COVER SHEET

115 PREWAR

S.E.C. Registration Number

ATLAS CONSOLIDATED MINING

AND DEVELOPMENT CORPORATION

(Company's Full Name)

7TH FLOOR QUAD ALPHA CENTRUM

125 PIONEER STREET MANDALUYONG

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

CONSTANTE P. BUMANGLAG

Contact Person

(632) 635-44-95

Company Telephone Number

12 31

Month Day

Fiscal Year

SEC 17-A

FORM TYPE

Month Day

Annual Meeting

N/A

Secondary LicenseType, If Applicable

last Wednesday of April

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17 - A, AS AMENDED

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

1. For the fiscal year ended **DECEMBER 31, 2005**

2. SEC Identification Number **115 PRE WAR**

3. BIR Tax Identification No. **000-154-572-000**

4. **ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION**
   Exact name of issuer as specified in its charter

5. **PHILIPPINES**
   Province, country or other jurisdiction of Incorporation or organization

6. [ ] (SEC Use Only)
   Industry Classification Code.

7. **7/F QUAD ALPHA CENTRUM , 125 PIONEER ST., MANDALUYONG CITY** — **1554**
   Address of principal office — Postal Code

8. **(632) 635-23-87 and (632) 635-4495**
   Issuer's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
COMMON STOCK, ₱10 PAR VALUE	**355,914,952**

11. Are any or all of these securities listed on a Stock Exchange?
    Yes ☑ No ☐

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

    Philippine Stock Exchange - **Common Stock**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes ☑ No ☐

(b) has been subject to such filing requirements for the past 90 days.

Yes ☑ No ☐

13. Aggregate market value of the voting stock held by non-affiliates: **₱1,061,765,000.00**

TABLE OF CONTENTS

		Page No.
PART I - BUSINESS AND GENERAL INFORMATION		
Item 1.	Business	1
Item 2.	Properties	3
Item 3.	Legal Proceedings	7
Item 4.	Submission of Matters to a Vote of Security Holders	7
PART II – OPERATIONAL AND FINANCIAL INFORMATION		
Item 5.	Market for Issuer's Common Equity And Related Stockholder Matters	7
Item 6.	Management's Discussion and Analysis or Plan of Operation	8
Item 7.	Financial Statements	14
Item 8.	Changes in and Disagreements with Accountants On Accounting and Financial Disclosure	14
PART III - CONTROL AND COMPENSATION INFORMATION		
Item 9.	Directors and Executive Officers of the Issuer	15
Item 10.	Executive Compensation	18
Item 11.	Security Ownership of Certain Beneficial Owners and Management	19
Item 12.	Certain Relationships and Related Transactions	20
PART IV – CORPORATE GOVERNANCE		
Item 13.	Corporate Governance	20
PART V - EXHIBITS AND SCHEDULES		
Item 14.	A. Exhibits	21
	B. Reports on SEC Form 17-C (Current Report)	21
SIGNATURES		22
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES		23

PART I -- BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

Atlas Consolidated Mining & Development Corporation ("The Company", ACMDC or "Atlas") was incorporated as Masbate Consolidated and Mining Company, Inc on March 9, 1935 as a result of the merger of assets and equities of three pre-war mining companies, namely, Masbate Consolidated Mining Company, Antamok Goldfields Mining Company and IXL Mining Company. Thereafter, it amended its Articles of Incorporation to reflect its present corporate name. The Company is engaged in mineral and metallic mining and exploration and primarily produces copper concentrates and gold with silver and pyrites as major by-products.

On September 16, 2004, a wholly owned subsidiary, Carmen Copper Corporation ("CCC"), was incorporated. It will primarily engage in the business of searching, prospecting, exploration, mining, processing and location of ores and mineral resources. Berong Nickel Corporation ("BNC") was registered with the Securities and Exchange Commission ("SEC") on September 27, 2004 for the purpose of exploring, developing and mining the Berong Mineral Properties in Palawan. Another subsidiary, TMM Management, Inc. ("TMM") was incorporated on September 28, 2004 to provide management services to entities.

