



## **LEPANTO CONSOLIDATED MINING COMPANY**

(A corporation organized and existing under Philippine Laws)

### **One (1) Share Of Common Stock For Every Three and 3/10 (3.3) Shares Held**

**Prospectus relating to the stock rights offering, with Record Date of December 3, 2010, covering 10,052,282,840 common shares at P0.30 per share from the Company's additional capital stock with an aggregate value of P3,015,684,852, consisting of 6,031,372,952 "A" shares and 4,020,909,888 "B" shares, the initial 50% payable upon subscription and the 50% balance payable not later than February 14, 2011. The Offer Period is from January 3 to 7, 2011. Pursuant to the offering, outstanding options under the Company's 17<sup>th</sup> Stock Option Award will be increased by 33,409,662 "A" Shares and 22,273,108 "B" Shares.**

**The subject stock rights shares will be listed with the Philippine Stock Exchange but there will be a separate listing application for the additional option shares. The Company will engage the services of an underwriter, the Multinational Investment Bancorporation, for the sale or distribution of the Offer Shares.**

## **PROSPECTUS**

**November 8, 2010**

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

21<sup>st</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Philippines  
Telephone No. 8159447; Fax No. 8105583 / 8120451



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21<sup>ST</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Philippines  
Telephone No. 8159447; Fax No. 8105583 / 8120451

### **Pre-emptive Rights Offering with a par value of P0.10 per share at an exercise price of P0.30 per share.**

Lepanto is offering to its shareholders the right to subscribe to one (1) share for every three and 3/10 (3.3) shares held as of record date of December 3, 2010.

In a Resolution dated November 9, 2010, the Securities and Exchange Commission has confirmed that the issuance of the Rights Shares is an exempt transaction under Section 10.1(e) of the SRC.

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

		No. of Shares		Value
Issued, Outstanding and Subscribed Shares as of September 30, 2010	"A"	19,903,530,742	P	1,990,353,074.20
	"B"	<u>13,269,002,630</u>		<u>1,326,900,263.10</u>
	<b>Total</b>	<b>33,172,533,372</b>	<b>P</b>	<b>3,317,253,337.30</b>
<b>Shares to be offered</b>	"A"	6,031,372,952	P	1,809,411,885.60
	"B"	<u>4,020,909,888</u>		<u>1,206,272,966.40</u>
	<b>Total</b>	<b>10,052,282,840</b>	<b>P</b>	<b>3,015,684,852.00</b>
*Upward Adjustment in the no. of shares covered by the 4 <sup>th</sup> & 5 <sup>th</sup> year of the 17 <sup>th</sup> ESOP	"A"	33,409,662	P	10,022,898.60
	"B"	<u>22,273,108</u>		<u>6,681,932.40</u>
	<b>Total</b>	<b>55,682,770</b>	<b>P</b>	<b>16,704,831.00</b>
<b>Total Shares for Listing</b>	"A"	6,064,782,614	P	1,819,434,784.20
	"B"	<u>4,043,182,996</u>		<u>1,212,954,898.80</u>
	<b>Total</b>	<b>10,107,965,610</b>	<b>P</b>	<b>3,032,389,683.00</b>
Issued, Outstanding and Subscribed after the Offering	"A"	25,934,903,694	P	2,593,490,369.40
	"B"	<u>17,289,912,518</u>		<u>1,728,991,251.80</u>
	<b>Total</b>	<b>43,224,816,212</b>	<b>P</b>	<b>4,322,481,621.20</b>

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

The PSE assumes no responsibility for the correctness of any of the statements, opinions and reports made or expressed in this Prospectus. The application to cover the listing of the Offer Shares was approved by the PSE Board of Directors on November 10, 2010.

USE OF PROCEEDS: Settle debts, accounts with suppliers and advances from shareholders, update the retirement benefit obligation and development of the Victoria Project.

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

\* This will not affect the Issued, outstanding and subscribed shares until exercised on or after February 1, 2010. This will be covered by a separate listing application.

# LEPANTO CONSOLIDATED MINING CO.

BA-Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

Stock Rights Offering  
One (1) Share of Common Stock  
For Every Three and 3/10 (3.3) Shares Held  
At a Price of P0.30 Per Share

This Prospectus relates to the offering for subscription (the "Offer") of 10,052,282,840 Common Shares (the "Rights Shares" or "Offer Shares") with a par value of P0.10 per share of Lepanto Consolidated Mining Company ("LCMC") by way of a pre-emptive rights offering to eligible existing common shareholders of LCMC at the proportion of one (1) Rights Share for every three 3/10 (3.3) Common Shares held as of Record Date at an offer price of P0.30 per share. In addition, the outstanding Stock Options under the 17<sup>th</sup> Stock Option Award will increased on the same basis, by 33,409,662 "A" and 22,273,108 "B" Shares.

The authorized capital stock of the Company is P3,350,000,000 consisting of 20,100,000,000 "A" and 13,410,000,000 "B" Common Shares with a par value of P0.10 per share. As of the date of this Prospectus, 33,172,533,372 Common Shares are issued and outstanding. After the completion of the Offer, the Authorized Capital Stock shall have increased to P6,640,000,000, consisting of 39,840,000,000 "A" and 26,560,000,000 "B" common shares, with 43,224,816,212 shares, consisting of 25,934,903,694 "A" and 17,289,912,518 "B" common shares issued and outstanding.

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

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

The Company expects to raise approximately P3.015 billion from the Offer. The net proceeds from the Offer, after costs and fees of about P18.8 million, will be used by the Company to develop the Victoria Project, settle loans/debts and accounts with suppliers, repay advances from shareholders and update the Retirement Benefit obligation.

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

Multinational Investment Bancorporation (MIB) will act as Underwriter of the Offer. Any unsold Rights Shares will be taken up and distributed by MIB. The Chairman of the Company, Mr.

Felipe U. Yap, and F. Yap Securities, Inc., a principal shareholder of the Company, have committed to subscribe not just to their respective entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified shareholders.

Prospective investors to the Offer Shares must conduct their own evaluation of the Company and the terms and conditions of the Offer, including the merits and risks involved. Please refer to Risk on Investing and Risk Factors discussed on pages 8-10 of this Prospectus. The readers of this Prospectus are further enjoined to consult their financial advisers, tax consultants, and other professional advisers with respect to the acquisition, holding, or disposal of the Offer Shares described herein.

The Company's Common Shares are listed on the Philippine Stock Exchange, Inc. ("PSE") under the symbols "LC and LCB". On October 22, 2010 LC and LCB closed at P0.37 and P0.42 per share.

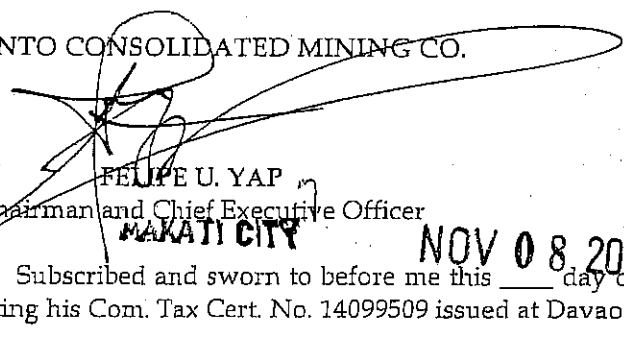
In a Resolution dated November 9, 2010, the Securities and Exchange Commission has confirmed that the issuance of the Rights Shares is an exempt transaction under Section 10.1(e) of the Securities Regulation Code.

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

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

LEPANTO CONSOLIDATED MINING CO.

By:


  
FELIPE U. YAP  
Chairman and Chief Executive Officer

MAKATI CITY

NOV 08 2010

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

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BOOK NO. XV  
SERIES OF 2010

  
ATTY. GERVACIO B. ORTIZ JR.  
NOTARY PUBLIC FOR MAKATI CITY  
UNTIL DECEMBER 31, 2010  
R NO. 20/5548 JAN. 04, 2010 MAKATI  
IBP NO. 656155-LIFETIME MEMBER  
APPT. M-84/2010 ROLL NO. 40087

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## **GLOSSARY OF TERMS**

Additional Shares	-	The shares granted to Applicants on top of the Rights Shares
Additional Subscription	-	The subscription by an Eligible Shareholder to Available Shares as indicated in the Subscription Agreement and for which the corresponding 50% downpayment is made to the Company within the Offer Period
Ag	-	Silver
Applicant	-	An Eligible Shareholder who applies for an Additional Subscription
APSA	-	Application for an MPSA
Assay	-	the chemical analysis of an ore, mineral, concentrate of metal to determine the amount of valuable species. Precious metals are usually given in ounces per short ton or grams per metric ton, while base metals are given in percentage
Au	-	Gold
Available Shares	-	Offer Shares that remain unsubscribed as of the end of the Offer Period, which may therefore be distributed to Applicants in the Second Round
CIP	-	Carbon-in-Pulp Plant
Copper Flotation	-	is the process of separating copper minerals from the ore using chemical reagents, air and mechanical agitation. The mineral particles are separated from the host rock and float to the surface on air bubbles forming a froth, which is skimmed off, filtered and dried
Copper concentrate	-	the resulting copper product of the process of separating mill head grade ore or metal from its containing rock.
Cu	-	Copper
Eligible Shareholder	-	a shareholder of at least four (4) shares of stock of the Company as of the Record Date, thus entitled to subscribe to the Offer Shares
FSGRI	-	Far Southeast Gold Resources, Inc.
GFS	-	Gold Fields Switzerland Holding AG

Group	-	Lepanto Group, consisting of Lepanto and its subsidiaries, namely: Shippside, Inc.; Lepanto Investment & Development Corporation; Diamond Drilling Corporation of the Philippines; Diamant Boart Philippines, Inc.; and Far Southeast Gold Resources, Inc.
FTAA	-	Financial or Technical Assistance Agreement
GDA	-	Gold Delivery Agreement
LCMC / Lepanto/ Parent Company	-	Lepanto Consolidated Mining Company
MPSA	-	Mineral Production Sharing Agreement
Manila Mining; MMC	-	Manila Mining Corporation
MIB	-	Multinational Investment Bancorporation
Mill head grade	-	the content of precious metal in the ore as it enters the mill
Mmt	-	Million metric tonnes
Offer/ Rights Offer	-	The 1:3.3 Stock Rights Offering of the Company
Offer Price	-	P0.30 per Offer Share
Offer Period	-	The period commencing on January 3, 2011 at 9:00 o'clock a.m. and ending on January 7, 2011 at 5:00 o'clock p.m.
Offer Shares	-	The shares subject of the Offer, totaling 10,052,282,840 shares
PMRC	-	Philippine Mineral Reporting Code
Record Date	-	December 3, 2010
Rights Shares	-	The shares to which each shareholder of the Company is entitled to subscribe, on the basis of his shareholdings as of the Record Date
Second Round	-	The distribution of Available Shares to Applicants in proportion to their shareholdings as of the Record Date.



## **Business and General Information**

Lepanto Consolidated Mining Company is a Filipino primary gold producer. Lepanto has been a proud corporate resident of Mankayan, Benguet for 74 years since 1936.

From 1948 to 1996, Lepanto's Enargite operations produced 1.58 billion pounds of copper, 2.9 million oz of gold and 12.0 million oz of silver, recovered from 34.4 Mt of ore averaging 2.2% Cu and 3.5 g/t Au.

Soon after the Victoria deposit was discovered in September 1995, the exploration and mine development work shifted from the Enargite deposit to the Victoria. In preparation for the milling of the gold ore, the copper flotation circuit was shut down on January 31, 1997. A new P135 million (US\$5 M) 2500-t/d carbon-in-pulp or CIP plant was commissioned on March 16, 1997.

During the first three years of gold operations, the Victoria was accessed through the same infrastructure utilized for the old Enargite mine, principally the Tubo Shaft. To provide easier access to the Victoria and improve ventilation, the Nayak Twin Decline project was started in July 1998. Two declines stretching 1 kilometer from the surface to the 1150L and an internal shaft were constructed in the Nayak Area. The project was completed in April 2000 at a cost of P675 million (M\$15.0).

Lepanto continues to produce gold from its Victoria and Teresa operations, both located in Mankayan, Benguet. Lepanto resumed copper operations in 2008, which it suspended in the fourth quarter of that year due to the sharp decline in copper prices.

The Victoria Project has produced over 1,200,000 ounces gold from 1997 to 2009.

Lepanto sells its gold bullion production to Heraeus Ltd (Hongkong), a refinery based in Hongkong. It sold the copper concentrate produced in 2008 to Seagate Minerals & Metals Inc., Trafigura Beheer B.V. Amsterdam, metals traders based in Switzerland and New Jersey, USA, respectively, and Fujian Jinshan Gold Smelting Company, a copper smelter located in the Fujian Province of China.

The Company's revenues (100%) for the last 3 years (2008-2010) came from its sales of gold in bullion and copper concentrate. Under the contract with Heraeus Ltd., the Company ships gold (dore) bars to the said buyer on a weekly basis. The contract has a term of one year which is regularly renewed, and has provisions regarding assay, manner of delivery, weighing and sampling, settlement/ payment, pricing and refining charges.

In reporting its mineral resource and reserves, the Company complies with the PMRC. Please refer to the pertinent discussion under Recent Developments and to Annexes "A" to "B".

The Company has mining claims covering over 4,000 has. in Mankayan, Benguet alone. It has Environment Compliance Certificates, for its tailings dam 5A and its gold and copper mining projects. Following is a summary of the Company's mining claims.

## Mining Claims

		<b>Date of Grant/Date Filed</b>	<b>Date of Expiry</b>	<b>Status</b>	<b>Area</b>	<b>Location</b>
Mineral Production Sharing Agreements (MPSAs)	MPSA No. 001 - 90	March 3, 1990	March 3, 2015 (renewable for another 25 years)	Development/ exploration and production	948.9696 has.	Mankayan, Benguet
	MPSA No. 151 - 2000-CAR	March 9, 2000	March 9, 2025 (renewable for another 25 years)	Under Exploration	1,829.3565 has.	Mankayan, Benguet
MPSA and FTAA Applications	APSA No. 096	Original – June 3, 1999 Amended – January 16, 2001	-	Pending evaluation by the MGB	1,057.1739 has.	Mankayan, Benguet
	APSA No. 00004-VIII	July 27, 2000	-	-do-	78.5220 has.	Villaba, Leyte
	AFTAA No. 024	January 12, 2005	-	-do-	10,468.9397 has.	Benguet and Mountain Province
Patented Claims	Forty-six (46) patented mining claims	-	<i>With TCT/ OCT</i>	Exploration works are on-going	335.5179 has.	Mankayan, Benguet
Environmental Compliance Certificates (ECCs)	Mill Process Modification of the Mankayan Mill Plant	Original – December 6, 1996 Amended – December 10, 1999	<i>Coterminous with the project</i>	Existing	-	Mankayan, Benguet
	Far Southeast Gold Mining Project	December 27, 1990	<i>Coterminous with the project</i>	Existing	-	Mankayan, Benguet

		<b>Date Entered Into</b>	<b>Claim owner</b>	<b>Status</b>	<b>Area</b>	<b>Location</b>
Operating Agreements	APSA No. 063	October 12, 1992	Jaime Paul B. Panganiban	Pending	343.86 has. combined total area	Suyoc, Mankayan
	APSA No. 064	October 12, 1992	June Prill Brett	Pending		
	APSA No. 065	October 12, 1992	Heirs of James D. Brett	Pending		
	APSA No. 023	January 21, 1983	Montañosa Mining Exploration Co.	Opposed by Comedis, et al. but validity of Lepanto's application was sustained by the Mine Adjudication Board (MAB). Comedis' Motion for Reconsideration pending with MAB		

## Subsidiaries

SHIPSIDE, INC.,s 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, Lepanto. It has a fleet of about 12 trucks, and is a heavy user of diesoline, gasoline and tires. It also has warehouses and beach-front properties located at Poro Point, San Fernando, La Union, where it operates a resort/restaurant. Generally, Shipline is not dependent on any single supplier for its raw material requirements, i.e., fuel and tires, and these are readily available from a number of suppliers. 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) was incorporated in 1971 and is in the business of providing diamond drilling services. It services mostly mining companies. DDCP has a ready market in its parent company and affiliate, Manila Mining Corporation.

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 evenues.

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. Business has not been very good in recent years, despite the virtual absence of competition, due to the slump in the mining, marble and construction industries.

Lepanto owns 60% of FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI), another mining company with resources in Mankayan, Benguet; the remaining 40% is owned by Pacific Mining Limited. Incorporated in 1989, FSGRI is not yet in operation. On September 20, 2010, Lepanto entered into an Option and Shareholders' Agreement with Gold Fields Switzerland Holding AG (GFS) which grants GFS an option to subscribe to new shares of stock of FSGRI representing a 20% interest in FSGRI. If the option is exercised by Gold Fields, Lepanto's interest in FSGRI will be reduced from 60% to 40%. Please see discussion under Recent Developments, page 7 of this Prospectus.

## Summary Financial Information

### 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)	<b>P1,416,391</b>	P1,713,873	P1,712,653
Service fees and other operating income (Note 26)	<b>39,559</b>	123,401	64,002
	<b>1,455,950</b>	1,837,274	1,776,655
<b>COSTS AND EXPENSES</b> (Note 22)	<b>(1,689,041)</b>	(2,221,459)	(2,054,282)
<b>FINANCE COSTS</b> (Note 23)	<b>(173,304)</b>	(139,636)	(166,623)
<b>FOREIGN EXCHANGE GAINS (LOSSES)</b> - net	<b>36,718</b>	(175,234)	224,417

<b>OTHER INCOME</b> - net (Note 23)	<b>16,704</b>	268	2,250
<b>SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES</b> (Note 10)	<b>5,428</b>	(36,560)	55,742
<b>LOSS BEFORE INCOME TAX</b>	<b>(347,545)</b>	735,347	161,841
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 18)			
Current	<b>112</b>	4,703	3,885
Deferred	<b>24,201</b>	23,249	40,719
	<b>24,313</b>	27,952	44,604
<b>NET LOSS FOR THE YEAR</b>	<b>371,858</b>	763,299	206,445
Attributable to:			
Equity holders of the Parent Company	<b>P370,746</b>	(P763,189)	(P206,578)
Minority interests (Note 20)	<b>1,112</b>	(110)	133
	<b>(P371,858)</b>	(P763,299)	(P206,445)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Changes in fair values of AFS investments (Note 9)	<b>45,194</b>	(66,312)	53,984
Changes in future tax rate	–	40,710	–
Changes in revaluation increment in land (Note 8)	<b>(36,333)</b>	–	–
	<b>8,861</b>	(25,602)	53,984
<b>TOTAL COMPREHENSIVE LOSS</b> - net of tax	<b>P363,054</b>	P788,901	P152,461
Attributable to:			
Equity holders of the Parent Company	<b>(P356,839)</b>	(P788,913)	(P153,434)
Minority interests	<b>(6,215)</b>	12	973
	<b>(P363,054)</b>	(P788,901)	(P152,461)
<b>BASIC AND DILUTED LOSS PER SHARE</b> (Note 21)	<b>(P0.01128)</b>	(P0.02369)	(P0.00718)

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands)

	<b>December 31</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Cash (Note 4)</b>	<b>P15,946</b>	P8,712	P10,472
Receivables - net (Note 5)	<b>152,755</b>	145,157	81,741
Inventories - net (Note 6)	<b>489,998</b>	581,762	445,746
Other current assets (Note 7)	<b>309,671</b>	421,098	319,593
<b>Total Current Assets</b>	<b>968,370</b>	1,156,729	857,552
<b>Noncurrent Assets</b>			
Property, plant and equipment - net (Note 8)	<b>6,441,333</b>	6,408,409	6,180,064
Available-for-sale (AFS) investments (Note 9)	<b>130,396</b>	85,202	151,498
Investments in and advances to associates (Note 10)	<b>363,411</b>	378,322	445,151
Mine exploration costs - net (Notes 1 and 11)	<b>740,208</b>	760,275	757,624
Deferred income tax assets - net (Note 18)	<b>89,912</b>	102,838	107,236
Other noncurrent assets (Note 26)	<b>7,010</b>	16,940	13,240
<b>Total Noncurrent Assets</b>	<b>7,772,270</b>	7,751,986	7,654,813
<b>TOTAL ASSETS</b>	<b>P8,740,640</b>	P8,908,715	P8,512,365

## LIABILITIES AND EQUITY

### Current Liabilities

Trade and other payables (Note 12)	<b>P2,354,878</b>	P2,135,701	P1,636,566
Current portion of long-term borrowings (Note 14)	<b>82,549</b>	92,314	70,704
Loans payable (Note 13)	<b>80,000</b>	80,000	100,000
<b>Total Current Liabilities</b>	<b>2,517,427</b>	2,308,015	1,807,270

### Noncurrent Liabilities

Long-term borrowings - net of current portion (Note 14)	<b>578,891</b>	623,737	939,870
Retirement benefit obligation (Note 16)	<b>515,744</b>	468,690	470,892
Deferred income tax liabilities - net (Note 18)	<b>113,816</b>	127,308	149,168
Stock subscriptions payable	<b>107,784</b>	111,309	111,309
<b>Total Noncurrent Liabilities</b>	<b>1,316,235</b>	1,331,044	1,671,239

### Equity

Capital stock (Note 19)	<b>3,286,980</b>	3,286,606	2,877,676
Additional paid-in capital	<b>1,446,062</b>	1,446,062	830,291
Revaluation increment in land (Note 8)	<b>511,504</b>	564,022	523,735
Cumulative changes in fair values of AFS investments (Note 9)	<b>(359,056)</b>	(406,895)	(340,884)
Retained earnings (deficit)	<b>(225,688)</b>	126,470	889,659
<b>Equity attributable to the equity holders of the parent company</b>	<b>4,659,802</b>	5,016,265	4,780,477
Minority interests (Note 20)	<b>247,176</b>	253,391	253,379
<b>Total Equity</b>	<b>4,906,978</b>	5,269,656	5,033,856
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P8,740,640</b>	P8,908,715	P8,512,365

## Recent Developments

### The Far Southeast Project

The Company executed on September 20, 2010 an Option and Shareholders' Agreement ("Agreement") with Gold Fields Switzerland Holding AG ("GFS"), a wholly-owned subsidiary of Gold Fields Limited, in relation to the development and operation of the Far Southeast Project ("FSE Project").

