the parent company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the parent company's retirement fund.

On March 31, 2003, the parent company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the LCMC Employee Pension Plans (the Plans) and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The parent company has decided to

terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

c. Compensations of the Group's key management personnel for the years ended December 31 follow:

	2009	2008	2007
Salaries and other short-term employee benefits	₱30,800	₱30,800	₱29,701
Retirement benefits	—	—	—
	₱30,800	₱30,800	₱29,701

# 18. Income Taxes

In 2009, the current provision for income tax pertains to the parent company's, LIDC's, DBPI's and SI's MCIT. In 2008, the current provision for income tax pertains to the parent company's and LIDC's MCIT and DBPI's, SI's and DDCP's RCIT.

The components of the Group's deferred income tax assets and liabilities at December 31, 2009 and 2008 follow:

	Deferred Income Tax Assets - net		Deferred Income Tax Liabilities - net	
	2009	2008	2009	2008
Accrual of:				
Pension costs	₱149,562	₱135,825	₱5,161	₱4,782
Retrenchment costs	5,103	5,103	—	—
Provisions for:				
Inventory obsolescence	9,947	9,655	195	195
Impairment losses on properties	7,180	7,180	—	—
Impairment losses on receivables	2,771	4,049	79	81
Allowance for decline on market price of inventory	1,564	10,862	—	—
Past service cost	483	1,690	—	—
NOLCO and MCIT	87	175	—	—
Unrealized foreign exchange losses - net	—	40,200	—	—
	176,697	214,739	5,435	5,058
Revaluation increment on land	(100,029)	(111,901)	(119,186)	(132,360)
Unrealized foreign exchange gains - net	13,463	—	(5)	(6)
Change in fair value of AFS investments	(219)	—	(60)	—
	(86,785)	(111,901)	(119,251)	(132,366)
Net deferred income tax assets (liabilities)	₱89,912	₱102,838	(₱113,816)	(₱127,308)



The reconciliation of the Group's provision for deferred income tax for the three years ended December 31 computed at the statutory tax rates to actual provision (benefit) shown in the consolidated statements of comprehensive income follows:

	2009	2008	2007
	(P117,727)	(P257,371)	(P56,644)
Tax at statutory income tax rates			
Additions to (reductions in) income taxes resulting from tax effects of:			
Change in unrecognized deferred income tax assets	103,110	(82,345)	(32,228)
Accelerated deduction	(26,684)	(3,570)	(2,783)
Operations under income tax holiday	10,497	119,595	53,488
Expired NOLCO and MCIT	7,346	136,537	109,251
Share in operating results of the associates	(1,628)	12,796	(19,852)
Nondeductible expense	(1,654)	341	25
Interest income subjected to final tax	(35)	(95)	(64)
Tax-exempt dividend income	(8)	(9)	(39)
Effect of future change in tax rate	—	35,807	—
Others	51,096	66,266	(6,550)
Tax at effective income tax rates	P24,313	P27,952	P44,604

## 19. Capital Stock

The parent company's authorized share capital is P3.35 billion divided into 33.5 billion shares at P0.10 par value each consisting of 20.1 billion Class "A" and 13.4 billion Class "B" common shares.

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

	2009		2008	
	No. of shares	Amount	No. of shares	Amount
Issued				
Class "A"	19,726,251,050	P1,972,625	19,725,399,387	P1,972,540
Class "B"	13,150,603,300	1,315,060	13,147,038,750	1,314,703
	32,876,854,350	3,287,685	32,872,438,137	3,287,243
Subscribed				
Class "A"	15,879,000	1,588	16,730,669	1,673
Class "B"	10,798,880	1,080	14,363,423	1,436
	26,677,880	2,668	31,094,092	3,109
Total shares issued and subscribed	32,903,532,230	3,290,353	32,903,532,229	3,290,352
Less subscription receivable		3,373		3,746
		P3,286,980		P3,286,606

On February 18, 2008, the BOD of the parent company offered to its shareholders the right to subscribe to one (1) share for every seven (7) shares held as of record date of March 25, 2008 covering 4,112,364,385 common shares consisting of 2,467,219,971 and 1,644,944,414 Class "A" and "B" shares, respectively, at ₱0.25 per share. The offer period was from April 15 to 22, 2008. As of April 22, 2008, all shares of stock offered were fully subscribed and/or issued.

During the annual meeting of the stockholders on April 20, 2009, the shareholders approved the increase in the authorized capital stock from ₱3.35 billion to ₱6.64 billion. The stockholders also approved the one-time waiver of their pre-emptive right to subscribe to issues or dispositions of shares of the Company in proportion to their respective shareholdings but only with respect to the issues or dispositions of shares in support of the increase in the authorized capital stock to ₱6.64 billion, provided that the shares to be issued to support such increase in the Authorized Capital Stock shall not exceed twenty percent (20%) of the stock subscribed, issued and outstanding after such issuance. As at the auditor's report date, SEC has not approved yet the increased in the authorized capital stock.

As at December 31, 2009, 2008 and 2007, the parent company had thirty thousand twenty-two (30,022), twenty-one thousand four hundred thirty-nine (21,439) and twenty-one thousand five hundred thirty-eight (21,538) shareholders, respectively.

## 20. Minority Interests

Minority interests represent third parties' interests in FSGRI and DBPI. The details of which are as follows:

	FSGRI		DBPI		Total	
	2009	2008	2009	2008	2009	2008
Acquisition cost	₱242,970	₱242,970	₱242,970	₱6,218	₱249,188	₱249,188
Share in operating results:						
Balances at beginning of year	(889)	(857)	(651)	(1,809)	(2,776)	(2,666)
During the year	(14)	(32)	(206)	(78)	(1,112)	(110)
Balances at end of year	(903)	(889)	(857)	(1,887)	(3,888)	(2,776)
Other changes in equity:						
Revaluation of land, net of related deferred tax liability	-	5,920	5,497	-	-	5,920
Changes in fair values of APS investments	1,876	1,059	1,360	-	1,876	1,059
Net book values	₱243,943	₱249,060	₱248,970	₱4,331	₱247,176	₱253,379

## 21. Loss Per Share

Basic loss per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of common shares in issue during the period, excluding any ordinary shares purchased by the parent company and held as treasury shares.