The Company organized and registered on May 26, 2006 its water subsidiary, AquAtlas, Inc. (AAI) whose primary purpose is to provide and supply wholesale/bulk water to local water districts and other clients and to make available other related and value added services.

On June 23, 2005, Atlas also incorporated two wholly-owned subsidiaries, the Ulugan Nickel Corporation (UNC) and the Ulugan Resources Holdings, Inc. (URHI). The former is tasked to explore and mine, among others, all the minerals and the products that may be extracted or produced within the Ulugan Mineral Properties located in the Province of Palawan. The latter is charged to acquire, obtain, direct and manage interests in securities of every kind and in real properties.

In partnership with Minoro Mining and Development Corporation (MMEC), Atlas formed and owned a sixty percent (60%) interest in Nickeline Resources Holdings, Inc. (NRHI), a subsidiary to engage mainly in the acquisition and management of interests in properties and securities of every kind.

Another wholly-owned subsidiary, Atlas Exploration Inc. (AEI), was incorporated on August 26, 2005 primarily to carry on either solely or in co-ventures with others the exploration work for the purpose of determining the existence of mineral resources and the feasibility of mining them for profit and to acquire or dispose of claims in mineral and/or other natural resources and other properties for the protection and benefit of the company.

The Company, on December 29, 2005, sold all its rights, title and interests to all its shares in the common stock of its construction and engineering subsidiary, ACMDC Ventures, Inc. ("AVI").

The new subsidiaries are the result of the strategic program designed to diversify and benefit from the substantial asset base of the Company.

The Company's transactions with related parties are discussed on Item 12.

The Company's copper mining operations which started in 1955 are centered in Toledo City, Cebu where three open pit mines, two underground mines and three milling complexes (concentrators) were located.

Due to a strong typhoon that hit Cebu in 1993, the Company's mining facilities were considerably damaged forcing Atlas to shut down its mining operations at its Toledo copper mines in early 1994. Mining operations have yet to resume since its suspension. Recently, a feasibility study to reopen the mine was completed and the Company is presently in negotiations to raise the necessary finance to commence rehabilitation. The international engineering firm of Behre Dolbear Australia (BDA) validated in July 2005 an updated and enhanced feasibility study prepared for the rehabilitation and reopening of the mines to be a technically and economically viable operation. The study concluded that the reopening of the Toledo mines was viable.

The Company's revenues are currently derived mainly from rental of some of its idle assets and from proceeds from sale of scrap and excess materials. The Company is not dependent upon a single buyer or client in the pursuit of its business.

The Company and its subsidiaries ("the Group") are not involved in any bankruptcy, receivership or any similar proceedings.

Unlike most industries, mining companies operate in a less than competitive business condition. Prices for metals produced are not dictated by the mining companies themselves but are rather influenced and highly dependent from quotations prevailing in the world market. The Company usually relies on the London Metal Exchange quotations to price its copper concentrates, gold bullion and silver. No patents, trademarks and franchises have been required of the Company for its normal operations. The Company has agreements with several claimowners to pay them royalties for the use of certain mining areas that rightfully belong to such claimowners. All sales made by the Company were considered export sales and compliance with appropriate rules and regulations of the Bangko Sentral ng Pilipinas were adhered to. The Company is not aware of any governmental rules and environmental laws that will materially affect the results of its operations.

The Collective Bargaining Agreement (CBA) signed with the recognized labor union and covered only the rank and file employees as at the date of the agreement expired in October 1996. No new CBA has been signed since. The total number of employees as of December 31, 2005 is 245 and is likely to remain near this range in the next twelve months.