The FSE Project is a large gold-copper porphyry deposit located in Mankayan, Benguet, adjacent to the current operations of Lepanto. It is owned by Far Southeast Gold Resources, Inc., ("FSGRI") a joint venture company organized in 1988 for the development and operation of the FSE Project. The FSE Project is covered by MPSA No. 01-90, issued jointly to FSGRI and Lepanto in March 1990.

The Agreement grants GFS an irrevocable 18-month option to subscribe to new shares of stock of FSGRI representing a 20% interest therein. The option period shall automatically lapse on the later of: (a) the 5<sup>th</sup> business day to occur 18 months after the commencement date; and (b) the 10<sup>th</sup> business day to occur after the date an FTAA is granted to FSGRI in respect of an area that includes the FSE Project area; however, the option period shall automatically lapse on the 5<sup>th</sup> business day to occur immediately after an MPSA election is made. If the option is exercised by GFS and a Financial or Technical Assistance Agreement (FTAA) is granted, Lepanto's interest in FSGRI will be reduced from 60% to 40%. The Parties intend to progress the FSE Project under an FTAA, with Lepanto owning 40% of the outstanding capital and GFS owning the balance.

For the option, Lepanto was paid by GFS a non-refundable option fee of US\$10 million in September 2010 which Lepanto utilized to settle backwages and other accrued employees' benefits, accounts with banks, suppliers, taxes and loans. The option requires GFS to sole-fund

pre-development expenses including exploration and a feasibility study of the FSE Project and contribute US\$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

GFS is a wholly-owned subsidiary of Gold Fields Limited, the fourth largest gold producer in the world with an annual gold production of over 3.5 million ounces. The Gold Fields group is based in South Africa and has 48,500 employees in the 13 countries where it operates. Gold Fields Limited's shares are listed on the stock exchanges of New York, Johannesburg and Dubai. It has a market capitalization of over US\$10 billion.

#### Ore Reserve Estimate

Engr. Augusto C. Villaluna, the Company's Senior Vice President for Operations and a Competent Person under the PMRC, certified to the Company's Ore Reserve Estimation as of October 1, 2010. This is based on the Mineral Resource Estimate as of September 2010 of Mr. Froilan C. Conde, the Company's Exploration and Mine Geology Manager, also a Competent Person under the PMRC.

The Ore Reserve of Lepanto Consolidated Mining Company in its Victoria/Teresa gold deposit in Mankayan, Benguet is estimated to be 10,092,000 tonnes of ore with a grade of 3.11 g/t Au As as of October 1, 2010.

Inasmuch as there were no active mining operations in the Teresa and Enargite area in 2010, the Ore Reserves therein declared by the Company on January 1, 2010 remains unchanged at 120,000 and 7,170,000 tonnes with grades of 4.26 g/t and 2.47g/T Au (1.5% Cu), respectively.

Attached hereto are: Ore Reserve Estimation, Annex "A"; Certification of the Mineral Resource- Ore Reserve Engineer and Chief Mining Engineer, Annex "A-1"; Verification of the Competent Person, Engr. Augusto C. Villaluna, Annex "A-2"; and Secretary's Certification on the position of the Competent Person and his shareholdings, Annex "B".

#### **Risk Factors**

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

##### **a) Risks relating to the Company's over-all business**

###### **i) Further Net Losses Projected**

Lepanto expects to close the year with a Net Loss of about P108 million. Lepanto needs to develop sufficient mining areas within the Victoria Project in order to increase productivity and turn-around to profitability. A major development program is scheduled for 2011 for which proceeds of the Rights Offer will be utilized in part, to ensure a steady source of good-grade ore and efficient mining operations for the rest of 2011.

## **ii) 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.

## **iii) Operational and Environmental Risks**

Operational risk hazards include possible occurrence of accidents in the exploration or operations site. Also, pollutants may be generated from mining and milling operations, thus the need for strict compliance with health, safety and environment standards.

Environmental protection is a priority of the Company. Lepanto is guided by its Environmental Policy to integrate safety, health and environmental concerns in all phases of its operations. The Company has an Environment and Social Development Department at the Lepanto Mine Division that attends to all environmental and community concerns at the minesite. At the Head Office, the Company also maintains an Environment, Health and Safety Department.

## **iv) Exercise of Option by Gold Fields**

GFS' exercise of the option in respect of the Far Southeast project is subject to the results of the further exploration work that it is presently conducting on this project. GFS represents that there has not been sufficient work completed to declare a mineral resource for the Project, although drilling undertaken over a number of years indicates the presence of a large, concealed gold-copper mineralized porphyry system.

## **v) Volatility of Metal Prices**

The Company's revenues are directly affected by the prices of the metals it produces, which are gold and silver. These metal prices are influenced principally by demand factors in the world market. The prices of these metals are currently at historical highs but there is no assurance that the upward trend will continue.

## **vi) Litigation: Case for Declaration of Nullity of Contracts against NM Rothschild & Sons (Australia) Ltd.**

There is a material case involving the Company entitled: Lepanto vs. NM Rothschild & Sons (Australia) Limited. 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. A petition filed by Rothschild is pending with the Supreme Court questioning the RTC's denial of its Motion to Dismiss which denial had been affirmed by the Court of Appeals. The declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay losses to Rothschild. However, should the case for nullity be dismissed, the Company may have to settle hedging losses amounting to about US\$14 million.

## **vii) Competition/ Market for Lepanto's Products**

The gold bullion sold by Lepanto is readily marketable. The gold is sold to Heraeus Metals of Hongkong. The Company may however sell its gold to other refiners such as Johnson

Matthey. Because of the high demand for metals, there is virtually no competition in the industry and gold producers may easily sell any gold produce.

**viii) Labor**

The Company has CBAs with its labor unions. Its CBAs with the mine-based Lepanto Employees Union and Lepanto Security Force Union will expire on November 16, 2010 and are currently subject of negotiations, while its CBA with the Lepanto Supervisors' Union will expire on June 30, 2011. The CBA with the Makati-based Lepanto Employees Union-Makati will expire on June 30, 2012. Please see further discussion on Employees on page 18.

**ix) Appreciation of the Peso vis-a-vis the US Dollar**

Being a 100% exporter, the Company's revenues are directly impacted by the appreciation of the Philippine Peso against the US dollar. Although it has dollar denominated costs, most of the Company's costs and expenses are, such as labor and power, in Pesos.

**x) Risk on Environmental Legislation**

Mining activities in the Philippines are monitored and highly regulated by the DENR. New government regulations could affect the Company's exploration or mining activities and entail additional costs.

**xi) Term of Mining Contracts**

The MPSAs of Lepanto have terms ending on 2015 and 2025, each renewable for another 25 years.

**b) Risks relating to the Rights Shares**

**i) Marketability of Shares**

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

**ii) Fluctuations in the Peso/US\$ rate**

The Rights Shares shall be listed on the PSE, where securities are quoted and traded in Pesos. Thus, fluctuations in the Peso/US\$ exchange rate may affect the US\$ value of the Rights Shares and of dividends that may be earned therefrom.

**c) Risks relating to the Philippines: Risk of Political Instability**

The Philippines has experienced political instability from time to time due to protests mounted by some sectors, including factions from the military, and terrorist activities of some extremists. There is no assurance that the country will not suffer from any such destabilizing activities in the future.



## Use of Proceeds

The proceeds of the offering will amount to P3.015 Billion, to be utilized as follows:

	Amount	Year of Disbursement		
		Year 2010	Year 2011	Year 2012
<b>Debt Service</b>				
Long-term Borrowings	124,000,000			
Trust Receipts	309,000,000			
Export Advance	286,000,000			
	<b>719,000,000</b>		<b>719,000,000</b>	
<b>Trade &amp; Other Payables</b>				
Utilities	570,000,000			
Suppliers	278,000,000			
Government Agencies	35,000,000			
	<b>883,000,000</b>		<b>883,000,000</b>	
<b>Cost of Offering (as shown on the table below)</b>	<b>18,680,194</b>	<b>6,974,052</b>	<b>11,706,142</b>	
<b>Advances from Shareholders/Affiliates</b>	<b>495,000,000</b>		<b>495,000,000</b>	
<b>Retirement Benefit Obligations</b>	<b>400,000,000</b>		<b>400,000,000</b>	
<b>Mine Development- Victoria Project</b>	<b>500,000,000</b>		<b>400,000,000</b>	<b>100,000,000</b>
<b>Total</b>	<b>3,015,680,194</b>			

The Borrowings in the amount of P124M were utilized for Mine Development (P76M), Tailings Dam Maintenance (24M), and Exploration Drilling (24M) for the Victoria Project; trust receipts financed importations of mine equipment, drilling and machine parts and mine and milling supplies; export Advances were utilized for working capital; all in connection with the Victoria Project. The Advances from Shareholders, namely: F. Yap Securities, Inc., Pacita Yap, Paulino Yap and Christine Yap-Tan and officers, Felipe U. Yap, Bryan U. Yap, Ma. Lourdes B. Tuason and Rene F. Chanyungco, were used for the purchase of underground equipment and importation of major materials and supplies for the Victoria Project. These expenditures were applied primarily to the company's Property, Plant and Equipment Account.

## Cost of Offering

### Expenses in relation to the Stock Rights Offer

The Expenses that this exercise will entail are estimated at PhP18,680,194, broken down as follows:

Nature of Expense	Amount
Processing Fee, PSE	P 10,000.00
PSE Listing Fee	3,015,685.00
SEC Confirmation of Exempt Transaction	3,045,842.00
SEC Listing Fee	2,525.00
SEC Filing Fee, Increase in Authorized Capital Stock	6,580,000.00
Documentary Stamp Tax	5,026,142.00
Transfer Agent's Fees	50,000.00
PDTC's Fee	50,000.00
Administrative (printing of notices and Subscription Agreements, mailing, miscellaneous	900,000.00
<b>Total</b>	<b>P 18,680,194.00</b>

The costs enumerated above will be expended in 2010, except the SEC Filing Fee for the Increase in Authorized Capital Stock, Documentary Stamp Tax, Transfer Agent's Fees and PDTC's Fees which will be paid in 2011.

### **Determination of Offering Price**

The shares will be offered to all eligible Lepanto shareholders at the exercise price of P0.30 per share of either class or a discount of about 30% to the closing price of Lepanto Class "A" and "B" shares on the day of the Board's approval and announcement of the offering. The discount is being given to encourage participation in the offering. The exercise price is 3x the par value of P0.10 per share.

### **Plan of Distribution**

The Rights Shares shall be offered on a pre-emptive rights basis to existing shareholders of the Company as of the Record Date. The Offer shall be in the proportion of one (1) share for every three and 3/10 (3.3) shares of the same class held as of the Record Date at a Rights Offer Price of P0.30 per Rights Share. The Available Shares shall be granted to those shareholders who had exercised their rights and had applied for Additional Shares. These shall be distributed by the underwriter Multinational Investment Bancorporation ("MIB") on a pro-rata basis, to be determined after all the subscription agreements with the required payments shall have been received by the Company. The Chairman of the Company, Mr. Felipe U. Yap, and its principal stockholder, F. Yap Securities, Inc., have committed to subscribe not just to their respective entitlement of Rights Shares but also to any rights shares that will not otherwise be taken up by other qualified shareholders.

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

MIB will act as Underwriter of the Offer but no underwriting fees will be collected with respect to the Offer. MIB has a firm commitment to underwrite the Rights Shares.

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

### **Relationship with the Issuer**

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

### **TERMS AND CONDITIONS OF THE OFFER**

ISSUER:	Lepanto Consolidated Mining Company
RATIO:	one (1) new common share for every 3.3 common shares held

ELIGIBLE SHAREHOLDER	a shareholder of at least 4 shares of stock of the Company as of the Record Date, thus entitled to subscribe to the Offer Shares
OFFER SHARES:	Common Shares of the Company with par value of P0.10 per share consisting of 6,031,372,952 class “A” shares and 4,020,909,888 class “B” shares or a total of 10,052,828,840 shares. The Offer Shares shall be considered issued and shall rank equally in all respects with the existing shares after a valid subscription agreement is perfected between Lepanto and the subscriber as evidenced by the written acceptance by LCMC of the application to subscribe and issuance by LCMC of an official receipt covering the payment of at least 50% of the Offer Price
OFFER PRICE:	P0.30 per share
PAR VALUE:	P0.10 per share
RECORD DATE:	December 3, 2010
EX-DATE:	November 30, 2010
OFFER PERIOD:	January 3-7, 2011
PAYMENT TERMS:	50% due within Offer Period; balance due on February 14, 2011. Full payment is acceptable and will be duly receipted but such full payment does not guarantee the Company’ approval of the Additional Subscription, as the Available Shares will be determined only after the Offer Period, and will be distributed to Applicants in proportion to their original shareholdings as of the Record Date.
ADDITIONAL DOCUMENTS NEEDED:	<p>If the Subscriber is a partnership, corporation or trust account, the Subscription Agreement must be accompanied by a Secretary’s Certificate embodying the resolution authorizing the subscription to the Rights Offer and designating the authorized signatory for the transaction;</p> <p>Individual subscribers must submit a copy of a valid ID together with the Subscription Agreement.</p>
ADDITIONAL SUBSCRIPTIONS:	Additional Subscriptions must be indicated in the Subscription Agreement and submitted within the Offer Period with the corresponding 50% payment. In the event that the Rights Offer is not fully taken up as of the end of the Offer Period, shareholders who have applied for Additional Subscriptions (“Applicants”) will automatically qualify for the Second Round, during

	which Available Shares will be distributed to the Applicants in proportion to their original shareholdings as of the Record Date.
REFUND:	Should the approved additional subscription be less than that applied for, the excess subscription payment of each Applicant shall be applied first to 50% of the value of the Additional Subscription; the excess shall be applied to the balance of the entire subscription. Any further excess shall be refunded via check not later than five (5) banking days after the end of the Offer Period. Such refund check shall be mailed to the Applicant's address as indicated in the Subscription Agreement.
UNDERWRITER:	Multinational Investment Bancorporation
ESCROW AGENT:	Banco de Oro Universal Bank
STOCK TRANSFER AGENT:	Bank of the Philippine Islands
USE OF PROCEEDS:	To settle debts and accounts with suppliers and advances of shareholders, update retirement benefit obligation and fund the development of the Victoria Project
ISSUANCE TAX/ DOCUMENTARY STAMP TAX	All documentary stamp taxes applicable to the issuance of the Offer Shares shall be for the account of LEPANTO
LISTING DATE:	The shares offered will be listed after compliance with the post-approval requirements of the PSE including the SEC's approval of the increase in the Company's Authorized Capital Stock
TRADING DATE:	The shares will be tradable upon full payment by the shareholder concerned of the subscribed shares and LEPANTO's compliance with post-listing requirements of the PSE provided that LEPANTO's application for the increase of its Authorized Capital Stock shall have been approved by the SEC
REGISTRATION AND LODGMENT OF SHARES WITH PDTC	All Offer Shares shall be lodged with the PDTC but no stock certificates shall be issued corresponding to fully-paid subscriptions. Instead, a Registry Confirmation Advice will be issued by the Transfer Agent to the Depository Participants or brokers designated by the subscriber; if the Subscriber does not indicate any broker's name, then the Company will designate F. Yap Securities, Inc. on the Subscriber's behalf.

**FOREIGN OWNERSHIP  
RESTRICTION**

Common “A” Shares, constituting 60% of the capital stock of the Company, are available only to Filipino Shareholders. This is a built-in mechanism to ensure that at any one time, foreign ownership in the Company does not exceed 40% of the outstanding capital.

**ACCEPTANCE / REJECTION OF  
APPLICATIONS**

The Company has full discretion to accept or reject all or a portion of any subscription under the terms and conditions of the Offer. The actual number of Rights Shares to which any subscriber may be entitled is subject to the confirmation of the Company. Subscriptions where checks are dishonored upon first presentment or which do not comply with the terms of the Offer shall be rejected. Moreover, payment received upon submission of a subscription does not constitute approval or acceptance by the Company of the same.

The Offer Shares will come entirely from an increase in the Company’s Authorized Capital Stock and are open only to existing shareholders.

The additional stock option shares to be listed will be exercisable pursuant to the Revised Stock Option Plan, that is, 20% per year. The Company’s Seventeenth Stock Option Award will expire on February 1, 2013. Please see discussion on pages 34-35 of this Prospectus

**Securities**

**Market for Registrant’s Common Equity and Related Matters**

Lepanto’s shares of stock are listed on the Philippine Stock Exchange. Following are the quarterly prices of Lepanto securities since 2008:

**Lepanto “A” (P/share)**

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10
Low	0.34	0.24	0.17	0.06	0.06	0.07	0.17	0.22	0.21	0.245	0.495
High	0.37	0.26	0.18	0.0625	0.0925	0.22	0.32	0.22	0.22	0.26	0.53

**Lepanto “B” (P/share)**

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q08	4Q09	1Q10	2Q10	3Q10
Low	0.26	0.30	0.22	0.34	0.0675	0.0725	0.175	0.22	0.22	0.25	0.54
High	0.42	0.37	0.38	0.61	0.10	0.23	0.33	0.27	0.22	0.26	0.60

## Securities and Shareholders

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 53.15% of total.

### Top 20 Stockholders of the Company (as of September 30, 2010)

	Name of Stockholder	"A" Share	"B" Share	Total	%
1	PCD Nominee Corp. (Fil)	10,914,820,861	2,738,958,942	13,653,779,803	41.16
2	F. Yap Securities, Inc.	2,705,263,554	1,994,511,297	4,699,774,851	14.17
3	First Metro Investment Corp.	2,550,682,926		2,550,682,926	7.76
4	F. Yap Securities, Inc. A/C 1411		1,129,238,161	1,129,238,161	3.44
5	F. Yap Securities, Inc. A/C 5217		1,020,000,000	1,020,000,000	3.10
6	F. Yap Securities, Inc. A/C 5219		1,020,000,000	1,020,000,000	3.10
7	First Metro Investment Corp.	169,762,500	799,642,268	969,404,768	2.95
8	F. Yap Securities, Inc.		762,701,203	762,701,203	2.32
9	Coronet Property Holdings Corp.	277,556,566	447,665,860	725,222,426	2.21
10	F. Yap Securities, Inc. A/C # 5218		699,905,750	699,905,750	2.13
11	PCD Nominee Corp. (Non-Fil)		594,011,183	594,011,183	1.81
12	F. Yap Securities, Inc. A/C # CPHC-2	362,240,169		362,240,169	1.10
13	F. Yap Securities, Inc. A/C # CPHC-3	337,989,616		337,989,616	1.03
14	F. Yap Securities, Inc. A/C 521		323,773,000	323,773,000	0.98
15	F. Yap Securities, Inc. A/C # CPHC-1	301,859,763	1,376,778	303,236,541	0.92
16	Emma Yap	242,838,706	24,313,091	267,151,797	0.81
17	Bryan U. Yap	175,915,517	9,284,832	185,200,349	0.56
18	Paulino Yap	155,062,032	13,897,503	168,959,535	0.51
19	Felipe U. Yap	86,063,611	54,643,386	140,706,997	0.43
20	Pacita K. Yap	117,176,650	3,681,251	120,857,901	0.37

### Recent Sales of Unregistered or Exempt Securities

A total of 4,112,264,385 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 480 million common shares (including the adjustment in relation to the 2008 1:7 stock rights Offering) effective until January 30, 2013. To date, about 273 million shares have been exercised under the said Award at a price of P0.3112 per share. (Please see pages 34-35 for further information on the outstanding stock options.)

## Properties

### Parent Company

The Company owns about 1,742.5 has. of land in Mankayan, Benguet, where its plants and mining facilities are located. It has two (2) Mineral Production Sharing 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, beginning on March 3, 1990 and March 9, 2000, respectively.

It also owns 1, 352 sq. meters of land in Cebu City and a Roaster Plant in Isabel, Leyte. The Roaster Plant sits on 4.7 hectares of land, 3.1 hectares of which was recently acquired by the company from Mahler Holdings Corporation.

Lepanto owns two storeys of the Lepanto Building located at 8747 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 43.75 has. of land in 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 P42,000 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

The Company has various automotive equipment/vehicles in Makati City, Benguet and Leyte.

Lepanto's infrastructure 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).

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

### **Subsidiaries**

Shipside has substantial properties in La Union. It owns about 17.6634 hectares of land in Poro Point, San Fernando, La Union, used for its hauling, warehousing and sawmilling businesses. It also has a beach resort in Poro Point, covering 4.1194 hectares. It owns 2 units of dumptrucks, 2 units of Volvo trucks and 1 trailer for its trucking/ hauling business.

DDCP leases a 2,758 sq. meter property at P38,612 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 2,940 sq. meter property in Parañaque City where its offices and plant are located. The lease is good until December, 2011, at the rate of P16,000 per month.

FSGRI 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.

## **Legal Proceedings**

There has never been any bankruptcy, receivership or similar proceeding involving the Company. No material reclassification, merger, consolidation or purchase or sale of a significant amount of assets took place in the last three (3) years.

Case involving the Company:

### Lepanto vs. NM Rothschild & Sons (Australia) Ltd

There is a material case involving the Company entitled: Lepanto vs. NM Rothschild & Sons (Australia) Limited. 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 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 losses to Rothschild. However, should the case for nullity be dismissed, the Company may have to settle hedging losses amounting to about US\$14 million.