	2009	2008	2007
Loss attributable to equity holders of the parent company	(₱370,746)	(₱763,189)	(₱206,578)
Weighted average common shares for basic loss per share	32,880,211,660	32,216,980,070	28,786,550,700
Basic and diluted loss per share	(₱0.01128)	(₱0.02369)	(₱0.00718)

The basic and diluted loss per share are the same for 2009 and 2008 as dilution of potential common shares from stock options results to a decrease in loss per share and are classified as anti-dilutive (see Note 24). There are no dilutive potential common shares outstanding for 2007.

## 22. Costs and Expenses

	2009	2008	2007
Mining, milling, smelting, refining and other related charges	P669,112	P953,680	P983,599
Depletion, depreciation and amortization (see Note 8)	401,925	575,539	469,731
Administration, overhead and other charges			
Mine division	383,854	461,866	436,080
Others	231,739	190,292	160,400
Provisions for:			
Impairment losses on receivables (see Note 5)	716	724	653
Inventory obsolescence (see Note 6)	1,695	3,151	3,819
Decline on market price of inventory (see Note 6)	-	36,207	-
	<b>P1,689,041</b>	<b>P2,221,459</b>	<b>P2,054,282</b>

The significant components of administration, overhead and other charges include salaries and wages and employee benefits, representation and entertainment, travel and transportation, office expenses and professional fees.

Details of personnel costs recognized under costs and expenses follow:

	2009	2008	2007
Salaries and wages	P434,785	P414,786	P404,518
Retirement benefits (see Note 16)	66,138	61,735	107,263
Others	36,703	51,368	249,607
	<b>P537,626</b>	<b>P527,889</b>	<b>P761,388</b>

## 23. Finance Costs and Other Income

	2009	2008	2007
Finance Costs:			
Borrowing costs (see Notes 13 and 14)	P173,304	P139,636	P166,623
Other Income:			
Gain on sale of land	P16,003	P-	P2,067
Interest income	117	271	183
Other income (loss) (see note below)	584	(3)	-
	<b>P16,704</b>	<b>P268</b>	<b>P2,250</b>

Details as to source of borrowing costs follow:

	2009	2008	2007
Long-term	P90,045	P64,321	P125,955
Short-term	43,458	34,591	40,668
Others	39,801	40,724	-
	<b>P173,304</b>	<b>P139,636</b>	<b>P166,623</b>

In 2007, included in the other income is the gain of ₱89 from sale of SI's AFS investment. The cumulative changes in the fair value of AFS related to the said AFS investment amounted to ₱707 under equity.

## 24. Share-based Plan

Under the share-based plan, the parent company's officers and employees and those of its subsidiaries may be granted options to purchase shares of stock of the parent company. The aggregate number of shares to be granted under the plan should not exceed 5% of the total number of shares of the parent company's outstanding capital stock.

An individual may be granted an option to purchase not more than 5% of the total number of shares set aside at the date of grant and may exercise the option up to a maximum of 20% of total number of option shares granted per year. Options are valid for five (5) years and are exercisable from the date of approval of the grant by the SEC.

On November 19, 2007, the BOD approved the grant of the 17th Stock Option Awards (Awards) to selected employees, directors and officers of the Group in accordance with the board-approved Revised Stock Option Plan. The Awards cover a total of 420,000,000 common shares, consisting 252,000,000 class "A" and 168,000,000 class "B" shares from the parent company's unissued capital stock, exercisable at the price of ₱0.32 per share, within 5 years from the date of SEC approval of the same. The SEC approved the Awards and the Revised Stock Option Plan on February 1, 2008; the pertinent listing application was approved by the PSE on February 29, 2008. The option price of ₱0.32 per share was computed based on a new formula in the Revised Stock Option Plan, that is, "the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of approval of the Grant by the Board of Directors". By virtue of the 1:7 Stock Right Offering (SRO) approved by the Board on February 18, 2008 and by the PSE on February 29, 2008, the shares covered by the Awards have increased by 60,000,000 common shares.

The following table illustrates the number of and movement in stock options:

	2009		2008	
	Class A	Class B	Class A	Class B
Outstanding at beginning of year	279,743,462	186,496,000	252,000,000	168,000,000
Granted during the year	—	—	—	—
Effect of stock rights offering	—	—	36,000,000	24,000,000
Forfeitures during the year	(2,262,843)	(1,508,562)	(5,485,714)	(3,657,142)
Exercised during the year	(13,714)	(9,143)	(2,770,824)	(1,846,858)
Outstanding at end of year	277,466,905	184,978,295	279,743,462	186,496,000

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## 25. Refining Agreements

The parent company entered into consignment and refining agreement (RA) of gold and silver bullion. Bullion exports were made to Heraeus Limited (Heraeus) in 2009 and 2008 in accordance with a contract entered into on January 5, 2005. Each shipment of materials under the agreement will consist of no less than 20 kilograms of materials. As settlement, the prices for all sales are as follows:

Gold - the London Bullion Market Association PM fixing without any deduction in US Dollars

Silver - the London Bullion Market Association fixing in US Dollars

Heraeus shall settle the metal payables at 99.9% and 98.0% of the final agreed assayed gold and silver contents of refined materials from each shipment.

On January 1, 2008, an extension of the RA was executed with the same terms and shall take effect for one year.

The parent company also entered into refining and smelting agreement of its copper concentrates. Copper concentrates were sold to Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. in 2008. As settlement, the prices for all sales are as follows:

Copper - the London Metals Exchange cash settlement or average of Shanghai Nonferrous Metals on the variety of #1 Copper Cathode

Gold - the London Bullion Market Association fixing in US Dollars or weighted average price of AU9995 of Shanghai Gold Exchange

Silver - the London Bullion Market Association fixing in US Dollars or weighted average price of #3 silver bullion of ex-silver.com

The settlement shall be at 78% for the copper and 82% to 95% for the gold and 68% to 95% for the silver of the final agreed assayed copper, gold and silver contents from each shipment.

As at December 31, 2009 and 2008, the Group's embedded derivatives on provisionally priced sales are immaterial relative to the financial statements.

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## 26. Commitments, Agreements, Contingent Liabilities and Other Matters

- (a) In an agreement entered into with Philippine Associated Smelting & Refining Corporation (PASAR) on April 21, 1983, the parent company committed to deliver to PASAR and PASAR committed to take in a minimum quantity of its calcine production from its roaster plant in accordance with the pricing and payment terms defined in the agreement. The agreement is for an indefinite period unless otherwise terminated or cancelled pursuant to agreed terms or by the parties' mutual consent. In 1998, the agreement was suspended for an indefinite period in view of the temporary cessation of the parent company's roaster plant operations.
- (b) On March 3, 1990, FSGRI entered into a Mineral Production Sharing Agreement (MPSA) with the Philippine Government through the DENR and the parent company pursuant to Executive Order No. 279. Under the terms of the agreement, FSGRI shall pay the Philippine

Government a production share of 2% on gross mining revenues and 10% on net mining revenues payable within 30 days at the end of each calendar year and such will commence upon the start of FSGRI's commercial operations.