The number and distribution of personnel at the end of 2005 compared to the same period of 2004 and 2003 are summarized below:

	2005	**2004**	**2003**
Managerial and confidential	206	191	202
Rank and file	39	47	46
Total	**245**	**238**	**248**

The harmonious and cordial partnership forged by the union and management was apparently beneficial to all concerned as no strike was staged by the union from year 2002 to 2005. In spite of its financial difficulties, the Company complied with the appropriate labor and related laws mandating increases in the minimum wages and other benefits due its employees. As of December 31, 2005, AAI, AEI, BNC, CCC, NRHI,, UNC, and URHI have not yet started commercial operations. Further, except for BNC which has

two regular employees, none among the subsidiaries had a regular employee in 2005. Reference is also made to Items 6 and 10.

The Company is on care and maintenance program due to continued suspension of its mining operations. The major risk it faces is the upkeep and preservation of the environment within its areas of activities. In 2004, Atlas actively supported and funded the intended activities of the activated Mine Rehabilitation Fund Committee and its component body, the Multipartite Monitoring Team. During the year, the Company continued the implementation of its care and maintenance program designed for environmental management and protection within its areas of activities while mining operations remain suspended. The program was carried out in coordination with the Mines and Geosciences Bureau ("MGB") and embraces measures on reforestation, ground stabilization, utilities and infrastructure maintenance, drainage facility upkeep, derelict structure disposal, camp security assurance, acid mine drainage control and monitoring, and post-shutdown administrative services. A total of ₱17.3 million and ₱5.4 million was expended by Atlas for this program in 2004 and 2005, respectively. The Department of Environment and Natural Resources ("DENR") approved on January 24, 2005 the issuance in favor of the Company of a Certificate of Non-Coverage ("CNC") on the Toledo mining operations in lieu of the Environmental Compliance Certificate ("ECC"). Reference is also made to Note 22.

The Company does not employ a system or method for distributing its products or services. There is no new mineral product or service that will be introduced by either the Company or its subsidiaries. Furthermore, the Company suspended, except as disclosed elsewhere in this report, expenditures on capital projects, research and development and exploration activities during the last three years.

ITEM 2. PROPERTIES

The Group owns several mining claims and a holder of rights of mining claims by virtue of Operating Agreements it signed with private claimowners. Some of these mining claims are covered with Lease Contracts granted by the government and Mineral Production Sharing Agreement (MPSA), others are covered with Declaration of Location (DOL) or Mining Lease Applications (MLA). Mining claims with Lease Contracts issued or renewed after the effectivity of 1987 Constitution and those under DOL and/or MLA are now covered with application for MPSA and Exploration Permit Applications (EPA).

Tabulated below is a breakdown of the Group's mineral properties.

A. CEBU

i) MINING LEASE CONTRACTS:

LEASE CONTRACT NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. LLC No. V-177	27.0000	0	27.0000	Expiry: 6/05/2007.	Operation suspended since 1994.
2. LLC No. V-178	18.0000	0	18.0000	Expiry: 6/05/2007.	-do-
3. LLC No. MRD-269	0	9.0000	9.0000	Expiry: 7/22/2006.	Operation suspended since 1982.
Sub-total =	**45.0000**	**9.0000**	**54.0000**		

ii) APPROVED MPSA

MPSA NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. MPSA-210-2005-VII	119.1663	115.1212	234.2875	Approved on April 28, 2005	For rehab and re-opening of mining operation. Negotiation with mining investors is in advance stage of finalization.
Sub-total =	**119.1663**	**115.1212**	**234.2875**		

iii) MPSA APPLICATIONS:

MPSA APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. APSA-000013VII	287.6266	0	287.6266	Under processing by MGB.	Exploration suspended since 1994.
2. APSA-000042VII	252.3926	0	252.3926	Under processing by MGB.	Exploration suspended since 1994.
3. APSA-000043VII	546.1383	101.8791	648.0174	-do-	Operation suspended since 1994.
4. APSA-000044VII	189.6489	295.9382	485.5871	-do-	Operation suspended since 1992.
5. APSA-000045VII	0	2,552.0993	2,552.0993	-do-	Exploration suspended since 1994.
6. APSA-000046VII	1,111.0453	644.9947	1,756.0400	-do-	-do-
7. APSA-000195VII	1,273.4822	0	1,273.4822	-do-	-do-
8. APSA-000196VII	0	762.2479	762.2479	-do-	-do-
Sub-total =	**3,660.3339**	**4,357.1592**	**8,017.4931**		
GRAND TOTAL=	**3,824.5002**	**4,481.2804**	**8,305.7806**		

B. CAMARINES NORTE

MPSA APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. APSA-V-0036	0	2,987.1144	2,987.1144	Under processing by MGB.	Exploration suspended since 1994.