### Comedis et al. vs. Lepanto

On January 21, 1983, Lepanto and Montañosa Mining Exploration Co. entered into an operating agreement granting the former the exclusive right to explore and develop the area covered by Montañosa's prospecting and exploration permits. Eventually these exploration permits were converted into an Application for MPSA and was designated as APSA No. 023. Delfin Comedis, et al. filed a protest with the Panel of Arbitrators of MGB-CAR against APSA NO. 023 alleging that the application is invalid. In its decision dated August 16, 1999, the Panel declared APSA No. 023 as invalid and granted preferential rights in favor of the protestants. Lepanto appealed from this decision to the Mines Adjudication Board (MAB), which ruled in a decision dated March 20, 2000 that APSA No. 023 under the name of Lepanto was valid. On April 14, 2000, Comedis et al. filed a Motion for Reconsideration which is still pending with the MAB.

## **Employees**

Lepanto has 1,558 mine-based and 58 Makati-based employees. In the Lepanto Mine Division, there are 180 managerial/supervisory employees, of whom 72 are members of the Supervisors' Union (LLSU); 99 clerical and technical employees, 78 of whom are also LLSU members; 1,249 rank-and-file employees, 1,161 of whom are members of the Lepanto Employees' Union (LEU); and 68 in the security force, of whom 27 are members of the Lepanto Security Force Union (LSFU). There are also 5 cadets, 6 trainees and 30 casual employees. The CBA of LLSU will expire on June 30, 2011 while the CBAs of LEU and LSFU are valid until November 16, 2010 (pending negotiation). Of the 58 employees in Makati, 16 are members of the Lepanto Employees Union-Makati (LEUM) whose CBA was renewed on July 1, 2010 and valid until June 30, 2012; 29 are managerial/supervisory employees (including officers); and there are 3 casual employees.

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



Shipside has 49 employees, of whom 7 are managerial and/or supervisory, 8 are clerical, 4 are administrative and 30 are involved in operations. They are not subject to any CBA. Shipside currently has a freeze-hiring policy until the following year, and it intends to scale down its work force by January 2011 by retiring those due for optional retirement without hiring any replacement.

DDCP has 214 employees, all of whom are in operations, 105 are involved in drilling; 108 employees, all of whom are contractual, are involved in mine development; 1 employee is assigned at the warehouse. Of the 105 employees involved in drilling, 21 are regular, 77 are contractual employees, and 7 are probationary employees. 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.

LIDC and FSGRI have no employees.

### **Material Contracts**

a. MPSA No. 01-90 dated March 3, 1990. This MPSA covers a total of 948.9696 has., all located in Mankayan, Benguet, including: the Enargite Project, which the Company operated from 1936-1997 and in 2008; the Victoria project, which the Company started operating in 1997; and the Far Southeast Project, now subject of an Option and Shareholders' Agreement with GFS. The MPSA has a term of 25 years, renewable for another 25 years. Please refer to the Schedule of Mining Claims on page 4.

b. MPSA No. 151-2000 dated March 9, 2000. This MPSA covers 1,8929.3565 has. located in Mankayan, Benguet. The area is subject of exploration works. Please refer to the Schedule for mining Claims on page 4.

c. Option and Shareholders' Agreement with GFS. This was executed by the Company, FSGRI and Gold Fields Switzerland Holding AG, a wholly-owned subsidiary of Gold Fields Limited, on September 20, 2010.

The Agreement grants GFS an 18-month option, for a fee of US\$10 million, to subscribe to new shares of stock of FSGRI representing a 20% interest therein. If the option is exercised by GFS, Lepanto's interest in FSGRI will be reduced from 60% to 40%. The Parties intend to progress the Project under a Financial or Technical Assistance Agreement, with Lepanto owning 40% of the outstanding capital and GFS owning the balance. FSGRI owns the FSE Project, a large gold-copper porphyry deposit located in Mankayan, Benguet, adjacent to the current operations of Lepanto.

The option requires GFS to sole-fund pre-development expenses including exploration and a feasibility study of the Project and contribute US\$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

GFS is a wholly-owned subsidiary of Gold Fields Limited, the fourth largest gold producer in the world with an annual gold production of over 3.5 million ounces. The Gold Fields group is based in South Africa and has 48,500 employees in the 13 countries where it operates. Gold Fields Limited's shares are listed on the stock exchanges of New York, Johannesburg and Dubai. It has a market capitalization of over US\$10 billion.

d. Gold Delivery Agreement with Dresdner Bank Ag.

In December 1998, Lepanto 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.

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 MPSA in connection with the Victoria project.

In accordance with the hedging facility, Lepanto 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.

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. Please see discussion of this case on page 9.

An amendment to the GDA was entered into by Lepanto and Dresdner in 2008 and 2009 providing for a moratorium on gold deliveries until October 2010. Recently, another moratorium was agreed on, providing for the resumption of monthly deliveries of 200 ounces in January 2011 and a final delivery date of December 2011. Total amount owing under the GDA is US\$10,026,886.

e. Operating Agreement with Montañosa Mining Exploration Co.( Montañosa)

Lepanto and Montañosa entered into an Operating Agreement on January 21, 1983 whereby Montañosa, for valuable consideration including the payment of royalties ranging from 1.2% to 3.6% (depending on the mill grade) of the gross value of copper produced and 1.8% of the gross value of gold, silver and other metals produced, granted Lepanto the rights to explore, develop, equip, mine and operate a total of 18 mineral claims located in Bontoc, Mountain Province consisting of 3,924.3266 hectares. Pursuant to the Operating Agreement, Lepanto filed on October 7, 1991 with the MGB an application for an MPSA denominated as APSA No. 023, currently pending evaluation by the MGB- Cordillera Administrative Region.

f. Operating Agreement with Jaime Paul Panganiban

Lepanto and Panganiban entered into an Operating Agreement dated October 12, 1992 whereby Panganiban, for valuable consideration including the payment of royalties ranging from 1.0% to 2.0% (depending on the mill grade) of the net income from copper produced and 2.0% of the net income on gold and silver produced from the mineral claims, conveyed, transferred and delivered to Lepanto the possession, occupancy, use and enjoyment of a total of 3 mineral claims totaling 98.72 hectares located in Mankayan, Benguet. Pursuant to the Operating Agreement, Lepanto filed with the MGB on August 11, 1997 an application for an MPSA denominated as APSA No. 063, pending evaluation by the MGB- Cordillera Administrative Region.

g. Operating Agreement with James D. Brett and June Prill Brett

Lepanto entered into an Operating Agreement with James D. Brett and June Prill Brett dated October 12, 1992 whereby the Bretts, for valuable consideration including the payment of royalties ranging from 1.0% to 2.0% (depending on the mill grade) of the net income from copper produced and 2.0% of the net income on gold and silver produced from the mineral claims, conveyed, transferred and delivered to Lepanto the possession, occupancy, use and enjoyment of a total of 5 mineral claims totaling 288 hectares located in Mankayan, Benguet. Pursuant to the Operating Agreement, Lepanto filed 2 separate applications for MPSAs over the subject mining claims. APSA No. 064- CAR was filed under the name of the Heirs of James Brett on August 11, 1997, covering 98.72 has.; and APSA No. 065-CAR under the name of June Prill Brett was filed on the same date, covering 146.42 has. Both applications are pending evaluation by the MGB-Cordillera Administrative Region.

**Plan of Operation for the Rest of 2010**

Metal production is expected to improve for the rest of the year as tonnage is expected to increase from the upper levels (above L850), where gold grades are relatively higher than the lower levels. Production cost at the upper levels is also lower as there are no ore re-handling costs. Mining at the lower levels will continue at its present rate.

**Plan of Operation for 2011**

The mine operations will embark on an aggressive mine development of the upper levels of the Victoria where production for the year will be concentrated. Internal ramps and stope developments of over 16 kilometers will be prepared to fully delineate the production panels way ahead of its extraction which will make the mining operations more efficient.

## Management's Discussion and Analysis of Financial Condition and Results of Operations for 2010, 2009 & 2008

January - September 2010

### MINING OPERATIONS

January to September 2010

Tonnage decreased to 251,190 compared with last year's 272,760 tonnes as mine development lagged behind production. Gold grade averaged 2.200 g/t versus 3.0 g/t last year resulting in gold production of 15,821 oz against 23,884 oz. last year. Total Metal Sales amounted to P899 million compared with P1.09 billion last year.

Usage/costs of materials, labor, supplies, power and refining/smeltering charges slightly increased by 2% at P1,210.7 million compared with last year's P1,187.2 million. Mining, labor, power and maintenance costs were the main components of the P23 million increase in costs.

Given the above, Loss from Operations was P311.4 million, up from P92.5 million last year. Net Loss for the first three quarters of 2010 amounted to P419.7 million compared with the loss of P221.2 million for the same period last year. Owing to the relatively stronger Peso, a foreign exchange gain of P1.1 million was recorded compared with a loss of P5.1 million last year. The sale of a Cebu property generated other income of P22.6 million. Finance cost went up to P132 million from P123.6 million.

Following is an extract of the income statement showing the quarterly and year-to-date results:

	2010 Jan-Sep (Pesos M)	2009 Jan-Sep (Pesos M)	Difference %
Sale of Metals	899.3	1094.7	-18
Cost and Expenses	-1210.7	-1187.2	-2
Income (Loss) from Operations	-311.4	-92.5	-236
Finance Costs (net)	-132.0	-123.6	-7
Foreign Exchange Gain (Loss)	1.1	-5.1	122
Other Income	22.6	0	100
Net Income (Loss)	-419.7	-221.2	-90

\*The production statistics for the first three quarters of the year are presented as follows:

	2010 Jan-Sep	2009 Jan-Sep	Difference %
Tonnes Milled	251,190	272,760	-8
Milled Head, g/t Au	2.20	3.00	-27
Au Recovery, %	89	91	-2
Production, oz Au	15,821	23,883	-34

## **BALANCE SHEET MOVEMENTS**

Cash and cash equivalents increased to P116.0 million reflecting receipt of the Goldfields option payment, equivalent to P440,100,000. The Option Fee was utilized to settle backwages and other employees' benefits, taxes and loans. Receivables went down from P316.0 million to P249 million as a result of lower trade receivables coupled with collections of other accounts. Inventories was lower by 12% at P328.3 million due to heavy usage particularly of parts and supplies and the sale copper concentrate of P15.4 million.

Investments and advances decreased to P789.2 million from P891.6 million due to payments made by an affiliate. Deferred income tax assets increased by P9.5 million from P80.6 million last year due to the reduction of deferred tax arising from the sale of the revalued land. Other non current assets increased by P22.6 million on account of Deferred Charges.

Trade payables and accrued expenses amounted to P2,724.1 million due largely to increases in trade accounts, production taxes, accrual of utilities and other liabilities.

Loan accounts dropped due to repayments made: Loan payable by P80 million and Current portion of Long- term borrowings by P64.1 Retirement benefit obligations increased by P34.7 million due to additional accruals.

Retained earnings showed a deficit of P638.2 million as of end of the quarter, from a deficit of P244.6 million as of the beginning of the year.

## **CAPITAL EXPENDITURES**

Total capital expenditures for the three quarters reached P350 million, P182 million of which went to mine development and special projects. A total of P.39 million was spent on exploration while P17 million was incurred for the Tailing Dam maintenance. Mine machinery and equipment purchased for the period amounted to P112 million.

It is projected that total capital expenditures for the year will reach P442 million. Of the P92 million earmarked for the last quarter, P45 million will be for the development of Victoria in the area above the 850L together with the underground construction and special projects in support of mining operations; P7 million for tailings dam maintenance, P40 million for the acquisition of additional mine machinery and equipment specifically load, haul and dump (LHD) heavy duty truck and the refurbishing of the old ones with new engines.

## **SUBSIDIARIES**

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

Lepanto Investment and Development Corp reported a net loss of P136 thousand compared with last year's loss of P68 thousand due to zero commission income this year compared to P53 thousand the previous year. Shippside Incorporated generated a net income of P771 thousand on a gross income of P18.3 million compared to the net loss of P151 thousand last year on a gross of P21.8 million due mainly to the reduction of its operating expenses from P21.6 million to P19.4 million brought about by savings on fuels and lubricants. Diamond Drilling Corporation of the Philippines (DDCP) registered a Net Loss P5.1 million against last year's reported loss of P11.5 million on account of higher drilling revenues. Diamant Boart Philippines, Inc recorded a loss of

P1.5 million which is lower than last year's of P3.0 million due to the revenues of P12.3 million against the previous year's P9.3 million.

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\* - **KEY PERFORMANCE INDICATORS: 2008-2010**

**Tonnes Milled**-indicates the amount of ore taken for processing; **Milled Head**- amount of gold in grams per ton milled; **Metal sales**- sales of gold, copper and silver; **Cost and Expenses**; **Net Income**.

## 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 gld 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. Shipside 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.

## **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. Shippside 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.

## **Compliance with Leading Practices on Corporate Governance/ Board Committees**

Lepanto adopted on August 19, 2002 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, composed of Atty. Ray C. Espinosa and Mr. Wilfrido C. Tecson, both independent directors, and Atty. Jose G. Cervantes; Compensation and Remuneration Committee, composed of Atty. Ray C. Espinosa, Wilfrido C. Tecson and Bryan U. Yap; and Nomination Committee, also composed of Atty. Ray C. Espinosa, Wilfrido C. Tecson and Bryan U. Yap. 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.

The Audit Committee, among other functions, reviews all financial reports against compliance with pertinent accounting standards and guidelines, including regulatory requirements; performs oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Corporation, and crisis management; and pre-approves all audit plans, scope and frequency. 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 Nomination Committee pre-screens and shortlists all candidates nominated to become a member of the board of directors.

The Compensation and Remuneration Committee takes care of the policy on executive remuneration and fixing the remuneration packages of corporate officers and directors, and provide oversight over remuneration of senior management and other key personnel.

### **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).

### **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.

### **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	73	Filipino	Since 1975
BRYAN U. YAP	38	-do-	Since 1997
JOSE G. CERVANTES	76	-do-	Since 2006
AUGUSTO P. PALISOC, JR.	52	-do-	Since April 2010
ETHELWOLDO E. FERNANDEZ	82	-do-	Since 2007
RAY C. ESPINOSA (Independent)	53	-do-	Since 2005
WILFRIDO C. TECSON (independent)	88	-do-	Since 1988
RICARDO V. PUNO, JR.	64	-do-	Since 2005
CRESENCIO C. YAP	65	-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. Augusto P. Palisoc, Jr., has been the Executive Director of Metro Pacific Investments Corporation (MPIC) since 2002. He is also the Head of the MPIC Hospital Group.

Atty. Ray C. Espinosa has been in the Board of Directors of Philippine Long Distance Telephone Company since November 1998. 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. He is the President of ABC 5.

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 Felcrist 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.

### **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:

	<b>2009</b>	<b>2008</b>
Due from MMC	<b>P129,828</b>	P139,311
Advances from Stockholders	<b>P281,111</b>	P139,503

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:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Salaries and other short-term employee benefits	<b>P30,800</b>	P30,800	P29,701
Retirement benefits	—	—	—
	<b>P30,800</b>	P30,800	P29,701

### **Executive Compensation.**

Summary Compensation Table

	<b>2008 Total (All Cash)</b>	<b>Basic Salary</b>	<b>Bonus (13<sup>th</sup> month in the case of executive officers)</b>	<b>Others</b>
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. The Company has no employment contract with any of its officers.

### **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 Company and DBPI have funded, noncontributory, defined benefit retirement plans covering substantially all regular employees while DDCP and Shipperside, 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.

From February 2008 to September 30, 2010, a total of 164,171,510 “A” shares and 109,447,315 “B” shares have been exercised by the optionees. Outstanding options, after the cancellation of forfeited shares, total 109,909,0127 “A” and 73,272,683 “B” shares or a total of 183,181,710 shares. Half of the outstanding shares will be exercisable starting February 1, 2011, the balance starting February 1, 2012, until January 31, 2013. The outstanding shares will increase on the basis of the 1:3.3 Rights Offer, resulting in a slight reduction of the option price from P0.3112 to P0.3086 per share.

### **\*Security Ownership**

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

Owners of more than 5% of the Company’s securities as of September 30, 2010 (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	13.59 15.03	5,640,520,415	14.16
A	**First Metro Investment Corp. Gil Puyat Ave., Makati City	same	Filipino	2,550,682,926	12.93	2,550,682,926	7.76

#### **Security Ownership of Management (September 30, 2010)**

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	133,046,370 / 69,537,869	Filipino	0.6685 / 0.5441
A & B	Bryan U. Yap	Director / President	211,583,898 / 15,747,276	-do-	1.063 / 0.1187
B	Augusto P. Palisoc, Jr.	Director	10,000	-do-	nil
A & B	Jose G. Cervantes	Director	4,114,284 / 2,742,858	-do-	nil
A & B	***Ray C. Espinosa	Director	1,000,000 / 500,000	-do-	nil
A & B	Ethelwoldo E. Fernandez	Director/Corp. Sec.	4,119,284 / 2,745,608	-do-	0.021 / 0.021
A & B	Ricardo V. Puno, Jr.	Director	4,125,536 / 2,742,857	-do-	0.021 / 0.021
A & B	***Wilfrido C. Tecson	Director	6,773,747 / 15,108,311	-do-	0.034 / 0.114
A & B	Cresencio C. Yap	Director	4,114,284 / 10,297,741	-do-	0.021 / 0.078
A	Ramon T. Diokno	Chief Finance Officer	200,584	-do-	nil
A & B	Ma. Lourdes B. Tuason	Vice Pres./Treasurer	10,148,535 / 5,047,403	-do-	0.051 / 0.038
A & B	Augusto C. Villaluna	Sr. Vice President	6,582,858 / 4,388,571	-do-	0.33 / 0.33
A & B	Magellan G. Bagayao	VP/Resident Mgr.	2,057,142 / 1,371,429	-do-	0.01 / 0.01
A & B	Odette A. Javier	VP/Asst. Corp. Sec	6,994,284 / 4,662,858	-do-	0.035 / 0.035
A & B	Rene F. Chanyungco	Vice President	7,405,713 / 4,937,142	-do-	0.037 / 0.037
A & B	Abigail K. Yap	Vice President	4,114,284 / 2,742,858	-do-	0.02 / 0.02

A & B	Pablo T. Ayson, Jr.	Vice President	5,348,571 / 3,565,716	-do-	0.026 / 0.026
A & B	Cherry H. Tan	Asst. Vice President	6,171,429 / 4,114,284	-do-	0.031 / 0.031
A & B	Ruben D. Quiwa	Asst. Vice President	6,171,429 / 4,114,284	-do-	0.031 / 0.031

- \* - 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 Augusto P. Palisoc, Jr.
- \*\*\* - Independent Directors

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

The 1987 Constitution provides that:

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

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

1. Exploration Permits- Valid for a period of two years, subject to annual review and relinquishment or renewal upon the recommendation of the Director of the Mines and Geosciences Bureau; An exploration permit shall grant to the permittee, his heirs or successors-in-interest, the right to enter, occupy and explore the area.
2. Mineral Agreements- shall grant to the contractor the exclusive right to conduct mining operations and to extract all mineral resources found in the contract area. In addition, the contractor may be allowed to convert his agreement into any of the modes of mineral agreements or financial or technical assistance agreement covering the remaining period of the original agreement subject to the approval of the Secretary of the DENR. Mineral Agreements may take any of the following forms:
  - a. Mineral Production Sharing Agreement (MPSA)- an agreement where the government grants to the contractor the exclusive right to conduct mining operations within, but not title over, a contract area and shares in the production output. The contractor shall provide the financing, technology, management and personnel necessary for the implementation of this agreement;
  - b. Co-production Agreement- is an agreement between the Government and the contractor wherein the Government shall provide inputs to the mining operations other than the mineral resource.
  - c. Joint Venture Agreement- an agreement where a joint venture company is organized by the Government and contractor with both parties having equity shares. Aside from earnings in equity, the Government shall be entitled to a share in the gross output.

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

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

## **PHILIPPINE STOCK MARKET**

### **BRIEF HISTORY**

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

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

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

Classified into financial, industrial, holding firms, property, services, mining and oil sectors, companies are listed either on the Exchange’s First Board, Second Board or the newly created Small and Medium Enterprises Board. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as at the date hereof reflects the price movements of 34 selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective April 3, 2006 simultaneous with the migration to the free float index and the naming of the PHISIX to PSEI. The new PSEI includes 30 selected stocks listed on the PSE.

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

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

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

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

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

## **SETTLEMENT**

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

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

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

## **SCRIPLESS TRADING**

In 1995, the Philippine Depository & Trust Corporation (formerly the Philippine Central Depository, Inc.), was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, Rizal Commercial Banking Corporation and Banco de Oro – Unibank, Inc.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are canceled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares in the account of PCNC through the PDTC participant will be recorded in the Issuer's registry. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant-custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must course the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the Securities Clearing Corporation of the Philippines (SCCP), and into the PDTC system. Once it is determined on the settlement date (trading date plus three trading days) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the SCCP Central Clearing and Central Settlement ("CCCS") system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from

the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a stockholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the stockholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are for the account of the uplifting shareholder.

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

#### **AMENDED RULE ON LODGMENT OF SECURITIES**

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the SEC, without any jumbo or mother certificate in compliance with the requirements of Section 43 of the Securities Regulation Code. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III Part A of the Revised Listing Rules.

Further, the PSE apprised all listed companies and market participants on May 21, 2010 through Memorandum No. 2010-0246 that the Amended Rule on Lodgment of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the Exchange shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the SEC.

For listing applications, the amended rule on lodgment of securities is applicable to:

- a. The offer shares/securities of the applicant company in the case of an initial public offering;
- b. The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Commission in the case of a listing by way of introduction;
- c. New securities to be offered and applied for listing by an existing listed company; and
- d. Additional listing of securities of an existing listed company.

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

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

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

## **TAXATION AND FOREIGN EXCHANGE**

Effective January 1, 2009, the corporation income tax rate was reduced to 30% from 35% of taxable net income pursuant to Republic Act 9337. Gross interest income derived by domestic corporation and resident foreign corporations from the Philippine currency bank deposits and yield from deposit substitutes, trust fund and similar arrangements as well as royalties from sources within the Philippines are subject to a final withholding tax of 20% of the gross amount of such income.