The initial term of this agreement shall be twenty-five (25) contract years from the effective date, subject to termination as provided in the agreement, renewable for another period of twenty-five (25) years upon such terms and conditions as may be mutually agreed upon by the parties or as may be provided for by law. As at March 15, 2010, FSGRI is still in pre-operating stage.

- (c) Under a memorandum of agreement entered into on October 18, 1991 by FSGRI and the parent company among residents of various barangays of Mankayan, Benguet, the municipal government of Mankayan, the Benguet provincial government, the DENR, FSGRI and the parent company (collectively as "Group"), among other things, are mandated to abide by certain commitments to the barangays as contained in the said agreement in return for the continued implementation of the Far Southeast Project. The agreement likewise provides that: (1) the implementation of the project is subject to the conditions imposed or may be imposed by the DENR specifically on certain environmental concerns; and (2) the residents shall not hinder the implementation of the project and shall assist the Group and the DENR in the peaceful solution of conflicts relative to the Group's operations.

In April 1998, the parent company entered into a separate memorandum of agreement with the Office of Municipal Mayor and Sangguniang Bayan of Mankayan, DENR and Mines and Geosciences Bureau. Under the agreement, the Company is mandated to establish and maintain a Monitoring Trust Fund and a MRF amounting to ₱50 and ₱5,000, respectively. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities and for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the parent company in a mutually acceptable bank, subject to annual review of MRF committee, is payable in four (4) equal quarterly payments of ₱1,250 up to March 1999. As at December 31, 2009 and 2008, the rehabilitation fund of ₱5,000, which does not meet the features provided under Philippine Interpretation IFRIC 5, is presented under "Other noncurrent assets" account in the consolidated statements of financial position.

- (d) 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 as at December 31, 2009 and 2008, and results of operations for the years ended December 31, 2008, 2007 and 2006.
- (e) The parent company leases the land where its roasting plant is constructed, certain equipment, office spaces and warehouses at various periods up to January 1, 2009. Lease agreement for the roasting plant, which expired in March 2007, was extended to another term of 2 years while the other lease agreements will extend until 2012. Rent expense recognized relating to the said agreements aggregated to ₱1,191 in 2009 and ₱3,572 in 2008, respectively.

The minimum annual lease payments subsequent to reporting dates follow:

	2009	2008
Within one year	₱1,191	₱1,191
In the second to fifth years inclusive	-	2,381
	₱1,191	₱3,572

- (f) As at December 31, 2009 and 2008, the parent company has no unused credit lines with various banks. These facilities can be availed of through short-term loans, opening of import letters of credit and outright purchase of negotiable bills.
- (g) In an execution sale held on December 12, 2001, DDCP acquired a 40% interest in the Guinaong Project of Crescent Mining and Development Corporation (Crescent) which is covered by MPSA No. 057-096-CAR. The execution sale was done in connection with the case filed by DDCP against Pacific Falcon Resources Corporation (Pacific Falcon) for the payment of drilling services rendered at the Guinaong Project amounting to US\$307,726.6. Per the records of the Mines & Geosciences Bureau (MGB) and the Joint Venture Agreement between Crescent and Pacific Falcon (formerly known as Trans Asian Resources Ltd.), Pacific Falcon has a 40% interest in the subject MPSA. The pertinent certificate of sale has been registered with the MGB. Pending with MGB is the application for the approval of the transfer to the Company of the rights to 40% of MPSA No. 057-096-CAR.
- (h) On April 21, 2008, the BOD of DDCP approved the increase of its authorized capital stock and declaration of a stock dividend of five (5) for three (3) shares to be issued within twenty days from SEC approval of the application for the increase in authorized capital stock.
- (i) SEC Transitional Relief in PAS 39

The SEC, in its Notice (the Notice) dated November 30, 2006 pursuant to Resolution No. 493, provided transitional relief allowing certain commodity derivative contracts of mining companies be "grandfathered" and exempted from the fair value requirements of PAS 39. The said exemption will apply only if the following requirements are met:

1. Commodity derivative contracts entered into and effective prior to January 1, 2005;
2. Commodity derivative contracts with original maturity of more than 1 year; and
3. Commodity derivative contracts that would have qualified under PAS 39 hedge accounting rules had these been applied at inception of such contracts.

The parent company notified SEC that it is availing of the exemption from compliance with PAS 39 pursuant to the Notice on its letter to SEC dated December 19, 2006.

Had the parent company qualified and was not exempted from PAS 39, retained earnings will be reduced and liabilities will be increased as of January 1, 2005 by ₱1,280,000.

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## 27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and interest-bearing borrowings. The main purpose of the Group's financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, advances to associate, trade and other payables and loans payable which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign exchange risk, liquidity risk, interest rate risk and commodity price 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 refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise

due to the failure of its customers and counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.

All gold exports when priced are practically settled on cash basis. Parent company's existing contracts with gold refineries allow for advances of 98% of payable metals paid in two (2) working days from pricing. Full settlement is normally acquired within three (3) working days. For copper concentrates, parent company's existing contracts with smelters allow for advances of 90% of payable metals paid in two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The parent company enters into marketing contracts only with refineries and smelters of established international repute. Since the parent company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Johnson Matthey Public Limited Company and Heraeus Limited for gold and Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates.

The Group has a significant concentration of credit risk in relation to its trade receivables to Heraeus Limited. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries.

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 maximum exposure to credit risk without consideration to collaterals or other credit enhancements for the components of the consolidated statement of financial position as at December 31, 2009 and 2008.

	Notes	2009	2008
Cash in banks	4	₱14,894	₱7,477
Receivables	5		
Trade		141,439	135,898
Nontrade and others		5,428	6,118
Officers and employees		5,888	3,141
AFS investments	9		
Quoted instruments		82,000	36,788
Unquoted instruments		48,396	48,414
Advances to associate	10	129,828	139,311
Mine rehabilitation fund		5,138	5,106
Total credit risk exposure		₱433,011	₱382,253

Accordingly, the Group has assessed the credit quality of the following financial assets that are neither past due nor impaired:

1. Cash in banks and MRF are assessed as high grade since the related amounts are deposited with the country's reputable banks duly approved by BOD.
2. Trade receivables, which pertain mainly to receivables from sale of ore, are assessed as high-grade. These are assessed based on past collection experience of full settlement within three days after invoice date with no history of default.