C. AGUSAN DEL SUR/ SURIGAO DEL SUR

EXPLORATION PERMIT APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. EPA-000073-XIII	4,901.7731	253.4459	5,155.2190	Formerly MPSA Appln. Nos. APSA-00003X and MPSAA-(XI)-09 converted into 1- Expl. Permit Appl.	Exploration suspended since 1997.

D. PALAWAN

i) MPSA APPLICATION

MPSA APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. AMA-IVB-38(Amd) (APSA00369 IV)	**0**	1,062.0000	1,062.0000	Under processing by MGB.	None
2. AMA-IVB-47(Amd) (APSA00383 IV)	**0**	288.0000	288.0000	-do-	Exploration resumed after issuance to BNC on Nov. 16, 2005 of Temporary Exploration Permit (TEP-IVB-006-2005).
3. AMA-IVB-147(Amd)	0	2,493.0000	2,493.0000	Formerly AMA-IVB-02, AMA-IVB-17, AMA-IVB-20, and AMA-IVB-36 Consolidated into one MPSA – under processing by MGB	None
Sub-total =	**0.0000**	**3,843.0000**	**3,843.0000**		

ii) EXPLORATION PERMIT APPLICATION (EXPA):

EXPLORATION PERMIT APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. EPA-IVB-011	0	16,130.4400	16,130.4400	Under processing by MGB.	none
2. EPA IVB-058	970.0000	0	970.0000	-do-	none
3. EPA IVB-060	540.0000	5,466.2352	6,006.2352	Formerly PMPSA-IV(1)-7 converted into EXPA	Exploration suspended since 1994.
4. EPA IVB-061	810.0000	**0**	810.0000	Formerly PMPSA-IV(1)-9 converted into EXPA	-do-
Sub-total =	**2,320.0000**	**21,596.6752**	**23,916.6752**		
GRAND TOTAL=	**2,320.0000**	**25,439.6752**	**27,759.6752**		

E. BENGUET

i) MPSA APPLICATION

MPSA APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. APSA-011	152.1846	0	152.1846	Under processing by MGB.	Under exploration by Benguet Consolidated, Inc. (BCI)
2. APSA-043-CAR (Amd)	0	3,494.0000	3,494.0000	Under processing by MGB	None
Sub-total =	**152.1846**	**3,494.0000**	**3,646.1846**		

ii) EXPLORATION PERMIT APPLICATION (EXPA):

EXPLORATION PERMIT APPLICATION NUMBER	AREA (HECTARES)			STATUS	WORK PERFORMED
	Owned By ACMDC	Under Operating Agreement	Total Area (Has.)		
1. EXPA-069-CAR	0	3,693.0000	3,693.0000	Under processing by MGB.	None
Sub-total =	**0**	**3,693.0000**	**3,693.0000**		
GRAND TOTAL=	**152.1846**	**7,187.0000**	**7,339.1846**		

Presented below are the Group's principal mining properties, mills and other materially important properties as at December 31, 2005:

Properties	Location	Developments	Nature of Interest
PARENT COMPANY			
Mining Properties:			
Lutopan Underground Mine (Second Lift)	Toledo City, Cebu	Suspended Operations on December 31, 1993	Mining claims are owned by the Company. All claims are covered by Lease Contracts (LC) renewed after the effectivity of 1987 Constitution, now under MPSA application
Greater Biga Mine	Toledo City, Cebu	Suspended Operations on February 25, 1992	Mining claims partly owned by Atlas and partly operated by the Company under operating agreements with several private claimowners. Some of the claims are covered with LC issued by the state, others with Declaration of Location and Mining Lease Applications. All these claims have been applied with MPSA
Carmen Mine (includes Carmen Pit and Carmen Underground First Lift Project)	Toledo City, Cebu	Suspended Operations on December 31, 1993	Mining claims are partly owned and partly operated by Atlas under operating agreements with private claimowners. Some of these claims are covered with LC and some have already expired but all were applied with MPSA, which was approved on April 28, 2005 as MPSA-210-2005-VII (Production). Reference is made to Notes 7 and 21.
Palawan Nickel Project	Quezon and Aborlan and Puerto Princesa	Under development	Atlas has acquired or is acquiring all mining rights with MPSA and EPA. TMC and IVK are earning an interest in various of the mining rights. These mining rights will then be assigned to BNC. Reference is made to Item 6. .
Copper Concentrator:			
Carmen Concentrator with a milling capacity of 44,000 metric tons of ore/day	Toledo City, Cebu	Suspended Operations on December 31, 1993	Owned by Company

The registered office address of AAI, AEI, BNC, CCC NRHI, UNC, and URHI is 7th Floor Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City. TMM's office is at 3rd Floor, Philam Building, 100 C. Palanca St., corner de la Rosa St., Makati City.

Reference is also made to Notes 7 and 21.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various lawsuits and claims involving civil, labor, mining, tax, and other cases. In the opinion of management, these lawsuits and claims if decided adversely will not involve sums having material effect on the financial position or operating results of the Company. Please refer to Note 21.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II -- OPERATIONAL AND FINACIAL INFORMATION

ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDERS MATTERS

No payments and declaration of dividends were made since 1981 because of the Company's capital deficiency position due to recurring losses it suffered. No sale of unregistered securities was made during the past three years.

The Company's common stock is traded at the Philippine Stock Exchange, Inc. (PSE).

The high and low sales prices for each period are indicated below:

	2006		2005		2004	
	High	Low	High	Low	High	Low
First Quarter	7.20	5.60	8.60	3.95	1.50	0.90
Second Quarter	-	-	6.10	3.95	4.35	1.00
Third Quarter	-	-	7.30	4.60	3.70	2.40
Fourth Quarter	-	-	6.50	5.20	4.10	2.95

The price as of April 10, 2006 is ₱6.80 per share.

The number of shareholders of record at PSE as of December 31, 2005 is 16,682. Common shares outstanding as of December 31, 2005 aggregate 355,914,952.

Following are the Top 20 stockholders (shares listed on PSE only) as of December 31, 2005:

	Name	No. of Shares	Percent
1.	PCD Nominee Corporation (Filipino)	219,661,944	61.72%
2.	PCD Nominee Corporation (Non-Filipino)	53,370,550	15.00%
3.	Philippine Commercial Int'l Bank	10,280,407	2.89%
4.	Convoy Consolidated Holdings, Inc.	8,116,510	2.28%
5.	Minoro Mining & Exploration Corporation	4,789,795	1.35%
6.	The Bank of Nova Scotia	4,425,254	1.24%
7.	Bank of Nova Scotia	2,950,169	0.83%
8.	Philippine Overseas Drilling & Oil Dev. Corp.	2,621,000	0.74%
9.	Metropolitan Bank & Trust Company	1,700,500	0.48%
10.	Ernesto Chua Chiaco	1,570,000	0.44%
11.	Philippine Securities Corporation	1,111,389	0.31%
12.	Asian Oceanic Holdings Phils., Inc.	972,501	0.27%
13.	Anscor Consolidated Corporation	839,313	0.24%
14.	Paulino Chua	605,000	0.17%
15.	Tytana Corporation	525,555	0.15%
16.	Titan Resources Corporation	525,495	0.15%
17.	Tytan Resources Corp	400,000	0.11%
18.	Holders of ACMDC Unconverted Old Par Value Shares	374,318	0.11%
19.	George Lim	360,000	0.10%
20.	Yao En Hui	295,000	0.08%

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

2005 Compared with 2004

The Company posted a consolidated net income of ₱85.45 million for the year 2005 in contrast to a net loss of ₱323 million recorded for the same period last year. The turn around was due mainly to the gain booked on disposal of the Company's interest in its construction subsidiary.