### **Tax on Dividends**

Cash and property dividends received from a domestic corporation by individual stockholders who are either citizens or residents of the Philippines are subject to final withholding tax of 10%. Non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax on dividends derived from Philippine sources at the rate of 20%, while those received by non-resident alien individuals not engaged in trade or business are subject to a final withholding tax of 25%, in both cases subject to applicable preferential tax rates under tax treaties in force between the Philippines and the country of domicile of the non-resident alien individual.

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

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

### **Taxes on Capital Gains**

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

#### Taxes on Transfer of Shares Listed and Traded Through the PSE

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

#### Documentary Stamp Tax

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

#### Estate and Gift Taxes

The transfer of shares of stock of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine taxes at progressive rates ranging from 5% to 20% (if net estate is over P200,000). Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax on such transfer of shares ranging from 2% to 15% of the net gifts during the year exceeding P100,000. The rate of tax with respect to net gifts made to a stranger (i.e., one who is not a brother, sister, spouse, ancestor, lineal descendant or relative by consanguinity within the fourth degree of relationship) is a fixed rate of 30%.

Estate and donors' taxes however shall not be collected in respect of intangible personal property, such as shares of stock: a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of the death or donation did not impose a transfer tax of any character, in respect of tangible personal property of citizens of the Philippines not residing in that foreign country, or b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of tangible personal property owned by citizens of the Philippines not residing in that country.

#### Taxation outside the Philippines

Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from the sale is entirely from Philippine sources; hence, such a gain is subject to Philippine income tax and capital gains tax and the transfer of



such shares by gift (donation) or succession is subject to the donors' or estate taxes, each as described above.

The tax treatment of a non-resident holder of shares of stock in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax consideration on non-resident holders of shares of stock under laws other than those of the Philippines.

## **PHILIPPINE FOREIGN INVESTMENT, EXCHANGE CONTROLS AND FOREIGN OWNERSHIP**

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

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

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

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



Lepanto Consolidated Mining Company  
Lepanto Mine Division

**ANNEX "A"**

# **Ore Reserve Estimation Report for Lepanto Mine Division (Mankayan, Benguet, Philippines)**

**as of 01 October 2010**

**By : AUGUSTO C. VILLALUNA**

Senior Vice President, LCMC

Registered Mining Engineer, PRC Lic. No. 0001051

PTR No. BGT 2192343


CP Reg. No. EM 01051-005/10

### CERTIFICATION AND CONSENT

I, **AUGUSTO C. VILLALUNA**, Filipino, of legal age, with address at Lepanto Mine Division, Mankayan, Benguet, hereby certify that:

1. I am a Mining Engineer duly registered with the Professional Regulation Commission of the Philippines with License number 0001051;
2. I am a registered Competent Person as the term is defined under the Philippine Mineral Reporting Code, with registration number EM 1051-005/10.
3. I am currently an employee of Lepanto Consolidated Mining Company ("Lepanto"), a corporation duly organized and existing under Philippine laws with office address at the 21<sup>st</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Metro Manila. I hold the position of Senior Vice President.
4. I have beneficial ownership to a total of 6,582,858 "A" and 4,388,571 "B" shares of stock of Lepanto. In addition, I am a grantee of shares of stock under Lepanto's 17<sup>th</sup> Stock Option Awards, the outstanding shares of which total 7,314,286, consisting of 4,388,571 "A" and 2,925,715 "B" shares. Half of the said option shares will become exercisable on February 1, 2011; the balance will become exercisable on February 1, 2012.
5. I conducted a separate study on the Ore Reserve Estimation Report ("Report") for Lepanto Mine Division, Lepanto Consolidated Mining Company as of October 01, 2010 and thereafter reached similar findings with those prepared by Lepanto's Mineral Resource – Ore Reserve Engineer Ms. BRIDGET G. GAMMAD under the supervision of Lepanto's Chief Mining Engineer, Mr. DOMINADOR R. SISON JR., in their Summary Certification.
6. Based on the said findings, I hereby grant my concurrence thereto and confirm that that the same were made in accordance with the generally accepted Ore Reserve Estimation Procedures in the Philippine Mining Industry.
7. At the time of the Report, to the best of my knowledge, all technical information provided or otherwise referred to therein or made the basis of the Report are correct and not misleading.
8. I hereby consent to the publication of the Report in Lepanto's prospectus or any other means as determined by the Philippine Stock Exchange.

Makati City, November 3, 2010.



**AUGUSTO C. VILLALUNA**

Senior Vice President, LCMC

Registered Mining Engineer, PRC Lic. No. 0001051

PTR No. BGT 2192343

CP Reg. No. EM 01051-005/10

## **EXECUTIVE SUMMARY**

The Ore Reserve Estimation of Lepanto Mine Division was undertaken by Minesite based engineering staff in preparation for the 2011 Mining program to be used for 2011 budgeting.

From an estimated Measured and indicated resources of Victoria totaling 5.6 million tonnes, an Ore Reserve of 2.8 million tonnes was estimated with a average grade of 4.69 g/T Au. From this Ore reserve estimate, 1.9 million tonnes of ore at 2.78 g/T Au Mill head was projected to be mined for the next three years with an expected metal production from the scheduled three year milling is estimated to be at 151,674 ounces Gold and 250,002 ounces silver.

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INTRODUCTION

The Ore Reserve Estimate as of 01 October 2010 of the Lepanto Mine Division in its Mankayan, Benguet Mine which is contained in this report, was undertaken in accordance to Philippine Mineral Reporting Code by the Ore Reserve estimation team of Lepanto Consolidated Mining Company, composed of Bridget G. Gammad (Mining Engineer for Ore Reserve estimation) and Dominador R. Sison Jr. (Chief Mining Engineer).

The Ore Reserve review was done in two months by the mine based Ore Reserve Team in preparation for the upcoming scheduling for 2011 production projection.

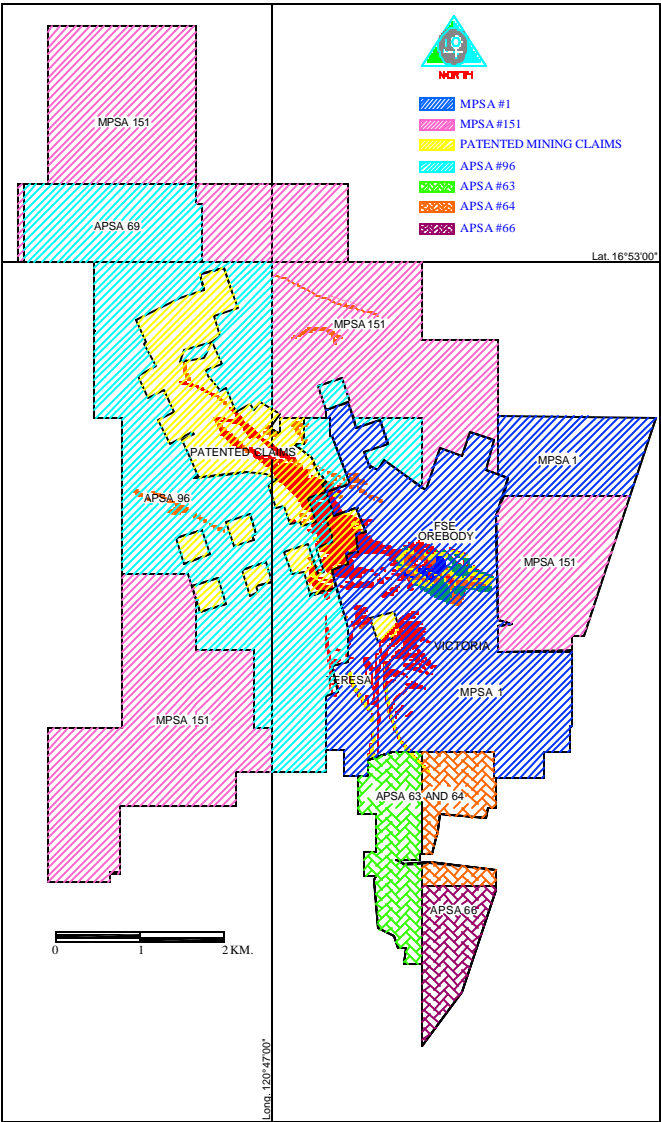
The author of this report, Augusto C. Villaluna currently holds the position of Senior Vice President for Lepanto Consolidated Mining Company and a duly registered Mining Engineer Competent Person.

LEPANTO TENEMENT

The Lepanto tenement comprises 302 mining claims covering an area of 4,168 hectares. It includes two (2) Mineral Production Sharing Agreements that have been approved by the Philippine Government, and four (4) applications for Production Sharing Agreement.

Additionally, there are claims controlled by Lepanto by virtue of Royalty Agreements with private claim owners covering an area of 332 hectares. Geographically it is approximately 16°49'00" to 16°54'33" North Latitude and 120°45'20" to 120°49'33" South Longitude.

Figure 1 Lepanto Tenement Map



- 302 mining claims covering 4,168 hectares
- Claims composed of :
  - Patented Mining Claims- 336 Has.
  - MPSA-01-1990-CAR - 945 Has.
  - MPSA-151-2000-CAR - 1,829 Has.
  - APSA 96 - 1,057 Has.

**Total = 4,168 Has.**
- Additional Claims optioned to Lepanto :
  - APSA #63 - 85 Has.
  - APSA #64 - 98 Has.
  - APSA #66 - 148 Has.

**Total = 332 Has.**

<b>TAXES/LICENSES/FEES/PERMITS:</b>	<b>TOTAL</b>
Real Estate Tax	5,386,066.08
Professional Tax	34,575.00
Water Rights Permit/Filing Fee/Renewal - 2010/2011	3,936.40
Treasurer's certification fee for business permit for 2010	500.00
Blaster's Licenses/Processing fees	47,305.00
Annual Provincial Permit - 2010	50,000.00
Mayor's Permit Fee - 2010	2,000.00
Community Tax Certificate - Class B - 2010	6,500.00
Business Permit Fee - 2010	50,000.00
BIR Annual Registration Fee	500.00
Occupation Fees	208,374.45
Registration of MPSA	2,000.00
Others	864,960.57
<b>PRODUCTION TAX - BATCH 18</b>	
<b>Copper - 68100</b>	4,527.49
<b>Gold - 68200</b>	17,072,690.51
<b>Silver - 68300</b>	457,606.66
<b>CUSTOM DUTY - 63405</b>	15,767,102.71
<b>TOTAL</b>	<b>39,958,644.87</b>

### GEOGRAPHIC FEATURES

The mine is located in Mankayan, Benguet, 90 km north of Baguio City. Geographically, the minesite is located at 16°50'15" latitude and 120° 47'45" longitude. Physiographically, it is the northern most municipality of Benguet bounded by the municipality of Cervantes, Ilocos Sur in the north, Bakun, Benguet on the south; Bauko, Mountain Province in the east and Buguias, Benguet in the west.

The minesite is 250 aerials kilometers north of Manila and can be reached in about 9 to 10 hours travel by land through Baguio City via 95 road kilometers Halsema (Ninoy Aquino) highway. By air, it would take 50 minutes from Manila to the minesite, where the company maintains a landing strip.

Figure 2 Location of Lepanto Mine





Topography of the area is mostly of rugged terrain with elevation reaching to about 1000-1500 meters. Climate is Wet season from May to October and Dry season from November to April with average Precipitation of 340 cm/year and Temperature of 18 °C.

The land use pattern is classified into the following

Forest land	2,900.2 hectares
Agricultural land	1,656.0 hectares
Grass/Pasture lands	1,542.7 hectares
Idle Lands	1,265.5 hectares
Mineral lands	662.3 hectares
Industrial	296.2 hectares
Residential	268.7 hectares
Institutional	78.3 hectares
Recreational	55.5 hectares
Infra/Utilities	41.3 hectares

Vegetation within the forest lands is mostly of Benguet pine trees while agricultural lands are usually planted to high-land vegetables such as cabbage, potatoes, carrots and the like.

Because of the mostly rugged topography, the very steep slope conditions encourage rapid run-off of water. The major natural drainage system consists of tributaries like the Camanpaguey and Gambang rivers to the west, Guinaoang-Suyoc rivers in the south and the Guillong-Baguyos rivers to the north.

Around thirty four thousand comprise the population of the town. Baranggay Paco which hosts the mining community holds the biggest number of households. Though population is composed mostly of indigenous communities of the highlands, the mining community has become a melting pot of people coming from La Union, Panggasinan and even from the southern part of Mindanao.

Outside of the mining community, the main source of income in the municipality is agriculture which is shown by the second highest classification of land use in the area. Thus, to ensure sustainable improvement in the socio-economic situation of the community, the company maintains a Social Development and Management Plan that is aimed at building the capability of the community within the municipality and its neighboring areas to enable them to work progressively towards self-reliance. This will be achieved through, but not limited to, health programs, arts, education, roads, bridges, housing, livelihood, peace and order and religious programs that would harness and mobilize both human and institutional resources in the community in pursuit of environmental goals.

**HISTORY OF PRODUCTION**

Operation from the Victoria deposit of Lepanto Mine Division started with a diamond drill hole that resulted to the discovery sometime September of 1995. From then extensive development of the discovered deposit began in October of the same year and after fast phase transition from discovery to full production of only 18 months, the first ounce was produced March of 1997.

Since then the mine has already produced 1.237 million ounces of gold as of end of September 2010 through mining of 8.293 million tonnes of ore with an average grade of 4.67 g/T Au. Records of historical production is shown in shown in Table 1

**TABLE 1**  
**LEPANTO-VICTORIA PRODUCTION RECORD**

Year/Month	Mine				Bullion
	Tonnes	g/t Au	% Rec.	Tails	Ounces Au
1997	392,770	9.16	91.82	0.75	106,648
1998	638,327	7.84	91.22	0.69	145,714
1999	684,830	6.47	91.76	0.53	126,734
2000	733,377	7.78	92.77	0.56	165,425
2001	853,340	6.15	92.13	0.48	156,066
2002	611,640	6.34	92.04	0.53	114,614
2003	667,375	4.65	91.01	0.42	89,417
2004	754,926	4.15	91.92	0.34	89,866
2005	453,506	3.92	93.72	0.00	55,748
2006	582,834	3.16	92.77	2.71	55,057
2007	571,705	3.01	91.63	0.23	48,918
2008	737,688	1.80	87.43	2.81	37,717
2009	373,340	2.81	90.38	0.26	29,303
2010					
JAN	34,175	2.44	90.20	0.24	2,503
FEB	28,710	2.10	88.94	0.23	1,696
MAR	32,610	2.13	88.47	0.24	1,978
APR	26,015	2.15	88.82	0.24	1,830
MAY	23,405	2.16	89.08	0.23	1,709
JUNE	22,565	2.54	90.93	0.23	1,797
JULY	21,365	2.03	88.70	0.23	1,307
AUG	22,600	2.09	88.72	0.23	1,450
SEP	25,561	2.06	88.74	0.23	1,552
Total	237,006	2.20	89.18	2.09	15,822

Mining operation utilizes the Cut-and-fill mining method to extract ore from veins with varying widths of fraction of a meter to as wide as 5 meter veins.

Ore beneficiation is done by employing gravity extraction using wilfley tables for free gold and leaching through Carbon-in-Leach process of recovering finer gold.

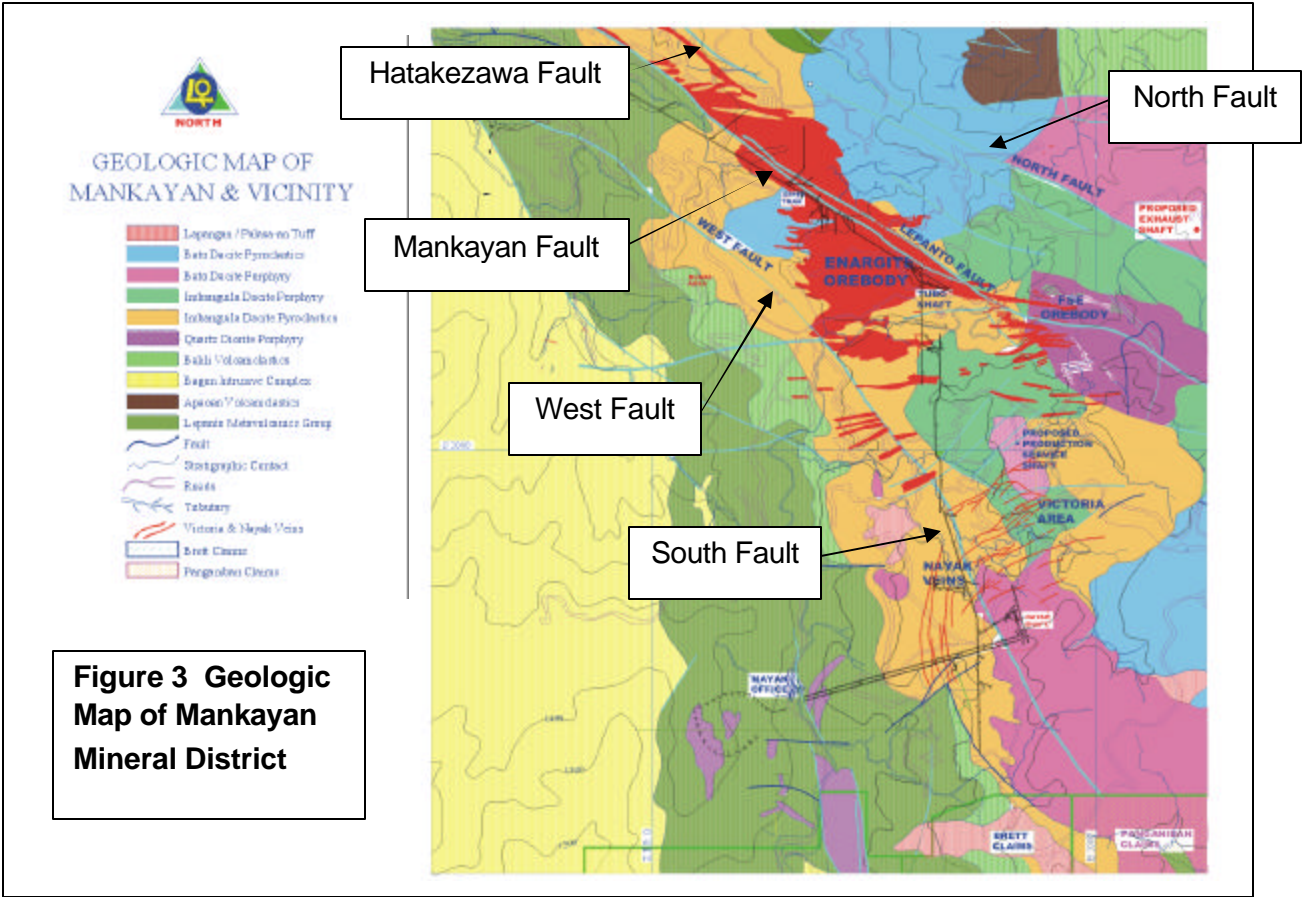
**REGIONAL GEOLOGY**

**Stratigraphy**

The Mankayan Mineral District lies within a 150-km long mineralized belt in the Central Cordillera. This belt is also manifested by the presence of intrusive of intermediate calc-alkaline composition. It is apparent that the distributions of Cu-Au districts are related to the occurrences of the calc-alkaline intrusive and to the Philippine Fault system (Conception and Cinco, 1989; Garcia, 1991).

The major rock units underlying the Mankayan Mineral District consist of dacite complexes (Imbanguila and Bato), the volcanics (Balili and Apaoan), the Lepanto metavolcanics, and the Bagon Intrusive Complex. The distribution of the different lithologies underlying the Mankayan Mineral District is shown in Figure 3

The oldest exposed lithological unit in the district is a submarine volcanic pile from the Cretaceous-Paleogene. Tectonic events resulted to the emplacement of the early Miocene Bagon Intrusive complex along the Abra River Fault. This complex forms the core of a broad north trending anticline within the Mankayan Mineral District.



Sedimentary and volcanoclastic rocks overlie the andesitic basement, the Apaoan and the Balili volcanoclastic formations that form the limbs of the anticline. The deposition of the volcanoclastics was followed by the intrusion of diorite and quartz diorite complexes, which brought about the high level emplacement of some porphyry copper-gold deposits. There are two belts of quartz diorite complexes. One is a west-northwest trending Far South East (FSE) belt consisting of the Guinaoang and FSE deposits and the other is a north trending Nayak belt consisting of the Buaki-Pacda, Nayak and Palidan prospects.

Later volcanic events formed a dacite complex consists of pyroclastics, which is made up of dacitic breccias, lapilli and lithic tuffs intruded by dacitic porphyry dikes and domes. The Imbanguila dacites host the Enargite and Victoria mineralization. The dacite pyroclastics are characterized by the abundance of granule to cobble size clasts of dacitic and andesitic compositions. They are embedded in a medium to coarse-grained matrix with large crystals of hornblende, plagioclase, micas and millimeter size bipyramidal quartz. The associated Imbanguila dacite porphyry is characterized by its distinctly porphyritic texture made up of large crystals of hornblende, biotite, plagioclase and bipyramidal quartz as phenocrysts in a fine matrix made up of minute plagioclases.

Subsequent igneous events emplaced the Imbanguila dacite pyroclastics/porphyries in late Miocene-early Pliocene, then the post-mineral Bato dacite pyroclastics/porphyries in late Pleistocene and finally, the Lapangan tuff in late Pleistocene.