3. Non-trade receivables, which pertain to advances that are due and demandable, are assessed as high-grade since these have high probability of collection through application of outstanding amount against last billing.
4. Receivables to officers and employees, which are operational advances in nature, are assessed as high-grade since these have high probability of collection through liquidation.
5. Quoted equity instrument is assessed as substandard grade since POPI is currently implementing its business plan to address its recovery issues.
6. Unquoted equity instrument is assessed as high grade as this pertain to the lone copper smelter in the country that operates in an industry which has a potential growth.
7. Advances to associate is assessed as high grade since the parent company practices offsetting against the associate and historical collection is good.

The above high grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Substandard grade credit quality financial assets pertain to financial assets with more than insignificant risk of default based on historical experience and/or counterparty credit standing.

#### 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 foreign currency exchange rates, interest rates, equity prices and other market changes.

#### Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statement of cash flows. The Group sells its product to the international market. All gold sales are denominated in United States dollar (US\$). Dollar conversion of metal sales to Philippine peso is based on the prevailing exchange rate at the time of sale.

The Group's policy is to maintain foreign currency exposure within acceptable limits. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for an institution engaged in the type of business in which the Group is involved.

The Group's foreign currency-denominated monetary assets and liabilities as at December 31, 2009 and 2008 follow:

	2009		2008	
	United States Dollar	Peso Equivalent	United States Dollar	Peso Equivalent
<b>Asset</b>				
Cash	\$33	₱1,524	\$83	₱3,932
Trade receivables	1,171	54,100	1,056	50,267
	<u>\$1,204</u>	<u>₱55,624</u>	<u>\$1,139</u>	<u>₱54,199</u>
<b>Liabilities</b>				
Trade payables and accrued expense	\$7,992	₱369,230	\$5,875	₱279,208
Borrowings	13,450	621,390	14,202	674,873
	<u>\$21,442</u>	<u>₱990,620</u>	<u>\$20,077</u>	<u>₱954,081</u>
<b>Net Liabilities</b>	<u>\$20,238</u>	<u>₱934,996</u>	<u>\$18,938</u>	<u>₱899,882</u>

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

Based on the historical movement of the US Dollar and the Philippine peso, management believes that the estimated reasonably possible change in the next twelve (12) months would be an increase (decrease) of ₱0.72 for 2009 and increase of ₱0.91 and decrease of ₱0.70 for 2008 against the US dollar. Sensitivity of the Company's 2009 and 2008 pre-tax income to foreign currency risks are as follows:

- A decrease (increase) of ₱14,571 in the pre-tax loss if the peso strengthens (weakens) by ₱0.72 against the US dollar.
- An increase of ₱17,234 in the pre-tax loss if peso weakens by ₱0.91. A decrease of ₱13,257 if the Peso strengthens by ₱0.70 against the US dollar.

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

#### *Interest Rate Risk*

The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. As at December 31, 2009 and 2008, majority of the Group's long-term borrowings is based on floating rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

The maturity profile of the interest-bearing assets and liabilities, together with the corresponding nominal amounts and carrying values are shown in the following table. Nominal interest rates vary from floating rate of LIBOR plus fixed margin of 2.75% to 91-day treasury bill (T-bill) plus margin of 4% and fixed interest rates of 9% to 14%.

2009	Total	6 months or less	6 to 12 months	1 to 2 years	2 to 3 years
Cash in banks	₱14,894	₱14,894	₱—	₱—	₱—
Loans payable	80,000	80,000	—	—	—
Long-term borrowings	661,542	69,186	16,100	278,541	297,715

2008	Total	6 months or less	6 to 12 months	1 to 2 years	2 to 3 years
Cash in banks	₱7,477	₱7,477	₱—	₱—	₱—
Loans payable	80,000	80,000	—	—	—
Long-term borrowings	716,051	74,887	17,427	301,491	322,246

The following table sets forth, for the periods indicated, the impact of changes in interest rate on the Group's consolidated statements of comprehensive income:

	Change in interest rates (in basis points)	Sensitivity to pretax loss
<b>2009</b>		
PHP (T-bill rate)	+100	(P398)
USD (LIBOR)	+100	(6,127)
PHP (T-bill rate)	-100	398
USD (LIBOR)	-100	6,127
<b>2008</b>		
PHP (T-bill rate)	+100	(P398)
USD (LIBOR)	+100	(6,639)
PHP (T-bill rate)	-100	398
USD (LIBOR)	-100	6,639

Based on the historical movement of the interest rates, management believes that the reasonable possible change for the next twelve months would result to an increase (decrease) of 100 basis points for 2009 and an increase (decrease) of 50 (100) basis points for USD LIBOR and 50 basis points for T-bill for 2008. 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 securities. The Group's exposure to equity price risk relates primarily to its AFS investment in POPI.

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 consolidated statement of financial position.

Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change was determined to be an increase (decrease) of 7.52% in 2009 and 9.79% in 2008, resulting to a possible effect in the equity of increase (decrease) of P1,843 in 2009 and an increase (decrease) of P1,471 in 2008.

#### *Commodity Price Risk*

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces.

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

Since the amount of financial assets and liabilities subject to commodity price risk is immaterial relative to the consolidated financial statements, management opted not to disclose commodity price risk sensitivity analysis for 2009 and 2008.

### Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and hire purchase contracts.

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, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2009 and 2008 based on contractual undiscounted payments. Long-term debt consists of principal and future interest payments.