Consolidated revenues amounted to ₱43.88 million compared to the ₱113.0 million earned during the same period of the preceding year. The drop was primarily due to revenues recognized last year related to gain on condonation of liability to a local government unit.

There was recorded a 7.3% increase in consolidated total costs and operating expenses for the twelve month period of 2005 from ₱423.3 million posted a year ago to ₱454.4 million this year. The Philippine peso gained some strength against the US dollar due mainly to the increase in the country's international reserves brought about by the influx of inward remittances made by Filipinos abroad and the fiscal reforms being initiated by the government. The peso appreciated 5.7% vis –a-vis the US dollar as of December 31, 2005 when it closed at ₱53.067 in contrast to last year's recorded closing rate of ₱56.28. As a result, the Company incurred an unrealized forex gain of ₱14.2 million for the calendar year 2005.

The decrease in accounts receivable was due to additional provisions for non recoverability. Prepayments and other current assets slightly increased because of input tax on materials.

Property and equipment decreased due to depreciation charges. The increase in other noncurrent assets pertains to additional expenditures on exploration by the Company's nickel subsidiary. The increase in loans and acceptances payable account pertains to loan extended by a creditor with an interest rate of 12%

per annum payable before the end of the year. Amounts owed to related parties increased due to additional advances made by the Alakor and the transfer of accounts previously lodged to Deposits on subscriptions. Trade and other payables decreased due mainly to settlement of major creditors accounts.

Consolidated current ratio as at the end of the interim period improved to 0.011 in 2005 from 0.004 for the same period of the preceding year. Other key performance indicators are not applicable as the Company's mining operations remain suspended.

Consolidated total assets of the company decreased by ₱67 million from ₱1,850 million as of December 31, 2004 to ₱1,783 million, while consolidated total liabilities went up by 25% from ₱3,851 million to ₱4,818 million. Consolidated total current liabilities (₱4,668 million) exceeded consolidated total current assets (₱51 million) by ₱4,617 million.

Segment reporting and other key performance indicators are not applicable as the Company's mining operations remain suspended.

To date, AAI, AEI, BNC, CCC, NRHI, TMM, UNC, and URHI have not yet started commercial operations.

The Group is not aware of any uncertainties, trends, events or seasonal aspects that will have a material effect on its liquidity, financial condition or results of its operations. Further, the Group is not aware of any events that will trigger direct or contingent financial obligation that is material to the Company. No material off-balance sheet transactions have occurred during the period under review. Except as explained above, there was no significant element of consolidated loss that did not arise from the Company's operations. Please refer to Note 20.

The directors of the Company approved on January 24, 2005 an agreement with TMC whereby the latter relinquished its right to earn an interest in the Toledo copper mine and to be refunded for advances made pursuant to previous agreements signed in 2004.

On January 27, 2005, the Company's Board approved a proposal to grant stock options to directors and qualified officers and employees of the Company under such terms and conditions as management shall subsequently formulate and submit for approval by the Board of Directors, the Stockholders and the SEC.

In a show of government support to the mining industry in general and to Atlas in particular, Her Excellency President Gloria Macapagal Arroyo, accompanied by DENR Secretary Michael Defensor, made an official visit on April 30, 2005 to the Company's Toledo copper mine in Cebu and handed over the approved MPSA of the Company covering the Carmen oreboby and the Environmental Protection and Enhancement Program (EPEP) intended for the whole-mine affected areas of the Toledo copper operations. These documents will be the bases for the Company to advance its mine reopening programs and put into practice its blueprint for the protection and enhancement of the mine environment.