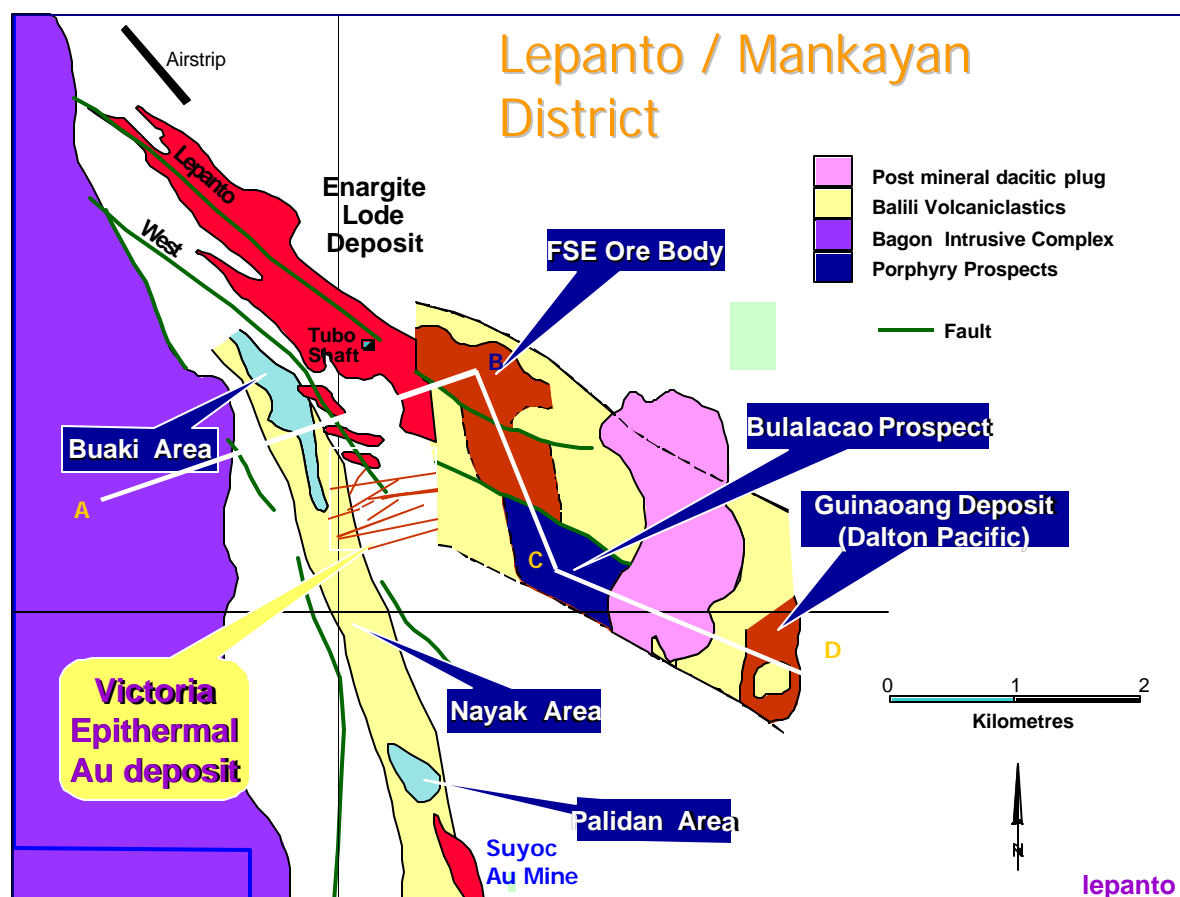


Figure 4 Porphyry Copper Belts in Mankayan Mineral District

### **Structures**

The major lineaments around the district are oriented mostly towards the northwest southeast with few trending northeast southwest. Most of the faults found in the district form a conjugate fracture pattern dominated by north and northwest trending shears, east-west trending extensional fractures and few north-south trending fissures.

The major faults found in the district are associated with the Philippine Fault as northern splays. The Abra River Fault is one of the major structures. Related to the Abra River Fault is the NW trending Lepanto Fault that outcrops inside the mine area. The Lepanto Fault is the host to the Lepanto copper-gold deposit. The other major northwest faults parallel to the Lepanto Fault are the west fault, north shear and the Hatekazawa Fault (Figure 3). Other prominent structure is the Apaoan Fault located east of the Mankayan Mineral District.

### **Metallogeny**

There are three types of mineralization in the Mankayan Mineral District. These are the porphyry coppers, (FSE deposit, Guinaoang deposit, Buaki and Palidan prospects), the enargite-luzonite vein replacements (Lepanto Enargite Mine) and the quartz-gold-base metal veins (Suyoc deposit, Victoria I, Victoria II). Concepcion and Cinco (1989) were able to discern two porphyry copper belts. These are the FSE belt (FSE, Bulalacao and Guinaoang) and the Nayak belt (Buaki, Nayak and Palidan) (Figure 4).

### **Age of Mineralization**

In terms of timing of deposition, Victoria I is a younger ore body, deposited significantly (at least 0.6 millions years – “Ma”) later than Victoria II. Of the known ore deposits in the Mankayan Mineral district, it appears that the Victoria II was the first to be formed (1.74 Ma, Hedenquist 1998) followed by the Far Southeast gold-copper deposit ( $1.30 \pm 0.05$  Ma, Arribas et.al. 1995)

and the Enargite-Luzonite deposit (1.2 Ma, Hedenquist et al. 1998) that was mined by Lepanto from 1936 to 1996. The last to be deposited was the Victoria (1.15 Ma, BGR 2000). All the age dates were based on Potassium-Argon dating.

## **Mineral Property Geology of the Victoria Gold Deposit**

### **Host Rocks**

The late Miocene-early Pliocene Imbanguila dacite pyroclastics and porphyries predominantly host the major veins of the Victoria gold deposit. There are few narrow veins hosted by the middle Miocene Balili volcanoclastic and the pre-Eocene Lepanto metavolcanics. The Dacite pyroclastics are characterized by the abundance of granule to cobble size clasts of dacitic and andesitic compositions. They are embedded in a medium to coarse-grained matrix with large crystals of hornblende, biotite, plagioclase, micas, and millim size bipyramidal quartz. The associated Imbanguila Dacite porphyry is characterized by its distinctly porphyritic texture made up of large crystals of hornblende, biotite, plagioclase and bipyramidal quartz as phenocrysts in a fine matrix made up of minute plagioclases. There are few fluidized structures observed in some portions. There are no differences between the two dacites, occurring as host, with respect to mineralization.

### **Structures and Veining**

The Victoria vein systems are divided into zones based on continuity. Twelve (12) zones have been identified to date. Each zone can consist of a set of major veins and associated splits or a single vein. Up to 600 m lateral and 500 m vertical dimensions have been exposed in some of the veins currently being mined. The vein widths vary from 0.5 to 8 m.

The veins generally trend east-northeast with 75-80° dips towards the south. Predominantly right lateral movements of NE-SW shear faults could have produced the east trending tensional fractures (e.g. at areas of curvature). Pinch and swell vein patterns are clearly observed. Exemplified by the presence of cymoid loops and ladder type veins, the defined pinch and swell features are noted both laterally and vertically.

In general, the persistence or continuity of the veins is apparently manifested by the dips of the veins. At steeper dips, there could be continuity of veins laterally and vertically. At dips of < 60°, the veins would thin out. Continuity may both have regularity along the vein and complexity due to displacements by post-mineral destructive faults. The development of these vein patterns has been recognized and will be the guide in the mining operations.

The dimensions and consistency of the vein patterns are also influenced by the presence of different lithologies hosting mineralization. The initial observations are the narrowing of veins towards the andesites and volcanoclastics and the relative depletion of gold and base metal deposition. The main Victoria veins are hosted by dacites, which are considerably more receptive to the development of thicker and continuous veins with better conditions for gold and base metal deposition.

The Victoria veins occur along tensional structures and it is common to observe crustiform and banded and breccia infilling textures with few gradational features and partial replacements among the sulphides and gangue minerals. It is an open space infilling type of mineralization.

### **Mineralization**

The mineralization observed in Victoria is an epithermal quartz-gold-base metal vein deposit. The veins occur along tensional structures and it is common to observe crustiform, banded and breccia infilling textures with few gradational features and partial replacements among the sulfides and gangue minerals.

Gold is associated with quartz and sulphides specifically sphalerite, galena and chalcopyrite. It occurs in clusters or peppered randomly in quartz. Sphalerite is abundant in most of the gold rich samples. It is inferred that gold occurs in the lattices of sphalerite. Color differences in sphalerite are observed with the yellow (-green) variety being more abundant than the reddish (-brown) type. The sphalerite varieties occur separately in bands and in most cases interlocking with each other. Based from XRD analyses, the sphalerite has the characteristics of the high temperature wurtzite. Galena is always associated with sphalerite but less in abundance. There are, however, some portions where they appear massive with no sphalerite. Chalcopyrite occurs either as separate bands form or associated with sphalerite and galena. In most cases, tetrahedrite is always associated with chalcopyrite. Chalcopyrite and tetrahedrite appears contemporaneous with sphalerite and galena but in some portions, the former cuts the latter sulphides. Pyrite is a ubiquitous mineral. In some grains, chalcopyrite (and some sphalerite) replaces pyrite.

Copper occurrences (e.g. with a cut-off of 0.2%) apparently have lateral and vertical continuity throughout the individual zones and veins. With this observation and using an arbitrary Cu cut-off grade of 0.5%, Victoria could appropriately be classified as rich gold deposit". The massive appearance of chalcopyrite, tetrahedrite and pyrite with few occurrences of bornite and chalcocite identified copper rich veins. These associated copper ore minerals either together, partly with some replacement features or are segregated in bands.

Chalcopyrite and tetrahedrite also occur as open space in-fillings in veins and in breccia matrices (with colloform banding textures) mostly associated with bladed and crustiform quartz. Few occur as disseminated grains scattered throughout the silicified host rock. There are some veins that are composed mainly of massive chalcopyrite (and few tetrahedrite) with a thickness reaching to about 8 to 10 cm. Bornite and chalcocite are not abundantly observed. Bornite, occurring in blebs, is found associated with chalcopyrite and tetrahedrite. There are portions where they also occur in bands. Chalcocite, characteristically sooty, is observed in very few samples.

The close association between chalcopyrite, tetrahedrite, galena and sphalerite manifests a contemporaneous stage of formation. There are however few portions where chalcopyrite (and tetrahedrite) occur in micro-fractures cutting sphalerite and pyrite grains, with partial replacements (e.g. projecting a brecciated pyrite grain with chalcopyrite in-fillings). Chalcocite occurs as replacement after chalcopyrite, tetrahedrite and bornite.

Quartz, carbonates and gypsum are the predominant gangue minerals. Quartz occurs in large crustiform structures, bladed features (after calcite) and also in fine crystalline textures. It also occurs in bands alternating with the sulphides.

In general there are two stages of quartz formation. The first stage is associated (and inter-banded) with sulphides, appearing dark colored to partly translucent. It is also associated with gold deposition. The second stage quartz is characteristically barren and whitish in color. It cuts the early quartz-sulphide veins or occurs as matrix to brecciated veins. It also occurs as replacement after carbonates (e.g. calcite) manifested by its bladed features. Milled quartz is also observed in some veins.

Rhodochrosite is the predominant carbonate gangue. It occurs most likely after the main quartz-sulphide stage, as open space infilling and as matrix to brecciated quartz-sulphide veins. Rhodonite apparently occurs with rhodochrosite. Gypsum (anhydrite) is found cross-cutting early mineralization. It carries very few sulphides.

Among wider veins, brecciation features are commonly observed. Sulphides, carbonates and quartz support the angular and sub rounded altered host rock fragments. Banded massive sulphides occur along the margins of the altered fragments.

Rhodochrosite follows the deposition of the massive bands of galena-sphalerite-chalcopyrite. There are portions where rhodochrosite is found in alternating bands with the sulphides. Quartz is the predominant mineral in the veins. They occur in massive veins with some portions grading into open space crustiform quartz. Sulphide grains are sometimes observed as open space infillings scattered in voids left by the crustiform quartz. There are fragments of rhodochrosite (some with sulphides) enveloped by quartz. Gypsum and anhydrite are found as fracture infillings and as veinlets with some containing sulphide blebs.

### **Alteration**

In contrast to the wide alteration halos found in the Enargite Deposit, the alteration halos around the Victoria veins are relatively narrow. In an outward sequence, the silicic alteration occurs very near the veins, followed by sericitic-argillic alteration, then to propylitic zones. It is also common to observe veins bounded by propylitic alteration. XRD analysis of some selected samples show the common presence of illite (-sericite), with fine occurrences of kaolinite.

### **Fluid Inclusion Studies**

Quartz and sphalerite crystals show temperatures of formation ranging from 180.9 to 227.8 ° C based from initial fluid inclusion studies. Most of the samples contain fluid rich inclusions hosted by quartz and a few by sphalerite. The inclusions are mostly primary in origin. Based on homogenization temperature readings, the temperatures for quartz formation cover a wide range from 180.9 to 218.0°C. Sphalerite could have been deposited from hydrothermal fluids at temperatures of 184.2 to 227.5°C. Copper mineralization could have taken place also at this temperature as indicated by the association of chalcopyrite and sphalerite. The homogenization temperature readings for quartz exhibit a bimodal distribution indicating more than one depositional stage. This is apparently confirmed by the observed presence of late stage quartz veins.

### **Ore Genesis**

The Victoria gold deposit lies within the Lepanto property, with a 2.0 km<sup>2</sup> area, which also bounds the two well known Cu-Au deposits, the Enargite epithermal copper (+ gold) and the Far Southeast (FSE) porphyry copper (+gold) deposits. The proximity of the three deposits would give an impression that they could be related together in a single hydrothermal system.

Close spatial and temporal relationships between the enargite and the FSE deposits exist and such association suggests a strong genetic link between the two deposits (Hedenquist et.al. 1998). The contemporaneous formation of the FSE porphyry and the epithermal enargite implies that the two deposits were formed from a single evolving magmatic-hydrothermal system. Magmatic vapor was responsible for the advance argillic alteration related to the enargite mineralization. A change from magmatic vapor and hypersaline fluid dominated environment to a meteoric water dominated hydrothermal system would be responsible for the enargite deposition.

The Victoria gold deposit could have some genetic associations with the quartz-gold-base metal mineralization overprinting the Enargite deposit. They exhibit very similar ore mineralogy and textures. The overprinting implies a continuous change in the composition of the mineralizing fluids from an early acidic (enargite mineralization) to a late neutral pH (quartz-gold-base metal mineralization). The influx of meteoric water into deeper levels and the dilution of the mineralizing fluids, indicating the waning stages of an evolving hydrothermal system, would be responsible to the deposition of the Victoria gold veins.

EXPLORATION

UNDERGROUND DEVELOPMENT HEADINGS

The sill-outs were driven following prospective veins which were mapped in detail and channel-cut sampled at 2-m interval on a daily basis. The ore shoots that were eventually delineated ranged in length from 8m to 47m and aggregated 1,011 meters. The total resource delineated by the sill-outs was 55,000 tonnes of ore grading 4.8 g/t Au.

The sill-out data are summarized in Table 2.

Table 2 : Mineral Resource Delineated From Underground Sill-outs

Level	Vein	Block	Projected Elevation		Length		Vein Width	Height	Vein Payability	Measured Resource	
			From	To	SO	Ore				Tonnes	Grade
950	209	4N1	974.0	986.5	50.0	32.0	1.89	12.5	64%	2,953	3.79
950	204	4N2	953.0	965.0	40.0	40.0	0.77	12.0	100%	924	4.44
950	204	4N2	978.0	990.5	40.0	40.0	0.77	12.5	100%	963	4.44
950	2091	4M4	961.0	969.0	27.0	27.0	1.53	8.0	100%	826	9.14
950	2091	4M4	975.0	987.5	27.0	27.0	1.53	12.5	100%	1,291	9.14
950	2092	4M2	977.0	983.0	12.0	12.0	1.89	6.0	100%	340	4.90
950	2092	4M3 Split	977.0	982.0	19.0	11.0	2.65	5.0	58%	629	3.22
Sub-Total										7,926	5.38
850	220	5M2	902.0	910.0	17.0	17.0	1.03	8.0	100%	350	4.92
850	235	7L2	912.0	921.0	18.0	18.0	1.80	9.0	100%	729	9.44
850	235	7L1	912.0	924.5	41.0	41.0	1.47	12.5	100%	1,883	8.93
850	242	7L4	908.0	920.5	25.0	25.0	0.93	12.5	100%	727	3.87
850	2353	6L3	893.5	906.0	51.0	38.0	1.93	12.5	75%	3,076	3.57
850	2353	6L3	915.0	927.5	51.0	38.0	1.93	12.5	75%	3,076	3.57
850	2353	7L2	894.5	907.0	52.0	38.0	1.19	12.5	73%	1,934	5.00
850	2353	7L2	913.0	925.5	52.0	38.0	1.19	12.5	73%	1,934	5.00
850	2353	6L4	899.5	911.5	24.0	12.0	1.78	12.0	50%	1,282	8.68
850	2353	6L4	914.0	926.0	24.0	12.0	1.78	12.0	50%	1,282	8.68
850	2404	7M1	904.0	909.0	10.0	10.0	1.38	5.0	100%	173	14.68
850	2425	7M1	906.0	918.5	44.0	44.0	1.26	12.5	100%	1,733	4.04
Sub-Total										18,177	5.57
700	204	4N1	730.0	742.5	25.0	25.0	2.48	12.5	100%	1,938	2.86
700	220	5L1/6L1 Up	746.0	758.5	30.0	30.0	2.28	12.5	100%	2,138	2.58
700	220	5L4	750.0	762.5	34.0	20.0	2.60	12.5	59%	2,763	3.14
700	225	6L1	752.0	764.5	33.0	20.0	1.72	12.5	61%	1,774	4.21
700	227	6K4	754.0	758.0	8.0	8.0	1.87	4.0	100%	150	5.11
700	232	6K4	744.0	756.5	44.0	22.0	1.71	12.5	50%	2,351	4.02
700	232	6L1	744.0	756.5	50.0	44.0	1.97	12.5	88%	3,078	5.47
700	232	6L3	746.0	756.0	20.0	20.0	1.83	10.0	100%	915	4.39
700	232	6L4	747.0	754.5	24.0	24.0	2.12	7.5	100%	954	3.60
700	248	10M4	740.0	748.0	16.0	9.0	1.80	8.0	56%	576	3.92
700	248	9M4	738.0	750.5	26.0	26.0	1.30	12.5	100%	1,056	6.88
700	249	9M2	713.0	719.5	13.0	13.0	1.00	6.5	100%	211	3.42
700	249	9M2	700.5	713.0	25.0	25.0	1.00	12.5	100%	781	3.42
700	2493	10M2	700.5	713.0	26.0	26.0	1.59	12.5	100%	1,292	5.09
700	2495	10M4	740.0	746.0	12.0	12.0	1.08	6.0	100%	194	6.67
700	2495	9M3	756.0	761.5	11.0	11.0	2.23	5.5	100%	337	3.51
700	2495	9M4	760.0	772.5	28.0	28.0	1.90	12.5	100%	1,663	2.55
700	24051	8M4	770.0	782.5	42.0	42.0	1.70	12.5	100%	2,231	4.08
700	24051	9M4	766.0	774.0	16.0	16.0	2.17	8.0	100%	694	4.97
Sub-Total										25,096	4.00
680	2261	6M4	712.0	723.5	23.0	23.0	2.00	11.5	100%	1,323	5.10
680	2262	6M4	702.0	704.0	47.0	47.0	1.90	12.5	100%	2,791	4.42
Sub-Total										4,113	4.64
GRAND TOTAL					1,177	1,011	1.63		86%	55,312	4.76



SUMMARY	Measured Resource		
Level	Tonnage	Grade	Ounces
950	7,926	5.38	1,370
850	18,177	5.57	3,257
700	25,096	4.00	3,230
680	4,113	4.64	614
<b>Total</b>	<b>55,312</b>	<b>4.76</b>	<b>8,470</b>

## UNDERGROUND EXPLORATION DIAMOND DRILLING

On the other hand, exploration diamond drilling exposed 28 ore intercepts in 15 drill holes ranging in width from 0.25m to as much as 7.40m. However, 29% of the ore intercepts exhibited very narrow widths averaging only 0.34m. Grades varied from a low of 2.1 g/t Au to a high of 69.7 g/t Au. Core recovery in 7 of the 28 ore intercepts (25%) left much to be desired, averaging an unacceptable 40%. By and large, diamond drilling delineated a total resource of 100,000 tonnes of ore grading 3.6 g/t Au.

The diamond drilling data are presented in Table 3.