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
<b>2009</b>							
Trade and other payables	₱820,053	₱1,435,872	₱37,168	₱—	₱—	—	₱2,293,093
Loans payable	—	89,600	—	—	—	—	89,600
Long term borrowings	—	77,697	8,498	19,111	325,812	338,118	769,236
<b>TOTAL</b>	<b>₱820,053</b>	<b>₱1,603,169</b>	<b>₱45,666</b>	<b>₱19,111</b>	<b>₱325,812</b>	<b>₱338,118</b>	<b>₱3,151,929</b>
	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
<b>2008</b>							
Trade and other payables	₱850,134	₱1,251,852	₱33,707	₱—	₱—	—	₱2,135,693
Loans payable	—	89,600	—	—	—	—	89,600
Long term borrowings	—	146,080	18,214	36,428	621,035	644,492	1,466,249
<b>TOTAL</b>	<b>₱850,134</b>	<b>₱1,487,532</b>	<b>₱51,921</b>	<b>₱36,428</b>	<b>₱621,035</b>	<b>₱644,492</b>	<b>₱3,691,542</b>

### 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, Advances to Associates, Mine rehabilitation fund and Trade and Other Payables*

The carrying amounts of cash, receivables, trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

#### *AFS Investments*

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

#### *Loans Payable and Borrowings*

The outstanding loans payable and borrowings as at December 31, 2009 are either due within the next reporting date or bear floating rates that are repriced monthly.

The fair value of the interest bearing long-term debt in 2007 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans. For floating rate long term borrowings which are repriced monthly, the carrying value approximates the fair value because of recent and regular repricing based on current market rates. For floating rate long term borrowings, which are repriced semi-annually, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date. For fixed rate long-term borrowings, the fair value is derived through the discounted cash flows. The discount rates used as of December 31, 2007 range from 7.096% to 8.133%.

The fair value of loans payable and borrowings as at December 31, 2009 and 2008 approximate their carrying amount.

#### Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company's quoted and unquoted AFS investments are classified as level 1 and level 3, respectively.

As at December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

#### Categories and classes of financial instruments:

The carrying values of the Group's financial assets and liabilities per category and class are as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>				
<i>Loans and receivables</i>				
Cash	₱15,496	₱15,496	₱8,712	₱8,712
Receivables				
Trade	141,439	141,439	135,898	135,898
Nontrade and others	5,428	5,428	6,118	6,118
Officers and employees	5,888	5,888	3,141	3,141
Mine rehabilitation fund	5,138	5,138	5,106	5,106
	173,389	173,389	158,975	158,975
<i>AFS investments</i>				
Quoted	82,000	82,000	36,788	36,788
Unquoted	48,396	48,396	48,414	48,414
	130,396	130,396	85,202	85,202
	₱303,785	₱303,785	₱244,177	₱244,177

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities:</b>				
<i>Other financial liabilities</i>				
Trade and other payables	₱2,293,093	₱2,293,093	₱2,048,852	₱2,048,852
Loans payable	80,000	80,000	80,000	80,000
Long-term borrowings	661,440	661,440	716,051	716,051
	<b>₱3,034,533</b>	<b>₱3,034,533</b>	<b>₱2,844,903</b>	<b>₱2,844,903</b>

## 28. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains positive cash balance in order to support their businesses, pay existing obligations and maximize shareholder value. The Group manages their capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2009 and 2008. The Group monitors capital using the consolidated financial statements.

As at December 31, 2009 and 2008, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱4,733,042 and ₱4,732,668, respectively.

## 29. Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group derives revenue from the following main operating business segments:

### Mining Activities

This segment engages in exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products.

### Service

This segment derives its income from drilling, hauling and sawmilling services to its related and outside parties.

### Others

This segment is engaged in the investing and insurance broker activities of the Group.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group operates and generates revenue principally in the Philippines. Thus, geographical segmentation is not required.

The following tables present certain information regarding the Group's operating business segments:

2009	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals	P1,416,391	P-	P-	P-	P1,416,391
Others	2,285	21,814	15,405	-	39,504
Inter-segment revenue	199	26,641	13,515	(40,355)	-
Segment revenue	1,418,875	48,455	28,920	(40,355)	1,455,895
Operating expenses	(1,637,140)	(66,375)	(36,123)	50,597	(1,689,041)
Share in operating results of associates	-	-	-	5,428	5,428
Income (loss) before income tax	(218,265)	(17,920)	(7,203)	15,670	(227,718)
Finance cost, net of other income	120,359	(460)	(15)	-	119,884
Provision for (benefit from) income tax	23,810	242	261	-	24,313
Net income (loss)	P362,434	P17,702	P7,449	(P15,670)	P371,915
	Mining	Service	Others	Elimination	Total
Segment assets	P8,768,148	P591,016	P310,205	(P935,875)	P8,733,494
Investment in equity method associate	-	-	-	356,267	356,267
Segment liabilities	(3,785,853)	(183,607)	(272,862)	408,659	3,833,663
Depreciation	(383,676)	(16,932)	(1,317)	-	(401,925)
Capital expenditures:					
Tangible fixed assets	198,860	214	39	-	199,113
Intangible assets	370,567	-	-	7,219	377,786
Cash flows arising from:					
Operating activities	693,162	(35)	(21,543)	17,337	688,921
Investing activities	(540,050)	(39)	22,281	8,270	(509,538)
Financing activities	(154,965)	(227)	379	(17,336)	(172,149)
2008	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals	P1,713,873	P-	P-	P-	P1,713,873
Others	5,419	83,833	34,149	-	123,401
Inter-segment revenue	199	65,814	69,657	(135,670)	-
Segment revenue	1,719,491	149,647	103,806	(135,670)	1,837,274
Operating expenses	(2,119,160)	(144,597)	(100,725)	143,023	(2,221,459)
Share in operating results of associates	-	-	-	(36,560)	(36,560)
Income (loss) before income tax	(399,669)	5,050	3,081	(29,207)	(420,745)
Finance cost, net of other income	314,921	(126)	(346)	154	314,603
Provision for (benefit from) income tax	22,563	3,171	2,218	-	27,952
Net income (loss)	(P737,153)	P2,005	P1,209	(P29,361)	(P763,300)