**Table 3 : Mineral Resource Delineated From UG Exploration Diamond Drilling**

DDH NO.	LOCATION		BEARING	DIP	ORE INTERCEPTS							PROJ. LENGTH (m)	PROJ. HEIGHT (m)	TONNAGE	
	Level	Drive			FROM (m)	TO (m)	WIDTH (m)	% RECOVERY	Vein	Au (g/t)	Ag (g/t)				% Cu
U-10-02	700	210 L XCS	N20E	-25	1.60	2.20	0.6	33%	2486	5.133	47.320	0.015	47.0	25.0	1,763
					159.80	160.05	0.2	100%	New Vn	2.617	10.020	0.105	50.0	25.0	781
					176.65	178.00	1.3	100%	2281	3.166	1.070	0.013	50.0	25.0	4,219
U-10-03	1050	265 I XCN	N2E	5	237.85	239.00	1.1	74%	225 split	4.067	4.920	0.030	50.0	25.0	3,594
					269.00	276.40	7.4	20%	2241	3.179	3.648	0.019	50.0	25.0	23,125
U-10-06	700	210 L XCS	N30E	-25	148.30	150.80	2.5	94%	New Vn	2.583	1.490	0.017	50.0	25.0	7,813
					285.65	286.00	0.3	100%	226 split	2.117	17.100	0.151	50.0	25.0	1,094
					303.85	304.40	0.5	100%	226 split	3.517	12.750	0.006	50.0	25.0	1,719
U-10-07	700	230 G XCS	N70W	-10	119.50	120.15	0.6	100%	225	8.317	9.900	0.034	50.0	12.0	1,016
U-10-08	1050	265 I XCN	N47W	5	102.05	103.20	1.1	22%	240	2.750	29.670	2.500	50.0	25.0	3,594
U-10-09	700	230 G XCS	N45W	-10	97.45	99.10	1.6	100%	225	3.733	12.26	0.242	45.0	25.0	4,641
U-10-10	1050	265 I XCN	N15E	-5	209.80	212.80	3.0	18%	232	4.792	9.100	0.132	50.0	25.0	9,375
U-10-13	700	210 L XCS	S20W	5	112.20	112.60	0.4	100%	257	2.350	8.330	0.088	50.0	25.0	1,250
					171.30	172.15	0.8	94%	New Vn	2.270	7.420	0.020	50.0	20.0	2,125
					237.20	238.40	1.2	54%	New Vn	2.567	8.830	0.495	50.0	25.0	3,750
					248.10	248.40	0.3	67%	New Vn	2.050	88.850	0.044	50.0	25.0	938
					348.80	350.30	1.5	93%	123	2.469	47.573	0.253	50.0	25.0	4,688
U-10-14	1050	265 I XCN	N28E	-5	286.10	286.40	0.30	100%	2281	6.133	30.670	0.152	50.0	25.0	937
U-10-15	700	230 G XCS	N2E	-15	215.45	216.60	1.15	100%	2153	2.200	6.600	0.094	50.0	25.0	3,594
U-10-18	700	230 G XCS	S16E	-20	67.05	67.50	0.4	67%	235 split	2.942	3.080	0.013	50.0	25.0	1,406
					155.35	156.65	1.3	96%	249	2.450	28.320	0.392	50.0	12.0	2,031
U-10-21	900	225 Z XCS	N78W	5	60.35	60.75	0.4	100%	New Vn	2.700	6.380	0.240	50.0	25.0	1,250
					100.25	102.05	1.8	100%	New Vn	2.839	28.388	0.026	50.0	25.0	5,625
					112.30	113.20	0.9	100%	New Vn	2.133	6.020	0.030	50.0	25.0	2,813
UME-09-09	775	210 L XCN	S18W	5	58.00	58.25	0.2	100%	208	15.00	51.450	0.240	50.0	25.0	781
UME-10-08	700	200 H DE	S47E	0	69.25	69.80	0.5	100%	205 split	13.01	11.650	0.082	50.0	25.0	1,719
UME-10-11	850	240 E XCS	N30E	5	25.50	26.00	0.5	90%	1170	3.483	11.800	0.035	50.0	25.0	1,563
					29.55	30.30	0.7	100%	113 split	6.333	23.500	0.140	50.0	25.0	2,344
GRAND TOTAL								83%		3.567	13.132	0.183			99,544

SUMMARY		Inferred Resource	
<b>Drilling</b>		Tonnage	<b>99,544</b>
No. of Holes	<b>25</b>	Grade	<b>3.57</b>
Meterage	<b>5,805</b>	Ounces	<b>11,416</b>

QUALITY ASSURANCE/QUALITY CONTROL OF DATA USED

The integrity and reliability of assay data utilized to derive the resource estimates are ensured by implementing quality assurance and quality control procedures patterned from the Noranda Drill Core Sampling and Analysis Protocols (Noranda Inc, 2000). QA/QC protocols apply for both the channel-cut samples collected from underground exploration headings and the drill core samples.

Each batch of samples sent for assaying is inserted with QA/QC materials to monitor contamination, accuracy and precision. Repeat assaying is conducted on a sample batch when the inserted reference material fails or goes beyond its designated threshold value. Assay data also goes through a validation process before it is entered into the database to be used for resource estimation.

The location of underground samples is verified by sampling supervisors based on contours submitted by mine surveyors while location of drill hole intercepts is confirmed by down hole survey using acid etch method.

DECLARED MINERAL RESOURCES

The Mineral Resource as of end of September, 2010 of Lepanto Consolidated Mining Company in its Victoria/Teresa gold deposit in Mankayan, Benguet is 8,900,000 tonnes of ore with a grade of 5.2 g/t Au.

This figure is 200,000 tonnes higher than the Mineral Resource declared by the company in January 1, 2010. The additional 200,000 tonnes of resource was exclusively derived from development and exploration work in the Victoria gold mine. The Mineral Resource in the Enargite-related deposits where mining operations remain suspended is unchanged at 8,700,000 tonnes at a grade of 1.99%Cu and 2.8 g/t Au.

For the three deposits, the total Mineral Resources comprise 17,600,00 tonnes of ore at 4.1 g/t Au and 1.16%Cu.

The estimated resources are summarized in the Table 4 below.

Table 4 : Updated Mineral Resource (As of end of September, 2010)

Mineral Resource @ 2.0 g/t Au Cut - Off	Category	Tonnes	g/t Au	% Cu	M ozs. Au	M lb Cu
Victoria	Measured	4,600,000	5.8	0.42	0.86	42.59
	Indicated	1,000,000	4.5	0.32	0.15	7.05
	Inferred	500,000	4.8	0.20	0.08	2.20
	Sub Total	6,000,000	5.6	0.39	1.08	51.85
Teresa	Measured	1,200,000	4.8	0.29	0.18	7.67
	Indicated	500,000	3.5	0.21	0.06	2.31
	Inferred	1,200,000	4.6	0.20	0.18	5.29
	Sub Total	2,900,000	4.5	0.24	0.42	15.27
	Total	8,900,000	5.2	0.34	1.50	67.12
Enargite - Related	Measured	4,500,000	2.5	1.91	0.37	189.49
	Indicated	3,000,000	2.4	1.83	0.23	121.03
	Inferred	1,200,000	5.1	2.70	0.20	71.43
	Total	8,700,000	2.8	1.99	0.80	381.95
Grand Total		17,600,000	4.1	1.16	2.30	449.07

## **Description of Mining Method**

The very poor to poor to fairly competent ground condition, the erratic gold values or uneven grade distribution, the pinch-swell behavior, the uneven vein geometry and the need to maintain regional stability make it imperative that the Victoria mine uses the cut-and-fill mining method.

Stopes are mostly ramp accessed, others are raise accessed or are accessed by a combination of ramps and raises. The ore cuts are mostly 1 m to 2.5 m horizontal slices in breastholes (BH) and upholes (UP), 2 m to 3 m in drift-and-fills (DAF), 2 m to 3 m in sillouts (SO) and a 10 m to 25 m lift in the Lepanto Shrinkage Method (LSM) with the smallest mining unit (SMU) similar to BH. After the slices are blasted down, the ore is mucked out to chutes using mostly LHD's. Slushers are also used in narrow panels. The mucked out panel is backfilled with waste rocks or coarse tails (sandfill) that are hydraulically introduced at =60% solids by weight. Where the sill of the panel is high grade and unmined, a concrete fill (1:4 by volume) is placed. LSM panels are post filled. A 0.6 m to 2.5 m clearance is maintained for the next slice or lift.

The so-called ramp stopes are accessed through a 3 m x 3 m attack ramp driven from a 3.35 m x 3 m main ramp. A 20 m attack ramp typically mines nine vertical meters of ore. Higher mining lifts require several attack ramps. When ramp accessing is considered not viable or is no longer required or necessary, a raise as access with the LHD held captive is maintained. For high cuts such as in the LSM, the access may come from a follow-up manway or a previously driven raise.

The drilling equipment is the handheld jackleg (45.5 kg) using 22 mm x 108 mm hex tapered or integral drilling tools. The new bit size ranges from 41 to 39 mm (integral) to 38 to 33 mm (tapered). The drill rod lengths commonly used are 2.4 m, 1.8 m and 1.2 m. Dynamites used are 25 mm x 300 mm cap-sensitive emulsion explosives. The detonators are #8, either nonelectric or ordinary. Ordinary detonation is commonly practiced in BH and DAF panels, while non-electric detonation is for SO, development ends and for watery drives. The blasting column can be dynamite, blow-loaded ANFO or cartridge ANFO.

The mucking machine used inside stopes is the LHD, either electric or diesel and mostly have the 1.1 m<sup>3</sup> (1.5-cu. yd) size. Rockbolts are the main supports in stoping, except for the LSM, and are occasionally supplemented by wire mesh, plate straps, timber or steel sets and/or steel props. The LSM uses 102 mm x 152 mm (4" x 6") timber stulls as the main support. Infrastructures needed for mining are mostly already available or existing in the current mining operation.

## **Metallurgical factors or assumptions**

The existing hybrid CIL Milling or metallurgical plant/process consisting of crushing and grinding facility, the existing flotation circuit, a modified CIL gold recovery circuit, and a cyanide detoxification and tailings disposal system being applied in the present mining operation will still handle the processing required for the declared ore reserves. Expected metal recovery from the milling operation is 90% and because of some expected losses in the metal values due to handling from the mine to the mill, a Mine Call Factor (MCF) of 70% is being applied to projected tonnages mined thus further reducing the recoverable metal values from the declared ore reserve grade to ensure better economic controls.

The process utilizes the existing crushing grinding circuit to mill ores to an 80% passing size of 95µm. The ground ore will go into a hybrid CIL circuit for the extraction of gold. Tails will be treated with metabisulfite to meet environmental standards for cyanide levels prior to impoundment into a tailings pond.

## **Process Plant Description - Overall Process Description**

The hybrid CIL plant will consist of the existing crushing and grinding facility, the existing flotation circuit, a modified CIL gold recovery circuit, and a cyanide detoxification and tailings disposal system. A simplified flow sheet is shown in Figure 5.1 in the Appendix.

**Crushing, Milling and Gravity Circuit**

The run-of-mine ore is washed and three-staged crushed to produce a product suitable for rod milling. The slime from the washed plant is thickened and pumped to grinding circuit. The ore is ground to 80% passing 95 µm in a rod and ball mill circuit. The ball mill is in close-circuit with the 254 mm diameter cyclones.

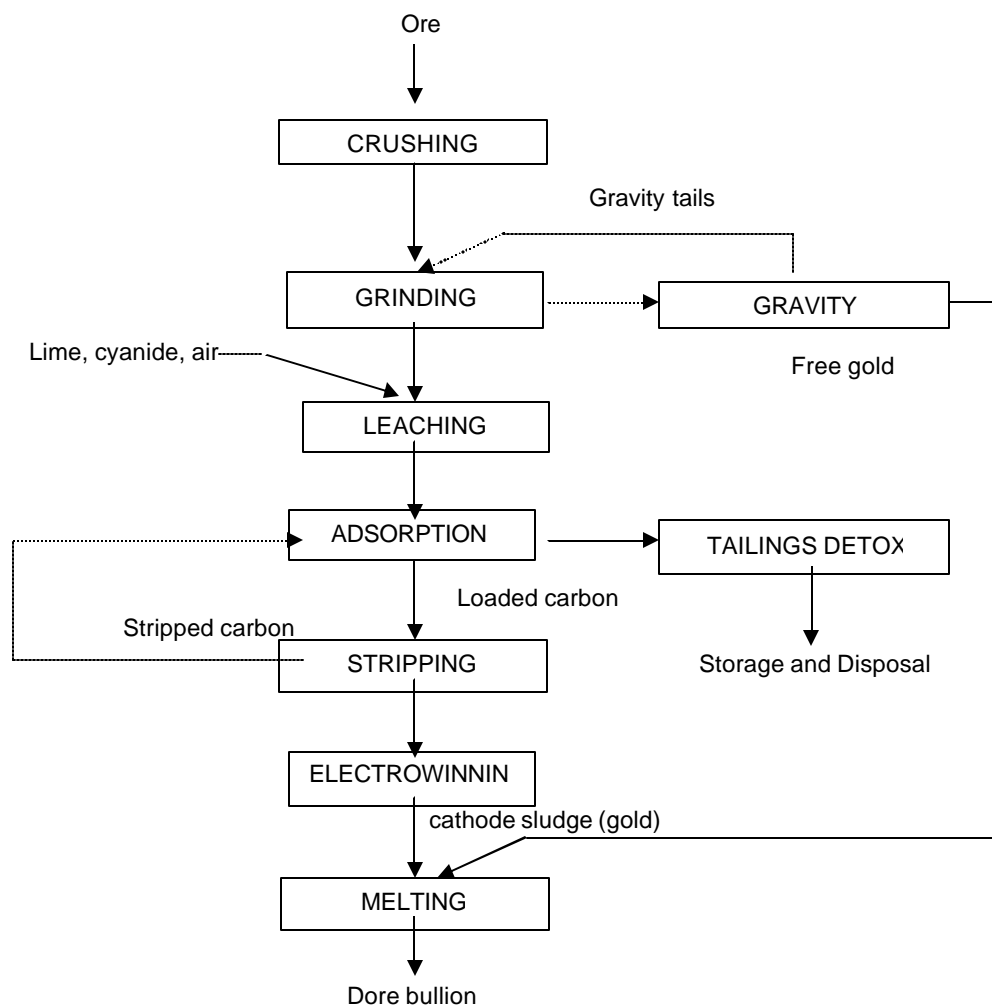


Figure 5 MILL PROCESS FLOWSHEET

A portion of the cyclone underflow is fed to two model SB38 Falcon concentrators for the recovery of metallic gold. Gravity concentrates from these concentrators are stored in a day bin and, during the day shift, are cleaned using shaking tables. The Falcon tailings, together with the table tailing, is recycled back to the grinding circuit. The cleaned gravity concentrate is sent to the refinery for smelting. About 30 to 45% of the gold and 1% of the silver in the mill feed is reporting to this product.

**Flotation**

Although the flotation circuit will be put on standby, it will be available for ores that contain high copper and low penalty impurities.

**Hybrid Carbon-in-Leach (CIL)**

Low copper ores will not be treated in the flotation circuit. The cyclone overflow will be sent directly to the leach tank.

The conversions to hybrid CIL required two carbon transfer pumps and interstage screens. The hybrid CIL section will consist of two 1462 m<sup>3</sup> leach tanks and a series of two 1462 m<sup>3</sup> and six 117 m<sup>3</sup> CIL tanks, providing 37 h total retention time. Each CIL tank will be fitted with a carbon retention screen allowing slurry to flow down the tank train but retain the carbon. Leached slurry will flow countercurrent to the carbon and exit the final tank gravitating to the carbon safety screen. Fine carbon captured on this screen will be drummed and stored for future treatment to recover any adsorbed gold.

The carbon will be advanced up the tank by vertical recessed impeller pumps installed in each tank. Operation of the pumps will be sequenced to advance a set amount of carbon each day while retaining the desired carbon concentration in each tank.

Loaded carbon from the first adsorption tank will be pumped to the loaded carbon screen for washing and dewatering prior to elution. Stripped and regenerated carbon will be reintroduced into the last CIL tank.

### **Carbon Elution and Regeneration**

The loaded carbon will be stripped using the Zadra process. The carbon will first be washed with dilute hydrochloric acid to remove any carbonate build up. Gold will be eluted from the carbon with caustic cyanide solution heated to 130°C. Heat will be provided to the eluate solution by a boiler and primary and reclaim heat exchangers.

Hydrochloric acid for carbon washing will be stored in a tank in the elution area and pumped to the elution column as required in the sequence. Caustic cyanide solution batches will be mixed daily in an agitated tank using sodium cyanide solution from the bulk storage tank, and sodium hydroxide pellets. Tanks are provided in the elution area for elution wash water and pregnant eluate together with the necessary dosing and circulating pumps. Eluted carbon will be transferred from the elution column to the carbon dewatering screen and kiln feed hopper by water pressure. The carbon will be regenerated in an electric furnace and returned to the CIL tanks via a carbon sizing screen, which removes degraded fines.

### **Gold Recovery**

Gold will be recovered from the eluate solution by electrowinning onto stainless steel cathodes. Pregnant solution from the eluate tank will be pumped as a batch through seven electrowinning cells and the barren solution returned to the CIL tanks, where any residual gold will be recovered. Two more electrowinning cells will be needed to upgrade the elution/electrowinning section. The loaded steel wool cathodes will be removed periodically from the electrowinning cells and dried, together with slimes recovered from the cells on cleanup. The dried cathodes and slimes will be mixed with suitable fluxes and melted in a furnace to slag off impurities.

After pouring slag from the furnace, the molten gold will be poured into moulds to produce bullion bars. The bars will be stored in a safe place for periodic shipments to refiners.

## **Major Design Consideration**

### **Leaching and Gold Refining**

The ore requires a leach time of 35 hr although at the planned throughput, the tankage will provide a total leach time of 37 h. The ore will be leached in a hybrid CIL circuit allowing 17 h of pre-leaching in two tanks prior to CIL. This circuit has been selected to improve the carbon loading versus straight CIL. The remainder of the gold recovery section is a conventional elution, electrowinning and refining circuit.

## **MINE SUPPORT SERVICES**

### **Power Supply Requirements and Alternatives**

The mine gets its electrical power supply from the National Power Corporation through its Luzon Grid. The company maintains its own 7- megawatt diesel driven power plant to supply its requirement in case of NPC power shut down.

### **Water Supply Requirements and Alternatives**

The company maintains its own water supply system for domestic and industrial water needs. It gets the water from the various tributaries around the mining camp. It also recycles the used mill water during the dry season.

### **Mechanical Shops and Alternatives**

The company also maintains its own mechanical shops for the repair of its equipments and other industrial facilities. Shops such as Foundry, Machine shop, Fabrication shop, Reconditioning shop, Motorpool , Carpentry shop are strategically located within the mine camp to provide the required services. In cases where existing shops could not handle the requirement, other shops within the municipality or the region are sometimes tapped for services.

### **Assay Laboratory and Alternatives**

In as much as assaying of samples is a regular requirement for the mining operation, the company also operates its own assay laboratory. It is through this laboratory that analysis or evaluation of samples taken from the mine. In some cases of counterchecking or result verification, the mine may also send to other laboratories

### **Environmental Protection and Management Plan**

The existing EPEP will be enhanced pursuant to the provisions of Republic Act No. 7942, or the "Philippine Mining Act of 1995," and DENR Administrative Order No. 96-40, the "Revised Rules and Regulations of R.A. 7942." This will harbor the following items throughout the various phases of the operations: the management of tailings dams, final land use of the mining areas, rehabilitation of areas affected by the mining operation, rehabilitation and/or maintenance of general infrastructures.

### **Mitigation & Enhancement Measures**

#### **Terrain**

Tailings dams TD 3 and 4 have been rehabilitated. Some farmers in Barangay Paco use the latter as cattle-grazing land. Rehabilitation and reclamation are also undertaken in areas considered as active mining sites. Denuded areas are the subjects for replanting projects. Reforestation and aforestation add to the progressive aesthetic effect of the project. Extra earnings to the community are brought by the concept of social forestry.

The planning and design of the final rehabilitation of the project site will be done in consideration of the future land use of the site. Since mining is just a temporary land use, management is considering options of transforming the area into more productive sites after the mine life. An option being considered is the transformation of other areas into agricultural-based sites for fruit trees and hardwood species, since not all sectors in the area are arable in nature.

### **Soil/Mine Wastes**

Future wastes that will be generated from the project are manageable. Around 40-50% of the materials being mined readily end up as backfill in the underground levels. In case substantial amounts of mine wastes will be generated, these will be used in built-up areas (900-L, 1000-L, and 1150-L). These dumps will also be vegetated with appropriate/indigenous floral species. An established mini-nursery in Lepanto caters for the seedling requirements.

### **Underground Stresses**

#### **Rock Mass Classification System**

The rock mass rating (RMR) of the openings are established through knowledge of the IRS and attributes of geologic structures or discontinuities such as joints, faults and shear zones through actual mapping and laboratory tests of samples or core logs.

Taking into account the effects of weathering, orientations of geologic discontinuities, mine induced stresses and blasting, the RMR of an opening is adjusted to the mining rock mass rating (MRMR). The system was developed to recognize the opportunities and constraints peculiar to mining and is calibrated for design purposes.

#### **Peak Support Pressure Requirement Estimates**

The pressure support requirements at the crowns can be easily accommodated by rockbolts. Rockbolts provide peak support pressure of about 210-350 kPa. Presumably, in high-stress areas, greater amount of rockbolts may be used extensively to prevent tensile cracks at the crowns. Timbers may complement them to provide passive support against squeezing and slabbing of the walls, at least in the short-term. Another possible alternative would be the use of cable bolts. A single 6-m cable bolt, pre-tensioned and fully-grouted, may provide around 50-150 kPa of active support pressure. A cost/benefit analysis is presently done with regards to fully and under supporting mining stopes against empirical data on stand-up time and actual rate of extraction. This is to optimize the usage of available rock support systems in ore zones before backfilling is applied as permanent support once a stope is mined-out.

#### **Ground Support System for Long Term & Short Term Requirements**

Tangential stresses acting at the crowns are smaller in magnitude compared to the wall stresses and are tensile in nature. Such magnitude of tensile stresses can be sufficiently handled by rockbolts; either pig-tail rebar bolts or split set stabilizers.

Timbers, on the other hand, are used where the ground is caving or in highly jointed rocks where rockbolts are ineffective. Shotcrete may provide around 1.5 MPa of active support pressure depending on the thickness and type of mixture. On the other hand, steel sets and concrete lining may provide maximum of 3.0 MPa and 6.0 MPa, respectively. These support systems, usually in combination of two or three, are essentially used in permanent openings. Some of the ramps are likewise shotcreted in combination with rockbolts or cable bolts for the same purpose. Except for the ramps, these types of openings are mainly driven in the country rock away from active mining areas.

The application of backfilling to preserve in-situ ground conditions after removing vast volumes of material for its mining activities provides for long-term support. As mining will always entail removal of in-situ rocks, there is no better way to effectively preserve a land from the impacts of underground mining than by replacing what was removed with unconsolidated backfill materials. After backfilling, boundary stresses will diminish accordingly as the fill itself provides continuum for the in-situ stresses.

## **Acid Rock (Low pH) Drainage**

Due to a potential increase in acid rock drainage (ARD) brought by the project, Lepanto is developing a “Low pH Water Control Program.”