2008	Mining	Service	Others	Elimination	Total
Segment assets	₱8,790,620	₱328,123	₱587,577	(₱900,443)	₱8,805,877
Investment in equity method associate	—	—	—	378,322	378,322
Segment liabilities	(3,549,614)	(280,025)	(77,530)	395,418	(3,511,751)
Depreciation	(547,695)	(19,730)	(8,114)	—	(575,539)
Capital expenditures:					
Tangible fixed assets	301,359	10,911	10,962	—	323,232
Intangible assets	544,868	—	—	5,266	550,134
Cash flows arising from:					
Operating activities	324,889	10,808	5,820	(131,322)	210,195
Investing activities	(846,904)	(10,980)	(6,757)	84,644	(779,997)
Financing activities	521,282	(227)	307	46,680	568,042
2007	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals	₱1,712,653	₱—	₱—	₱—	₱1,712,653
Others	2,100	61,828	74	—	64,002
Inter-segment revenue	177	137,028	21	(137,226)	—
Segment revenue	1,714,930	198,856	95	(137,226)	1,776,655
Operating expenses	(2,000,341)	(189,055)	(180)	135,294	(2,054,282)
Share in operating results of associates	—	—	—	55,742	55,742
Income (loss) before income tax	(285,411)	9,801	(85)	53,810	(221,885)
Finance cost, net of other income	(59,999)	(45)	—	—	(60,044)
Provision for (benefit from) income tax	41,215	3,411	22	—	44,604
Net income (loss)	(₱266,627)	₱6,435	(₱65)	₱53,810	(₱206,445)
Segment assets	₱7,535,190	₱733,187	₱22,547	(₱223,710)	₱8,067,214
Investment in equity method associate	—	—	—	445,151	445,151
Segment liabilities	(3,347,596)	(368,699)	(41,013)	278,799	(3,478,509)
Depreciation	(453,400)	(16,331)	—	—	(469,731)
Capital expenditures:					
Tangible fixed assets	187,560	59,117	—	—	246,677
Intangible assets	549,643	—	—	(1,932)	547,711
Cash flows arising from:					
Operating activities	1,048,094	85,432	(182)	(68)	1,133,276
Investing activities	(680,275)	(86,128)	1,775	181,615	(583,013)
Financing activities	(371,959)	(151)	136	(181,547)	(553,521)



**EXHIBIT "B"****SCHEDULE C**  
Page 1 of 2**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**LONG-TERM INVESTMENT IN STOCKS**  
**DECEMBER 31, 2009**

Name of issuing entity	Beginning of the period		Additions		Deductions		End of the period	
	Number of shares or principal amount of bond and notes	Amount in Pesos	Equity in net earnings (losses) by investees	Others	Distribution of earnings by investees	Others	Number of shares or principal amount of bond and notes	Amount in Pesos
<b>Philippine Fire and Marine Insurance Corporation</b>	231,375	₱40,572,865	(₱5,224,058)	-	-	-	231,375	₱35,348,807
<b>Manila Mining Corporation (MMC)</b>	36,023,290,520	₱198,438,808	(₱203,515)	-	-	-	36,023,290,520	₱198,235,293
<b>Advances to MMC</b>		₱139,311,143	-	-	-	₱9,482,326		₱129,828,817
<b>Total</b>		₱378,322,816	(₱36,560,221)	₱-	₱-	₱9,482,326		₱363,412,917

# EXHIBIT "B"

SCHEDULE C  
Page 2 of 2

## LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES AVAILABLE-FOR-SALE INVESTMENTS DECEMBER 31, 2009

	Beginning of the period		Additions			Deductions		End of the period	
	Number of shares or principal amount of bond and notes	Amount in Pesos (net of related allowance)	Equity in net earnings (losses) by investees	Others (Market Value Recovery)	Distribution of earnings by investees	Others (Disposal)	Number of shares or principal amount of bond and notes	Amount in Pesos	
Prime Orion Philippines, Inc.	182,060,000	₱30,950,200	₱-	₱43,694,400	₱-	₱-	182,060,000	₱74,644,600	
Filsyn Corporation	4,545,034	-	-	-	-	-	4,545,034	-	
AGP Industrial Corporation	1,500,097	-	-	-	-	3,533,932	1,500,097	-	
Philippine Long Distance Telephone Co.	30,575	110,675	-	-	-	-	30,575	110,675	
Philippine Associated Smelting and Refining Corporation	37,407,798	37,407,798	-	-	-	-	37,407,798	37,407,798	
Crown Fruits and Cannery Corporation	20,000	-	-	-	-	-	20,000	-	
Philippine Oil & Geothermal Energy, Inc.	600,000,000	-	-	-	-	-	600,000,000	-	
Manila Peninsula Hotel, Inc.	2,359,263	10,395,340	-	-	-	-	2,359,263	10,395,340	
Others	479,942	38,188	-	99,147	-	-	548,505	137,335	
Total equity investments		78,902,201	-	47,793,547	-	3,533,932		122,695,748	
Alabang Golf and Country Club	1	1,000,000	-	50,000	-	-	1	1,050,000	
Canlubang Golf and Country Club	1	450,000	-	-	-	70,000	1	380,000	
Makati Sports Club, Inc.	1	230,000	-	-	-	50,000	1	180,000	
Club Filipino	1	120,000	-	-	-	30,000	1	90,000	
Philam Properties	1	500,000	-	-	-	-	1	500,000	
Manila Polo Club, Inc.	1	4,000,000	-	1,500,000	-	-	1	5,500,000	
Total golf club shares		6,300,000	-	1,550,000	-	150,000		7,700,000	
Total		₱85,202,201	₱-	₱49,343,547	₱-	₱3,683,932		₱130,395,748	

# EXHIBIT "C"

## SCHEDULE E

### LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES MINE EXPLORATION COSTS AND OTHER NONCURRENT ASSETS DECEMBER 31, 2009

Description	Beginning balance	Additions	Deductions			Ending Balance
			Charged to costs and expense	Charged to other account	Other changes	
Mine exploration costs	₱760,274,705	₱-	₱20,066,211	₱-	₱-	₱740,208,494
Other noncurrent assets:						
Mine rehabilitation and environmental trust fund	₱5,444,797	₱-	₱11,564	₱-	₱-	₱5,433,233
Long-term and miscellaneous deposits	11,427,800	-	9,917,865	-	-	1,509,935
Other Assets	66,400	-	-	-	-	66,400
Total other noncurrent assets	₱16,938,997	₱-	₱9,929,429	₱-	₱-	₱7,009,568

**EXHIBIT "D"****SCHEDULE F****LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES****Borrowings****DECEMBER 31, 2009**

Title of issue and type of obligation	Amount authorized by indenture	Current portion	Non-current portion	Terms
Australian New Zealand Banking Corporation International Exchange Bank	₱13,860,000	₱13,860,000	₱-	Jump sum payment on June 15, 2009. Interest rate is repriced monthly to be determined by the bank.
Land Bank of the Philippines - Peso	70,039,200	31,878,000	38,161,200	Payable monthly. Last payment due on June 30, 2010. Interest rate is 9.25% per annum.
Land Bank of the Philippines - FCDU	39,780,000	3,200,000	36,580,000	Monthly payable, last payment due to on March 2, 2012. Interest rate repriced monthly based on 91-day T-bill plus 3% spread.
Northstar Trade Finance	74,012,400	24,763,200	49,249,200	Monthly payable, last payment due to on March 2, 2012. Interest rate repriced monthly based on Dollar Prime plus 3% spread.
	2,670,489	2,670,489	-	Lump sum payment already due. Interest rate is 15% per annum compounded monthly.
Northstar Trade Finance	5,983,362	5,983,362	-	Semi-annual installment every March and September, with the last installment due on September 2, 2009. Interest repriced semi-annually based on 6-month US LIBOR plus 2.50% spread.
Dresdner Bank AG	454,827,857	-	454,827,857	Due on October 2011. Principal and interest payable monthly, subject to one year moratorium and capitalization of interest. Monthly interest based on US LIBOR plus 2.50% spread.
Philam Savings Bank	266,442	193,687	72,755	Payable in forty eight equal monthly installments. Interest rate is 10.40% per annum.
<b>TOTAL</b>	<b>₱661,439,750</b>	<b>₱82,548,738</b>	<b>₱578,891,012</b>	

# EXHIBIT "E"

SCHEDULE I  
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## LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES CAPITAL STOCK DECEMBER 31, 2009

Title of issue	Number of shares authorized	Total number of shares subscribed, issued and outstanding as shown under related balance sheet caption	Amount	Number of shares reserved for option warrants, conversions and other rights	Number of shares held by affiliates	Directors, officers and employees	Others
Common Stock							
Class "A"	20,100,000	19,742,130,050	₱1,974,213,005	279,743,462	None	3,431,669,957	None
Class "B"	13,400,000	13,161,402,180	1,316,140,218	186,496,000	None	101,245,107	None
Total shares subscribed, issued and outstanding		32,903,532,230	3,290,353,223				
Less subscription receivable			3,372,598				
TOTAL			<u>₱3,286,980,625</u>				

**EXHIBIT 'E'**  
**SCHEDULE I**  
Page 2 of 2

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CAPITAL STOCK**  
**DECEMBER 31, 2009**

The parent company's authorized share capital is ₱3,350,000,000 divided into 33,500,000,000 shares at ₱0.10 par value each consisting of 20,100,000,000 Class "A" common shares and 13,400,000,000 Class "B" common shares. As of December 31, 2009, total shares and outstanding is 32,876,854,350 held by 30,022 shareholders.

The details of the most recent increases in authorized share capital as approved by the Securities and Exchange Commission are shown below:

Year	Authorized Capital Stock		Total	Issue Price
	Common "A" shares	Common "B" shares		
As of 1987	4,200,000,000	2,800,000,000	₱700,000,000	₱0.10
1989	6,000,000,000	4,000,000,000	1,000,000,000	0.10
2000	9,900,000,000	6,600,000,000	1,650,000,000	0.10
			<u>₱3,350,000,000</u>	



**Certification of Ore Reserve**  
Lepanto Mine Division  
Lepanto Consolidated Mining Company  
As of January 01, 2010

**EXHIBIT "F"**

Ore Reserve	Category	Tonnes	g/t Au	% Cu	M ozs. Au	M Lb Cu
Victoria	Proved	2,550,000	4.74	-	0.388	-
	Probable	570,000	3.89	-	0.071	-
	<b>Sub Total</b>	<b>3,120,000</b>	<b>4.58</b>	<b>-</b>	<b>0.459</b>	<b>-</b>
Teresa	Proved	100,000	4.33	-	0.013	-
	Probable	20,000	4.00	-	0.003	-
	<b>Sub Total</b>	<b>120,000</b>	<b>4.27</b>	<b>-</b>	<b>0.016</b>	<b>-</b>
<b>Total</b>		<b>3,240,000</b>	<b>4.57</b>	<b>-</b>	<b>0.476</b>	
Enargite	Proved	4,060,000	2.28	1.548	0.298	138.450
	Probable	3,110,000	2.72	1.642	0.273	112.661
	<b>Sub Total</b>	<b>7,170,000</b>	<b>2.47</b>	<b>1.589</b>	<b>0.570</b>	<b>251.111</b>
<b>Grand Total</b>		<b>10,410,000</b>	<b>3.13</b>	<b>1.589</b>	<b>1.046</b>	<b>251.111</b>

Ore Reserve is defined as that part of a *Measured* and *Indicated* Mineral Resource which could be mined, inclusive of dilution, and from which valuable or useful minerals could be recovered economically under conditions prevailing at the time of reporting. It is derived from estimates of Mineral Resources modified by economic, metallurgical, marketing, legal, environmental, social and government factors. Ore Reserves are sub-divided into *probable* and *proved* categories.

The parameters applied in the estimation of Ore Reserve are as follows:

Parameters	Reserve Estimation
Grade estimate	Based on the kriged resource estimate grade at raw vein width, the resource grade estimate was diluted with a dilution shell based on vein width. Enargite was estimated manually using prismoidal averaging and no top-cut was used. To provide for sampling/distribution adjustments in the Enargite resource, a factor of 0.81 is applied to the Cu grade while a factor of 0.90 is applied to Au.
Mining width estimate	Minimum of 1.00 meter unless accessible and economically mineable
Dilution	0.50 meter irrespective of vein width
Minimum ore reserves grade	2.00 g/t Au for Victoria & Teresa 1.00% Cu for Enargite

Mining dilution is applied against the mineral resource blocks that are either classified as Measured or Indicated. A 0.25 meter dilution skin is applied against the resource blocks regardless of vein width. The dilution skin is calculated at zero Au grade value. The 2.0 g/t Au minimum grade, after dilution, serves as the lower limit to which proved or probable ore reserve category blocks are considered as an ore reserve.

## Forward-Looking Statements

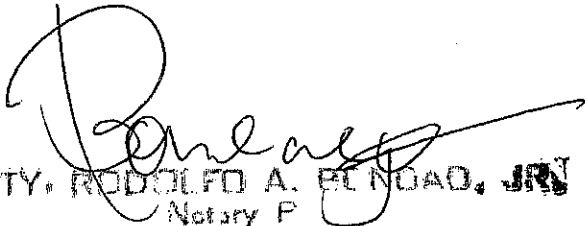
Certain statements contained in this certification and verification are "forward-looking statements". These include, without limitation:

Estimates of reserves, and statements regarding future exploration results and reserve replacements;

When expectation or belief is expressed, as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by those forward-looking statements. Such risks include, but are not limited to the price of gold and copper, currency fluctuations; geological and metallurgical assumptions; operating performance of equipment, processes and facilities; labor relations; timing of receipt of necessary government permits or approvals; domestic laws or regulations, particularly relating to the environment and mining; domestic and international economic and political conditions; the ability of Lepanto Mine Division, Lepanto Consolidated Mining Company to obtain or maintain necessary financing; and other risks and hazards associated with mining operations.