### **Development of Effective Sulphide Oxidation Management & Treatment**

The essential control factors include:

Understanding the physical and chemical factors in sulphide oxidation;

Geochemical characterization of waste materials for acid generating potential;

Classifying and quantifying the acid generating risk of all materials to be disposed of throughout the mine life;

Developing appropriate mine planning and selective handling and disposal practices for materials of different risk;

Management commitment to implementing the preferred management strategies;

Workforce training to identify and manage these different materials;

Monitoring to evaluate the performance of remediation strategies;

Evaluating monitoring effectiveness; and

Revising and evaluating strategies to mitigate sulphide oxidation.

Reducing oxygen availability is the most effective control on oxidation rate. A low oxygen permeability cover is also likely to restrict water movement into and through the material thus reducing both oxidation rate and product transport. Covers to achieve this can be broadly defined as water covers and soil covers.

Lepanto presently applies water cover to effectively control sulphide oxidation rates of its tailings. Lepanto's tailing containment facility (TD-5A), is used for subaqueous impoundment of mine tailings. When stored underwater, unoxidized sulphidic mine wastes are largely chemically unreactive. The dam provides an attractive, long-term and effective management strategy against sulphide oxidation, as sediments from the Mankayan River tend to be stable environment for sulphides. In addition to the low concentration of available oxygen (at approximately 25,000 times lower than that is found in the atmosphere), sediments have a natural tendency to become chemically reducing due to high organic matter levels and biological activity.

Similarly, in the underground levels, Lepanto is also considering flooding the mined-out workings at the end of mine life. While during the operational stage, sealing of unnecessary underground openings will be implemented after a thorough evaluation of the same is done with regards to ventilation, mine drainage and access.

One of the primary considerations is the protection and enhancement of the water quality within the Mankayan River catchment after the life of the mine. With annual precipitation reaching about 3900 mm, water discharge from TD-5A is inevitable. Dissolved metals are precipitated inside the dam by treatment with quicklime. Under these circumstances, Lepanto's focus is still on eliminating oxidation at source, or reducing oxidation rates, such that the water quality within the catchment will not compromise the long-term ecological integrity downstream of the Mankayan River system long after the mine closure.

An initial TD-5A closed-out model was conceptualized using water in the Mankayan River as cover for the tailings to be impounded. A water depth of at least five (5) meters on top of the impounded tailings is proposed for the decommissioning stage of the mine life. Final freeboard of water inside TD-5A is according to the final closed-out specification of fifteen (15) meters thereby providing almost twenty (20) meters of freeboard against the level of the tailings to be impounded.



Further research will still be worked on the proposed closed-out plan of TD-5A and will be integrated into the Final Mine Rehabilitation and Decommissioning Plan five years (5) before the mine closure. It will ensure that the community is left with an environmental legacy that does not compromise water quality for future generations.

### **Development of Monitoring Strategies**

Essential components of a monitoring program adaptable to the Lepanto's setting comprise:

Background studies to identify environmental values requiring protection, including ecosystem characteristics and catchment water quality;

Classification of all materials during the mine development and operational phases to provide information for waste management;

3. Point-source monitoring to locate any sites of sulphide oxidation and acid generation;

Monitoring of catchments and groundwater systems upstream and downstream of mine operations to determine the nature and scale of any off site impacts and enable the recognition of long-term and short-term trends; and

5. Monitoring of control/prevention strategies to determine effectiveness, which may need to continue post mine closure.

Both the flow volume and concentration load data are necessary to characterize acid drainage adequately and to evaluate potential off-site impacts. This information is useful in predicting both the potential and actual impact on receiving waters.

### **Adoption of Practical Mitigation Measures & Newer Treatment Strategies**

The most practical prevention and mitigation to address acid mine water are achieved by the following:

1. Reducing the water inflow;
2. Sealing of abandoned mines;
3. Flooding of abandoned mines;
4. Covering strip mines and gob piles with earth; and
5. Covering of sulphidic wastes in waste dumps by selective placement of spoils, i.e., free dumping of non-sulphidic waste, topping of non-sulphidic waste layers, surface capping and contouring, and finally, revegetation of waste dumps.

### **Cyanide Destruction**

Cyanide detoxification in Lepanto is carried out with the use sodium metabisulfite and lime mixed in a reactor tank where air is injected to assist in the oxidation of cyanide and heavy metal cyanide complexes. The metals present are precipitated during the treatment as hydroxides. The treated tailings, with concentrations of 0.10 mg/l total CN, then flow by gravity through Mankayan River to TD-5A.

The reagent consumption for detoxification requires 0.30 kg/t of sodium metabisulfite.

## **Mine Safety and Health Plan**

### **A. Safety Training and Education**

#### **1. Orientation**

Safety of employees depends to a great extent upon their own conduct and attitude no matter how well safety is engineered or established. Motivation is therefore a necessary part of an accident prevention program. The type and background of employees have an important bearing on the choice of safety promotion activities. Hence, the type of instruction, demonstration and orientation must be suitably flexible to attain the purpose.

Underground employees undergo a three (3) day period of safety training before being assigned to a permanent workplace. The Safety Department and Mine Operation normally prepare the training syllabi.

Service Department Employees undergo one (1) day orientation by the Safety Department; then the Department concerned receiving the new employee conduct the proper orientation before the employee is finally assigned to perform regular work.

Services contract employees undergo one (1) day orientation by the Safety Department then the service contractor concerned conduct the proper orientation before the employee is finally assigned to perform regular work.

#### **2. Management/Supervisors Training**

To be able to do a good safety job, supervisors also need regular training in supervisory skills. Among the most important skill area is giving job instruction, supervising workers at work, determining accident causes and developing safety attitudes among the worker.

Safety meetings for supervisor (Mine and Mill Groups) are conducted for at least one session for every month for a period of one hour. The group managers, department heads, foremen, and shift bosses are present with the safety engineer/asst. safety engineer.

Review of previous accidents and preventive measures are discussed. Topics on safety are likewise one of the major subjects being undertaken, including review of safety rules and regulations.

Mine Group - Shift bosses from (Mine operations/service department) are deputized as Safety Inspector one at a time and do it for a period of two (2) weeks. The Safety Engineer or his representative supplements safety instructions and reminders.

### **B. Safety Training Implementation**

#### **1. First-Aid Training**

The primary objective in organizing First-Aid classes is to make sure that all injured employees receive proper treatment with least possible lost of time. No matter how good First-Aid treatment maybe, it is often worthless if not applied immediately after the injury occurred. Where there is no First-Aid supervision or organization, more lost time is likely to result, Medical and Compensation costs will mount accordingly. First-Aid Classes are extended normally to new employees upon hired. Refresher courses are conducted (2 days period) so as to re-orient the employees on new trends and practices of the course. It is scheduled by the Safety Department in coordination with the concerned authorities/supervisors and employee(s) who is required to undergo First-Aid Instructions and must attend the classes regularly.

#### **2. Mine Rescue**

Selected underground supervisor and men are required to undergo mine rescue training so as to maintain alertness and avoid confusion in the event that an emergency arises. At least three (3) regular teams of 8-9 members each shall undergo a monthly refresher course. The basic training are conducted at least once per year so as to cover new

supervisors and also maintain a pool of substitutes to regular member who resign or disqualified due to age limit requirements. Regular members of the rescue organization shall be entitled to the following cash bonus per refresher course.

### 3. Fire Brigade Training and Organization

#### Surface

Selected and qualified employees from different departments undergo a seminar in Fire Fighting and related techniques. The core of the Fire Brigade shall originate from these training and other related fire-fighting skills training.

A regular fire drill is programmed and will be conducted once per quarter to sustain skill and proficiency during any real emergencies in coordination with Mankayan Municipality Fire Department.

#### Underground

A yearly fire drill is programmed to sustain skill and proficiency during and real emergencies.

### COST AND REVENUE FACTORS

Cost of mining the Victoria ore reserve for the next three years of operations is expected at 5.9 billion pesos with an estimated gross revenue of 8.2 billion pesos and an estimated net income of 2.3 billion pesos.

Table 5 shows the production data relative to a three year production projection for mining the estimated Ore Reserve. With data as tones milled, milled heads and other parameters used for the estimated production of 151,674 Net payable Gold ounces.

Table 5 Production Schedule

	Total/Average	YEAR 1	YEAR 2	YEAR 3
<b>MILLING OPERATION</b>				
Operating Days	296	179	355	355
Tonnes Milled per Day (DMT)	2,089	2,000	2,055	2,212
Total Tonnes Milled (DMT)	1,873,040	358,000	729,640	785,400
Mill Head - Gold (g/T)	2.78	2.96	3.11	2.39
Mill Head - Silver (g/T)	13.91	14.82	15.55	11.97
Recovery – Bullion				
Gold (%)	90.67%	91.00%	91.00%	90.00%
gravity (%)	36.91%	37.76%	38.55%	34.42%
cil (%)	53.76%	53.24%	52.45%	55.58%
Silver (%)	30.00%	30.00%	30.00%	30.00%
gravity (%)	1.00%	1.00%	1.00%	1.00%
cil (%)	29.00%	29.00%	29.00%	29.00%
Recovery – Total				
Gold (%)	90.67%	91.00%	91.00%	90.00%
Silver (%)	30.00%	30.00%	30.00%	30.00%
Metal Content – Bullion				
Gold (grams)	4,054,603	297,902	2,064,371	1,692,330
Gold (ounces)	130,355	9,575	66,371	54,410
Silver (grams)	6,705,133	481,773	3,402,810	2,820,550

Silver (ounces)	215,575	15,489	109,403	90,683
<b>GOLD BULLION PRODUCTION</b>				
Quantity (Kgs)	11,208	812.07	5,694.99	4,700.92
Percent Payable – Gold	99.90%	99.90%	99.90%	99.90%
Percent Payable – Silver	99.50%	99.50%	99.50%	99.50%
Payable - Gold (Ozs)	130,190	9,530	66,305	54,355
Payable - Silver (Ozs)	214,907	15,822	108,856	90,229
<b>GROSS METAL:</b>				
Gold - Oz.	151,826	31,045	66,371	54,410
Silver - Oz.	251,258	51,173	109,403	90,683
<b>NET METAL PAYABLE</b>				
Gold - Oz.	151,674	31,014	66,305	54,355
Silver - Oz.	250,002	50,917	108,856	90,229

From the estimated production shown in Table 5, Table 6 shows the estimated revenue that would be achieved for the three year production. Parameters such as Gold price of 1,200 US\$/oz, Silver price of 20 US\$/oz and Foreign exchange rate of 43.50 pesos/US\$, the estimated revenue is approximately 8.135 Billion pesos.

**Table 8 INCOME STATEMENT**  
**Stated in Philippines Peso**

		Total	YEAR 1	YEAR 2	YEAR 3
Tonnes	t	1,873,040	358,000	729,640	785,400
Average Metal Prices:					
Gold per Oz.	\$/oz	1,200.00	1,200.00	1,200.00	1,200.00
Silver per Oz.	\$/oz	20.00	20.00	20.00	20.00
Foreign Exchange Rate	PhP/\$	43.50	43.50	43.50	43.50
Metals Contents:					
Gold	oz	151,674	31,014	66,305	54,355
Silver	oz	250,002	50,917	108,856	90,229
Metal Revenue:					
Gold	PhP	7,917,367,280	1,618,921,680	3,461,103,440	2,837,342,160
Silver	PhP	217,501,830	44,297,790	94,704,550	78,499,490
TOTAL	PhP	8,134,869,110	1,663,219,470	3,555,807,990	2,915,841,650
COST & EXPENSES		5,912,089,063	1,432,082,162	2,203,254,965	2,276,751,936
OPERATING INCOME/(LOSS)		2,222,780,047	231,137,308	1,352,553,025	639,089,714
Roaster Maintenance Cost		(35,240,400)	(11,746,800)	(11,746,800)	(11,746,800)
NET INCOME/(LOSS)		2,187,539,647	219,390,508	1,340,806,225	627,342,914

**Market assessment**

Productions for the next three years which is estimated at 151,674 ounces gold bullion and 250,002 ounces silver bullion are to be sold at a projected price of 1,200 US\$/ounce and 20 US\$/ounce respectively.

**Employment: Number, nationality, positions and pay**

The total number of employees as of September, 2010 is 1,558.

**Table 10 - Manpower**

Group	Staff	Employees	Total
Office of the RM	2	4	6
Proj. Eng'g	6	0	6
Assay	6	18	24
Safety	4	9	13
MISD	3	0	3
CES	6	54	60
ESDEV	8	1	9
Administrative Services	51	100	151
Finance Services	35	31	66
Technical Services	54	268	322
Mill Group	19	60	79
Mine Geology & Exploration	19	25	44
Mine Group			
Mine Engineering	21	23	44
Mine Operation	45	686	731
Total	279	1279	1558

**COMMUNITY DEVELOPMENT PLAN**

During the last 5 years the company spent P71.8 M for various community projects. This was used for health programs, arts, education, roads, bridges, housing, livelihood, peace and order, and religious programs. The amount exceeds the 1% of the direct mining and milling cost required by law for community development projects benefiting the host communities.

## **Social Development & Management Program**

The Social Development and Management Plan is aimed at building the capability of the community within the project areas to enable them to work progressively towards self-reliance. The expected result is sustained improvement in the socio-economic situation of the community and the gradual improvement of the environment. This will be achieved through community organizing, which consists of harnessing and mobilizing both human and institutional resources in the community in pursuit of environmental goals.

### **General objectives are as follows:**

1. To carry on the Company's initiative in developing the socio-economic base of the barangay benefiting/affected by the operation;
2. To enhance the economic condition of the community through the provision of sustainable livelihood projects and infrastructure facilities;
3. To strengthen the relationship of the company with the community and other groups and organizations;
4. To develop and strengthen the human potentials of both the company and the community through training, community organizing and institutional projects; and
5. To assist the community in accessing external funds for development initiatives.

### **Development Projects**

Social development projects include, in general terms, the following:

1. Livelihood Projects
2. Health Services
3. Water Supply Project; and
4. Infrastructure Project

### **Implementation Strategies**

Existing strategies will be pursued using the participatory approach. Active community involvement in the implementation is currently adopted using community organizing techniques and methodologies.

1. Organization and Management Strategies
  - a. Strengthening the existing company social development office and its linkages with the Barangay Councils; and
  - b. Strengthening the role of the community as development partner of the company particularly in economic and social improvement activities.
2. Fund Generation and Financing Strategies
  - a. Maximizing access to funds from the company earmarked for social development project
  - a. Maximizing opportunities to establish community-based enterprises
  - b. Encouraging community groups to put up development projects
  - d. Preparation of project proposals for funding; and
  - e. Assistance to Barangay Council on revenue generation.
3. Social Mobilization Strategies
  - a. Strengthening the community to serve as communication link between the company and the people (stakeholders); and
  - b. Intensifying IEC campaigns on matters that would promote people's participation.
4. Coordination Strategies

- a. Regular consultations with local government units and national line agencies, non-government organizations (NGO) and the private sectors on matters affecting socio-economic conditions of the people; and
- b. Seeking assistance wherever deemed fruitful with external organizations to promote economic and social enhancement projects.

**Social Development Programs**

In the pursuit of social development, attention has been attributed to the following through corporate policies and programs:

- 1. Cooperative development for livelihood projects
- 2. Family development programs and services;
- 3. Gender and development policies and programs;
- 4. Population development services
- 5. Parent, disabled and youth support services; and
- 6. Relief and rehabilitation services.

**Development of Host & Neighboring Communities**

The company has always been a major partner in any undertaking of LGU units as well as other NGOs in the Municipality of Mankayan that are beneficial to its populace. Livelihood programs intended to uplift the socio-economic conditions of neighboring communities are in place, which directly benefit needy families of the neighboring barangays in the Municipalities of Mankayan and Cervantes. During emergencies, i.e., typhoons, earthquakes, fires etc, Lepanto has always been visible in the opening of road slides, installation of bridges and rescue operations.

**SOCIO-ECONOMIC IMPACTS**

**Contribution to Local & National Economy**

Since Lepanto resumed operation in 1947, a total of P2.63 billion has been contributed to the local and national economy in form of taxes, duties and fees. The average annual payroll is about P390 M/a. To the government, the average duties and taxes paid is about P210 M/a. To the communities, LGU's and NGO's, an average of P70 M/a is spend on environmental protection and community development. To suppliers, the annual purchases of electricity, fuel, explosives, reagent and other equipment, parts and supplies amount to about P500 M.

***Table 11 Contribution to the Philippine Economy***

Taxes, licenses, fees, and permits	P 210 M
Supplies	P 500 M
Payroll	P 390 M
Environment and Community Development	P 70 M
Total	P 1170 M

**Socio-Economic Conditions**

About 2000 to 2100 employees will be involved in the whole Victoria I and Victoria II projects. Medical and dental services will be extended to company employees, dependents and the community. There will be training facilities, livelihood programs, scholarships and new infrastructure. The impacts of the project on socio-economics are positive and will provide a continuity of these benefits.

## Mineral Resource estimate for conversion to Ore Reserves.

**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.

From the estimated mineral resource figures of 17,600,000 tonnes @ 4.1 g/T Au, the measured and indicated resources were considered in the calculation of the ore reserve to come up with estimated ore reserve of 10,092,000 tonnes of ore with a grade of 3.11 g/t Au As for the Lepanto Consolidated Mining Company deposit in Mankayan, Benguet of 01 October 2010.

In as much as there are no active mining operations in the Teresa and Enargite area, the ore reserved declared by the company in 01 January 2010 remains unchanged at 120,000 and 7,170,000 tonnes with grades of 4.26 and 2.47 g/T Au (1.59% Cu) respectively.

And from the 01 January 2010 declared ore reserve estimate for Victoria area, mining operation's results from the period January to September 2010 were manually deducted and the manually estimated additional ore reserves from new found mineral resources were incorporated for the revised Victoria area ore reserve.

Thus of the total ore reserve, 2,802,000 tonnes with a grade of 4.69 g/T Au is declared for the gold bearing ores in the Victoria area. This figure is 318,000 tonnes lower than the Ore Reserve declared by the company in January 1, 2010 which is attributed mainly to mining during the period January to September 2010 and the additional new found ore reserve estimate 61,000 tonnes with a grade of 3.66 g/T Au.

The principle of manually estimating the ore reserve tonnage from the new found manually estimated mineral resources uses the formula:

**Projected Tonnage** = Length of Sill Drift x Breaking width x Projected Height x  
Specific Gravity of 2.5 X a vein payability factor.

**Where Vein Payability** is the length of the blocked ore in sill drift opening (with an average grade equal or greater than 2g/T Au) divided by the total length of the advance.

The summary of the total estimated Ore Reserve is shown in the attached certification of Ore reserve.

## Mining factors or assumptions

The Ore Reserve estimation is done by applying the necessary mining controls (pillars, silldrift length, etc), dilution and a cut-off grade to ensure economic mining extraction of the orebody.

Using the GEMS software, mining dilution of 0.25 meter on both sides of the vein is applied against the mineral resource blocks regardless of vein width. The mining dilution skin is pegged at zero Au grade value thus the estimated grade is downgraded by the expanded vein solid. 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.

The applied breaking width for the additional "new finds" basically is the application of dilution scheme of 0.25m added on both sides of the vein width, the same parameter used in Gemcom software estimates.

As an additional mining control for the ore reserve, a pillar of **4.0 m** is applied whenever a projected reserve block is near old stopes.



TABLE 12 – ORE RESERVE ESTIMATES as of October 2010

Ore Reserve	Category	Tonnes	g/t Au	% Cu	M Ozs. Au	M Lb Cu
Victoria	Proved	2,288,000	4.85		0.3571	
	Probable	514,000	3.95		0.0653	
	<b>Sub-total</b>	<b>2,802,000</b>	<b>4.69</b>		<b>0.4224</b>	
Teresa	Proved	100,000	4.33		0.0133	
	Probable	20,000	4.00		0.0031	
	<b>Sub-total</b>	<b>120,000</b>	<b>4.26</b>		<b>0.0164</b>	
	<b>Total</b>	<b>2,922,000</b>	<b>4.67</b>		<b>0.4387</b>	
Enargite	Proved	4,060,000	2.28	1.548	0.2976	138.45
	Probable	3,110,000	2.72	1.642	0.2730	112.661
	<b>Total</b>	<b>7,170,000</b>	<b>2.47</b>	<b>1.589</b>	<b>0.5706</b>	<b>251.111</b>
<b>GRAND TOTAL</b>		<b>10,092,000</b>	<b>3.11</b>		<b>1.0094</b>	

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

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.

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

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 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.

### **INTERPRETATION AND CONCLUSION**

1. From the Measured and indicated resources of Victoria totaling 5.6 million tonnes, an Ore Reserve of 2.8 million tonnes was estimated with a average grade of 4.69 g/T Au.
2. And from this Ore reserve estimate, 1.9 million tonnes of ore at 2.78 g/T Au Mill head was projected to be mined for the next three years.
3. Expected metal production from the scheduled three year milling is estimated to be at 151,674 ounces Gold and 250,002 ounces silver.
4. This estimated metal production is estimated with a revenue of 8.135 billion pesos
5. With an estimated production cost of 5.912 million pesos, the resulting net income will be 2,188 billion pesos.
6. From these, the estimated Ore Reserve is expected to be mined economically for the next three years of mining operation of Lepanto Mine Division.

### **RECOMMENDATIONS OF THE COMPETENT PERSON**

A review of the Ore Reserve Estimate comprising 2.8 million tonnes averaging 4.69 g/T Au as of October 1, 2010 conducted by a Lepanto ore reserve team showed that all exploration and mining data used in the estimation were diligently gathered, collated, processed and interpreted in observance of industry accepted procedures as prescribed by the Philippine Mineral Reporting Code (PMRC).

Being a long-time gold producer, Lepanto has preserved a traditional set of Ore Reserve estimation procedures which were strictly applied in the preparation of this estimate following the guidelines set by the PMRC.

It is therefore recommended that the Ore Reserve Estimate of 2.8 million tonnes with an average grade of 4.69 g/T Au be used as basis in the preparation of a mining program for the next three (3) years involving 1.9 million tonnes of ore at a mill head of 2.78 g/T Au to produce 152,000 ounces of gold and 250,000 ounces of silver.

## REFERENCES

1. The Philippine Mineral Reporting Code For The Reporting of Exploration Results, Mineral Resource and Ore Reserve, THE PMRC 2007 Edition
2. 2010 Resource Estimate, Lepanto Mine Division, Conde, Froilan
3. Victoria I Feasibility Study, Lepanto Mine Division, Balagot, Mervin & Laoagan, Ernesto

# ANNEX "A-1"

## CERTIFICATION

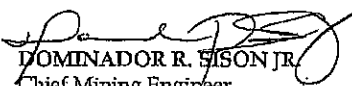
We, BRIDGET G. GAMMAD and DOMINADOR R. SISON JR, Filipinos, of legal ages, and with office address at the Lepanto Mine Division, Lepanto, Mankayan, Benguet, being the Mineral Resource - Ore Reserve Engineer and Chief Mining Engineer respectively of Lepanto Mine Division, Lepanto Consolidated Mining Company, 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 October 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 : 25 October 2010

  
BRIDGET G. GAMMAD

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

  
DOMINADOR R. SISON JR.

Chief Mining Engineer  
Licensed Mining Engineer  
PRC Lic. No. 0001477  
PTR No. 2192342 : Jan 14 2010  
Mankayan, Benguet

SUBSCRIBED AND SWORN to before me this 25<sup>th</sup> day of October, 2010 in Lepanto, Mankayan, Benguet affiant having exhibited to me their respective Residence Certificate No. 17099283 & 21311646 Issued on 16 March 2010 & 22 January 2010 at Mankayan, Benguet.

Doc. No. 347;  
Page No. 71;  
Book No. 111;  
Series of 2010.

  
ATTY. RODOLFO A. BONDAD, JR.,

Notary Public

Until December 31, 2010  
PTR No. 2156960; 1-5-10  
IBP No. 507720; 1-6-10  
Roll No. 57353; 05/03/09

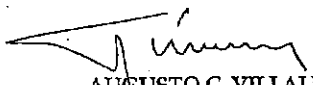
VERIFICATION

ANNEX "A-2"

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:

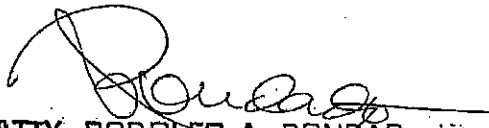
1. I conducted a separate study on the Ore Reserve Status of Lepanto Mine Division, Lepanto Consolidated Mining Company as of October 01, 2010 and thereafter reached similar findings with those prepared by LMD, LCMC's Mineral Resource - Ore Reserve Engineer Ms. BRIDGET G. GAMMAD under the supervision of Lepanto Mine Division, Lepanto Consolidated Mining Company's Chief Mining Engineer, Mr. DOMINADOR R. SISON JR., 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 \_\_\_\_\_

  
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 16<sup>th</sup> day of October 2010 in Lepanto, Mankayan, Benguet, affiant exhibiting his Community Tax Certificate No. 17099824 issued on 24 March 2010 at Mankayan, Benguet.

Doc. No. 848;  
Page No. 71;  
Book No. 111;  
Series of 1010.

  
ATTY. RODOLFO A. BONDAD, JR.  
Notary Public  
Until December 31, 2010  
PTR No. 2116940; 1-5-10  
IBP No. 6039712; 1-6-10  
Roll No. 57353; 05/05/09

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

**SECRETARY'S CERTIFICATE**

**ANNEX "B"**


I, ODETTE A. JAVIER, Filipino, of legal age, being the duly elected and qualified Vice President and Assistant Corporate Secretary of LEPANTO CONSOLIDATED MINING CO. ("Corporation"), a corporation duly organized and existing under Philippine laws, with office address at the 21<sup>st</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, hereby certify that:

1. Engr. Augusto C. Villaluna, the Company's Senior Vice President for Operations who certified the Company's Ore Reserve Report as a Competent Person as the term is defined under the Philippine Mineral Reporting Code (PMRC), has beneficial ownership to a total of 6,582,858 "A" and 4,388,571 "B" shares of common stock of Lepanto. In addition, he has stock options under the 17<sup>th</sup> Stock option Awards of Lepanto totaling 7,314,286 shares (consisting of 4,388,571 "A" and 2,925,715 "B" shares), half of which will become exercisable on February 1, 2011; the other half will become exercisable on February 1, 2012.

2. Mr. Froilan C. Conde, the Company's Exploration and Mine Geology Manager who certified the Company's Ore Resource Report as a Competent Person as the term is defined under the PMRC, has beneficial ownership to a total of 1,234,286 "A" and 822,857 "B" shares of common stock of Lepanto. In addition, he has stock options under the 17<sup>th</sup> Stock option Awards of Lepanto totaling 1,371,428 shares (consisting of 822,857 "A" and 548,571 "B" shares), half of which will become exercisable on February 1, 2011; the other half will become exercisable on February 1, 2012.

NOV 03 2010


IN WITNESS WHEREOF, this Certificate has been signed this 03 day of November 2010 at Makati City.

  
ODETTE A. JAVIER  
Vice President and  
Asst. Corporate Secretary

NOV 03 2010

SUBSCRIBED AND SWORN TO before me this 03 day of November 2010 at Makati City, affiant exhibiting to me her Passport No. TT0033470 issued on May 4, 2006 at Manila.

Doc. No. 369  
Page No. 17  
Book No. 17  
Series of 2010.

  
**ATTY. GERVACIO B. ORTIZ**  
**NOTARY PUBLIC FOR MAKATI CITY**  
**UNTIL DECEMBER 31, 2010**  
**TR NO. 20/5548 JAN. 04, 2010 MAKATI**  
**IBP NO. 656155-LIFETIME MEMBER**  
**APPT. M-84/2010 ROLL NO. 40081**

# ANNEX "C"

## **Lepanto Consolidated Mining Company and Subsidiaries**

Consolidated Financial Statements  
December 31, 2009 and 2008  
and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

Sycip Gorres Velayo & Co.

## **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>		
Cash (Note 4)	₱15,946	₱8,712
Receivables - net (Note 5)	152,755	145,157
Inventories - net (Note 6)	489,998	581,762
Other current assets (Note 7)	309,671	421,098
<b>Total Current Assets</b>	<b>968,370</b>	<b>1,156,729</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 8)	6,441,333	6,408,409
Available-for-sale (AFS) investments (Note 9)	130,396	85,202
Investments in and advances to associates (Note 10)	363,411	378,322
Mine exploration costs - net (Notes 1 and 11)	740,208	760,275
Deferred income tax assets - net (Note 18)	89,912	102,838
Other noncurrent assets (Note 26)	7,010	16,940
<b>Total Noncurrent Assets</b>	<b>7,772,270</b>	<b>7,751,986</b>
<b>TOTAL ASSETS</b>	<b>₱8,740,640</b>	<b>₱8,908,715</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 12)	₱2,354,878	₱2,135,701
Current portion of long-term borrowings (Note 14)	82,549	92,314
Loans payable (Note 13)	80,000	80,000
<b>Total Current Liabilities</b>	<b>2,517,427</b>	<b>2,308,015</b>
<b>Noncurrent Liabilities</b>		
Long-term borrowings - net of current portion (Note 14)	578,891	623,737
Retirement benefit obligation (Note 16)	515,744	468,690
Deferred income tax liabilities - net (Note 18)	113,816	127,308
Stock subscriptions payable	107,784	111,309
<b>Total Noncurrent Liabilities</b>	<b>1,316,235</b>	<b>1,331,044</b>
<b>Equity</b>		
Capital stock (Note 19)	3,286,980	3,286,606
Additional paid-in capital	1,446,062	1,446,062
Revaluation increment in land (Note 8)	511,504	564,022
Cumulative changes in fair values of AFS investments (Note 9)	(359,056)	(406,895)
Retained earnings (deficit)	(225,688)	126,470
<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
	<b>1,455,950</b>	<b>1,837,274</b>	<b>1,776,655</b>
<b>COSTS AND EXPENSES</b> (Note 22)	<b>(1,689,041)</b>	<b>(2,221,459)</b>	<b>(2,054,282)</b>
<b>FINANCE COSTS</b> (Note 23)	<b>(173,304)</b>	<b>(139,636)</b>	<b>(166,623)</b>
<b>FOREIGN EXCHANGE GAINS (LOSSES)</b> - net	<b>36,718</b>	<b>(175,234)</b>	<b>224,417</b>
<b>OTHER INCOME</b> - net (Note 23)	<b>16,704</b>	<b>268</b>	<b>2,250</b>
<b>SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES</b> (Note 10)	<b>5,428</b>	<b>(36,560)</b>	<b>55,742</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(347,545)</b>	<b>735,347</b>	<b>161,841</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 18)			
Current	112	4,703	3,885
Deferred	24,201	23,249	40,719
	<b>24,313</b>	<b>27,952</b>	<b>44,604</b>
<b>NET LOSS FOR THE YEAR</b>	<b>371,858</b>	<b>763,299</b>	<b>206,445</b>
Attributable to:			
Equity holders of the Parent Company	(₱370,746)	(₱763,189)	(₱206,578)
Minority interests (Note 20)	(1,112)	(110)	133
	<b>(₱371,858)</b>	<b>(₱763,299)</b>	<b>(₱206,445)</b>
<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)	—	—
	<b>8,806</b>	<b>(25,602)</b>	<b>53,984</b>
<b>TOTAL COMPREHENSIVE LOSS - net of tax</b>	<b>₱363,052</b>	<b>₱788,901</b>	<b>₱152,461</b>
Attributable to:			
Equity holders of the Parent Company	(₱356,837)	(₱788,913)	(₱153,434)
Minority interests	(6,215)	12	973
	<b>(₱363,052)</b>	<b>(₱788,901)</b>	<b>(₱152,461)</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b> (Note 21)	<b>(₱0.01128)</b>	<b>(₱0.02369)</b>	<b>(₱0.00718)</b>

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	(P347,545)	(P735,347)	(P161,841)
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>	<b>P15,946</b>	<b>P8,712</b>	<b>P10,472</b>

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							
	Capital Stock (Note 19)		Additional Paid-in Capital (Note 19)	Revaluation Increment in Land (Note 8)	Cumulative Changes in fair values of AFS investments (Note 9)	Retained Earnings	Minority Interest (Note 20)	Total
	Issued	Subscribed						
Balances at December 31, 2006	₱2,876,644	₱1,053	₱830,291	₱523,735	(₱394,028)	₱1,096,237	₱252,406	₱5,186,338
Cancellation of subscription of shares	—	(21)	—	—	—	—	—	(21)
Net income (loss) for the year	—	—	—	—	—	(206,578)	133	(206,445)
Other comprehensive income	—	—	—	—	53,144	—	840	53,984
Total comprehensive income (loss) recognized for the year	—	—	—	—	53,144	(206,578)	973	(152,461)
Balances at December 31, 2007	2,876,644	1,032	830,291	523,735	(340,884)	889,659	253,379	5,033,856
Issuance/subscription of shares during the year	410,599	(1,669)	615,771	—	—	—	—	1,024,701
Net loss for the year	—	—	—	—	—	(763,189)	(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)	(763,189)	12	(788,901)
Balances at December 31, 2008	3,287,243	(637)	1,446,062	564,022	(406,895)	126,470	253,391	5,269,656
Issuance/subscription of shares during the year	442	(68)	—	—	—	—	—	374
Net loss for the year	—	—	—	—	—	(370,746)	(1,112)	(371,858)
Other comprehensive income (loss)	—	—	—	(52,518)	47,839	18,588	(5,103)	8,806
Total comprehensive income (loss) recognized for the year	—	—	—	(52,518)	47,839	(352,105)	(6,215)	(363,052)
Balances at December 31, 2009	₱3,287,685	(₱705)	₱1,446,062	₱511,504	(₱359,056)	(₱225,688)	₱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 (₱000) 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.



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

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

#### *Subsequent Measurement*

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

##### *Loans and Receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. This accounting policy relates to the consolidated statements of financial position captions "Cash" and "Receivables", which arise primarily from sale and other types of receivables. Loans and receivables are classified as current when these are expected to be realized within one year after the financial reporting date or within the Group's normal operating cycle, whichever is longer. All others are classified as non-current. Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in "Finance costs" caption in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in "Provision for impairment losses on receivables" account on "Costs and expenses" caption in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on Impairment of Financial Assets).

##### *AFS Investments*

AFS financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. AFS investments are those purchased and held indefinitely and may be sold as the need arises. They are included in noncurrent assets unless management intends to dispose of the investment within 12 months from the financial reporting date. Included in this category are equity investments in quoted instruments and private companies other than subsidiaries and associates, which is shown as a separate line item in the consolidated statements of financial position.

After initial measurement, AFS investments are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are reported as "Cumulative changes in fair values of AFS" account in the equity section of the consolidated statement of financial position.

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





consolidated statement of comprehensive income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the consolidated 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.

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#### 4. Cash

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

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
<b>2009</b>			
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
<b>2008</b>			
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:

2009	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
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
<b>Total</b>	<b>₱152,755</b>	<b>₱131,193</b>	<b>₱6,180</b>	<b>₱1,525</b>	<b>₱1,936</b>	<b>₱11,921</b>

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
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
<b>Total</b>	<b>₱145,157</b>	<b>₱117,785</b>	<b>₱5,513</b>	<b>₱1,372</b>	<b>₱1,700</b>	<b>₱18,787</b>

## 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
	<b>472,582</b>	<b>503,486</b>
	<b>₱489,998</b>	<b>₱581,762</b>

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
Others	3,392	13,309
	<b>₱309,671</b>	<b>₱421,098</b>



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
	<b>₱740,208</b>	<b>₱760,275</b>

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
	<b>₱2,354,878</b>	<b>₱2,135,701</b>

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)	<b>₱454,828</b>	₱445,560
Obtained from Local Banks:		
US Dollar-denominated loans	<b>157,912</b>	218,337
Peso-denominated loans	<b>40,045</b>	40,153
	<b>197,957</b>	258,490
Suppliers' trade credits	<b>8,655</b>	12,001
	<b>661,440</b>	716,051
Less current portion	<b>82,549</b>	92,314
	<b>₱578,891</b>	₱623,737

##### 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:

	2009			2008			2007		
	Funder	Unfunded	Total	Funded	Unfunded	Total	Funded	Unfunded	Total
Current service cost	₱1,957	₱1,905	₱3,862	₱50,342	₱1,867	₱52,209	₱61,747	₱1,993	₱63,740
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
	₱61,900	₱4,238	₱66,138	₱57,173	₱4,562	₱61,735	₱102,621	₱4,642	₱107,263
Actual return (loss) on plan assets	₱37,470	₱—	₱37,470	(₱412,625)	₱—	(₱412,625)	₱234,124	₱—	₱234,124

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	₱1,144,840	₱35,325	₱1,180,165	₱1,136,454	₱32,595	₱1,169,049
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)
	₱483,015	₱32,729	₱515,744	₱438,691	₱29,999	₱468,690



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	<b>₱30,800</b>	₱30,800	₱29,701
Retirement benefits	—	—	—
	<b>₱30,800</b>	₱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	<b>₱149,562</b>	₱135,825	<b>₱5,161</b>	₱4,782
Retrenchment costs	<b>5,103</b>	5,103	—	—
Provisions for:				
Inventory obsolescence	<b>9,947</b>	9,655	<b>195</b>	195
Impairment losses on properties	<b>7,180</b>	7,180	—	—
Impairment losses on receivables	<b>2,771</b>	4,049	<b>79</b>	81
Allowance for decline on market price of inventory	<b>1,564</b>	10,862	—	—
Past service cost	<b>483</b>	1,690	—	—
NOLCO and MCIT	<b>87</b>	175	—	—
Unrealized foreign exchange losses - net	—	40,200	—	—
	<b>176,697</b>	214,739	<b>5,435</b>	5,058
Revaluation increment on land	<b>(100,029)</b>	(111,901)	<b>(119,186)</b>	(132,360)
Unrealized foreign exchange gains - net	<b>13,463</b>	—	<b>(5)</b>	(6)
Change in fair value of AFS investments	<b>(219)</b>	—	<b>(60)</b>	—
	<b>(86,785)</b>	(111,901)	<b>(119,251)</b>	(132,366)
Net deferred income tax assets (liabilities)	<b>₱89,912</b>	₱102,838	<b>(₱113,816)</b>	(₱127,308)



The Group did not recognize deferred income tax assets on NOLCO and MCIT and provision for impairment losses on mine exploration costs because management believes that it is more likely than not that the carryforward benefits will not be realized in the near future:

	2009	2008
NOLCO	<b>₱723,756</b>	₱374,796
MCIT	—	3,923
Provision for impairment losses on mine exploration costs	<b>7,779</b>	<b>7,779</b>
	<b>₱731,535</b>	<b>₱386,498</b>

As at December 31, 2009 and 2008, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable and MCIT that can be claimed as tax credit, respectively, as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2007	2010	₱220,139	₱1
2008	2011	154,843	2
2009	2012	348,774	127
		<b>₱723,756</b>	<b>₱130</b>

Movements of NOLCO and excess MCIT for the years ended December 31 follows:

**NOLCO**

	2009	2008
Balances at beginning of year	<b>₱375,353</b>	₱610,416
Additions	<b>348,774</b>	154,843
Expiration	<b>(371)</b>	<b>(389,906)</b>
Balances at end of year	<b>₱723,756</b>	<b>₱375,353</b>

**MCIT**

	2009	2008
Balances at beginning of year	<b>₱3,929</b>	₱4,083
Additions	<b>127</b>	2
Applications	—	(86)
Expirations	<b>(3,926)</b>	<b>(70)</b>
Balances at end of year	<b>₱130</b>	<b>₱3,929</b>



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
Tax at statutory income tax rates	(P117,727)	(P257,371)	(P56,644)
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	2007	2009	2008	2007	2009	2008	2007
Acquisition cost	₱242,970	₱242,970	₱242,970	₱6,218	₱6,218	₱6,218	₱249,188	₱249,188	₱249,188
Share in operating results:									
Balances at beginning of year	(889)	(857)	(651)	(1,887)	(1,809)	(2,148)	(2,776)	(2,666)	(2,799)
During the year	(14)	(32)	(206)	(1,098)	(78)	339	(1,112)	(110)	133
Balances at end of year	(903)	(889)	(857)	(2,985)	(1,887)	(1,809)	(3,888)	(2,776)	(2,666)
Other changes in equity:									
Revaluation of land, net of related deferred tax liability	-	5,920	5,497	-	-	-	-	5,920	5,497
Changes in fair values of AFS investments	1,876	1,059	1,360	-	-	-	1,876	1,059	1,360
Net book values	₱243,943	₱249,060	₱248,970	₱3,233	₱4,331	₱4,409	₱247,176	₱253,391	₱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	₱669,112	₱953,680	₱983,599
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>₱1,689,041</b>	<b>₱2,221,459</b>	<b>₱2,054,282</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	₱434,785	₱414,786	₱404,518
Retirement benefits (see Note 16)	66,138	61,735	107,263
Others	36,703	51,368	249,607
	<b>₱537,626</b>	<b>₱527,889</b>	<b>₱761,388</b>

## 23. Finance Costs and Other Income

	2009	2008	2007
Finance Costs:			
Borrowing costs (see Notes 13 and 14)	₱173,304	₱139,636	₱166,623
Other Income:			
Gain on sale of land	₱16,003	₱—	₱2,067
Interest income	117	271	183
Other income (loss) (see note below)	584	(3)	—
	<b>₱16,704</b>	<b>₱268</b>	<b>₱2,250</b>

Details as to source of borrowing costs follow:

	2009	2008	2007
Long-term	₱90,045	₱64,321	₱125,955
Short-term	43,458	34,591	40,668
Others	39,801	40,724	—
	<b>₱173,304</b>	<b>₱139,636</b>	<b>₱166,623</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	<b>₱1,191</b>	<b>₱1,191</b>
In the second to fifth years inclusive	–	2,381
	<b>₱1,191</b>	<b>₱3,572</b>



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

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



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>		
<b>PHP (T-bill rate)</b>	<b>+100</b>	<b>(P398)</b>
<b>USD (LIBOR)</b>	<b>+100</b>	<b>(6,127)</b>
<b>PHP (T-bill rate)</b>	<b>-100</b>	<b>398</b>
<b>USD (LIBOR)</b>	<b>-100</b>	<b>6,127</b>
<b>2008</b>		
<b>PHP (T-bill rate)</b>	<b>+100</b>	<b>(P398)</b>
<b>USD (LIBOR)</b>	<b>+100</b>	<b>(6,639)</b>
<b>PHP (T-bill rate)</b>	<b>-100</b>	<b>398</b>
<b>USD (LIBOR)</b>	<b>-100</b>	<b>6,639</b>

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>
<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
	<b>173,389</b>	<b>173,389</b>	<b>158,975</b>	<b>158,975</b>
<i>AFS investments</i>				
Quoted	82,000	82,000	36,788	36,788
Unquoted	48,396	48,396	48,414	48,414
	<b>130,396</b>	<b>130,396</b>	<b>85,202</b>	<b>85,202</b>
	<b>₱303,785</b>	<b>₱303,785</b>	<b>₱244,177</b>	<b>₱244,177</b>



	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	₱1,416,391	₱—	₱—	₱—	₱1,416,391
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)	₱362,434	₱17,702	₱7,449	(₱15,670)	₱371,915

	Mining	Service	Others	Elimination	Total
Segment assets	₱8,768,148	₱591,016	₱310,205	(₱935,875)	₱8,733,494
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	₱1,713,873	₱—	₱—	₱—	₱1,713,873
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)	(₱737,153)	₱2,005	₱1,209	(₱29,361)	(₱763,300)



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)