## Estimates of Proved and Probable Reserves are Uncertain

Estimates of proven and probable reserves are subject to considerable uncertainty. Such estimates are, to a large extent, based on interpretations of geologic data obtained from drill holes and other sampling techniques. Gold producers use feasibility studies to derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the predicted configuration of the ore body, expected recovery rates of metals from the ore, comparable facility, equipment, and operating costs, and other factors. Actual cash operating costs and economic returns on projects may differ significantly from original estimates. Further, it may take many years from the initial phase of drilling before production is possible and, during that time, the economic feasibility of exploiting a discovery may change.

  
ATTY. RODOLFO A. BENCIO, JR.  
Notary P

Until December 31, 2010

PTR No. 2156980; 1-05-10

IBP No. 405922; 1-06-10

Roll No. 57353; 05/05/09

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PAGE NO. 03  
BOOK NO. 12  
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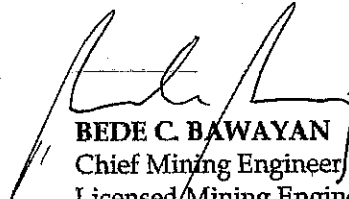
## CERTIFICATION

We, BRIDGET G. GAMMAD and BEDE C. BAWAYAN, Filipinos, of legal ages, and with office address at the Lepanto Mine Division, Lepanto, Mankayan, Benguet, being the Mineral Resource - Ore Reserve Engineer and Chief Mining Engineer respectively of Lepanto Mine Division, Lepanto Consolidated Mining Company, a corporation duly organized and existing under Philippine laws with office address at the 20<sup>th</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Metro Manila, after being duly sworn to, hereby certify THAT:

1. We respectively conducted and supervised the conduct of an objective examination and evaluation of Ore Reserve Status of Lepanto Mine Division as of 01 January 2010 with a Summary Report ("CERTIFICATION") pertaining thereto as hereto attached and made an integral part hereof; and
2. The information contained therein were made in accordance with the generally accepted Ore Reserve Estimation Procedures in the Philippine Mining Industry.
3. We take full responsibility as to the correctness and accuracy of the said report.

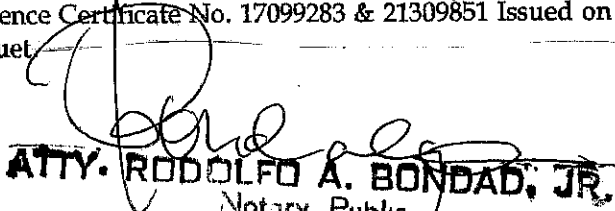
Mankayan, Benguet : 17 March 2010

  
**BRIDGET G. GAMMAD**  
Mineral Resource - Ore Reserve Engineer  
Licensed Mining Engineer  
PRC Lic. No. 0002795  
PTR No. 2192304 : Jan 14 2010  
Mankayan, Benguet

  
**BEDE C. BAWAYAN**  
Chief Mining Engineer  
Licensed Mining Engineer  
PRC Lic. No. 0001260  
PTR No. 2192223 : Jan 14 2010  
Mankayan, Benguet

**SUBSCRIBED AND SWORN** to before me this 17 day of March 2010 in Mankayan, Benguet  
affiant having exhibited to me their respective Residence Certificate No. 17099283 & 21309851 Issued on  
16 March 2010 & 04 January 2010 at Mankayan, Benguet

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Page No. 43;  
Book No. 17;  
Series of 2010

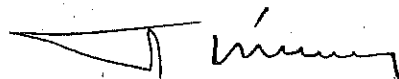
  
**ATTY. RODOLFO A. BONDAD, JR.**  
Notary Public  
Until December 31, 2010  
PTR No. 2151942-A-10  
IBP No. 2151942-A-10  
Roll No. 57353; 05/05/09

## VERIFICATION

I, **AUGUSTO C. VILLALUNA**, Filipino, of legal age, a COMPETENT PERSON and the Senior Vice President of Lepanto Consolidated Mining Company, a corporation duly organized and existing under Philippine laws with office address at the 20<sup>th</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Metro Manila, after being duly sworn to, depose and state THAT:

1. I conducted a separate study on the Ore Reserve Status of Lepanto Mine Division, Lepanto Consolidated Mining Company as of January 01, 2010 and thereafter reached similar findings with those prepared by LMD, LCMC's Mineral Resource - Ore Reserve Engineer Ms. BRIDGET G. GAMMAD under the supervision of Lepanto Mine Division, Lepanto Consolidated Mining Company's Chief Mining Engineer, Mr. BEDE C. BAWAYAN, in their Summary Certification; and
2. Based on the said findings, I hereby grant my concurrence thereto and that the same were made in accordance with the generally accepted Ore Reserve Estimation Procedures in the Philippine Mining Industry.

Mankayan, Benguet: March 24, 2010.



**AUGUSTO C. VILLALUNA**

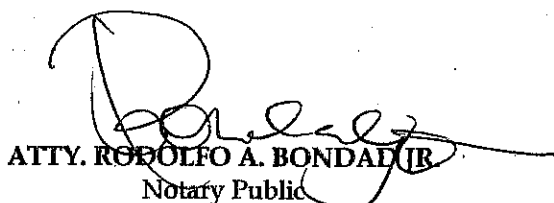
Licensed Mining Engineer

PRC Lic. No. 0001051

PTR No. 2192353; Jan 14 2010

Mankayan, Benguet

**SUBSCRIBED AND SWORN** to before me this 24<sup>th</sup> day of March 2010 in Mankayan, Benguet, affiant exhibiting his Community Tax Certificate No. 17099824 issued on March 24, 2010 at Mankayan, Benguet.



**ATTY. RODOLFO A. BONDAD JR.**  
Notary Public

Until December 31, 2010

PTR No. 2156980; 01/05/2010

IBP No. 805972; 01/06/2010

Roll No. 57353; 05/05/2009

Doc. No. 297;

Page No. 43;

Book No. 12;

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