The reconstruction work to rehabilitate the burned down Administration building and the repair of the main structures and roofs of the Carmen crusher and grinding sections started middle of September 2005 and were completed in January 2006 at a total cost of ₱20.2 million

Euronote Profits Ltd, an offshore investment firm based in British Virgin Islands, approved the Company's request for a $2 million loan on May 16, 2005 with repayment terms of lump sum payment of the principal amount plus interest thereon at 12% per annum on or before December 29, 2005. Another loan was extended on December 15, 2005 amounting to $0.750 million payable on or before June 30,

2006 including interest at 12% per annum. Both loans are secured by a pledge and delivery of acceptable securities and Alakor guarantees said loans.

In July 2005, the Company made a substantial partial payment of termination benefits to its separated employees and another partial payment was distributed towards the end of December 2005. These payments amounted to nearly ₱40 million and ₱5 million, respectively.

A Heads of Agreement was signed on February 21, 2006, by the Company with Crescent Asian Special Opportunities Porfolio, an investment fund comprising a group of institutional investors. The agreement, which is subject to final due diligence work, provides for the purchase of a portion of outstanding Atlas debts for $7 million to be convertible into Atlas common stock at par value. More importantly, the investor group may earn a 34% equity interest into CCC by infusing $33 million in two tranches, $5 million convertible bond upfront and $28 million subscriptions for new shares upon finalization of a senior debt instrument and offtake agreement for the copper project. As of April 25, 2006, the due diligence is yet to be concluded.

During the year, the DENR granted a Temporary Exploration Permit (TEP) to BNC which allows it to perform field work on the mine area prior to securing an MPSA for a direct shipping operation at Berong in the province of Palawan. To date, some 52 kilometers of line clearing had been completed in preparation for the Ground Penetrating Radar surveys and over 15 kilometers of access road to the nickel deposit site had been rehabilitated. Furthermore, results from re-sampling validated the historical nickel and cobalt grades of the deposit. With the programs already progressing at an advanced stage, the Company is confident that the trial shipments scheduled in mid 2006 will be carried out.

Just recently, the Company has signed a loan agreement with TMC, a company listed on the AIM board of the London Stock Exchange and co-venturer in the nickel exploration and development of the Berong mineral properties. The three-year loan agreement with principal amount of US$5 million will be drawn down over a period of time to meet the funding contributions of the Company with respect to its obligations in the nickel project. Bearing interest at the rate of 10% per annum, the loan note is convertible to shares of the Company's stock, subject to concerned regulatory approvals, at par value per share of ₱10 and secured by an assignment of the Company's share in earnings from the Berong nickel project.

A Memorandum of Understanding (MOU) was signed between AAI and the Metro Cebu Water District (MCWD) for the former to supply bulk water of at least 50,000 cubic meters per day to Cebu City. A Final Feasibility Study is in progress to determine the economic viability of the project and other value added enhancements that may be attached to the business enterprise.

Liquidity and Capital Resources

For the period ended December 31, 2005, the Group's cash used in operating activities amounted to ₱392 million. Net cash inflows during the period was ₱34 million, which included net cash outflows in investing activities of ₱128 million and net cash inflows from financing activities of ₱555 million.

The MOA signed by the Company with Alakor obliges the latter to provide the Company a minimum amount of ₱1mm per week for maintenance cost of the mines until the MOA is terminated or the rehabilitation is completed or has progressed such that the advances are no longer necessary for the maintenance of the Company.

The Company suspended, except as disclosed elsewhere in this report, expenditures on capital projects, research and development and exploration activities during the last three years.

Plan of Operations cover the following activities:

- The Company will continue, through its debts for equity swap agreement with Alakor Corporation, to reduce its liabilities and debts to manageable levels;
- The Company will rationalize its asset portfolio, including possible sale of obsolete and unproductive assets;
- A re-evaluation of the feasibility of re-opening the Toledo Copper mine will continue;
- Negotiation to raise project funding for the re-opening of the Toledo Copper mine will be progressed;
- An exploration program is planned with a view to identifying higher grade copper resources within the Atlas Toledo mine area. The Company will involve its exploration portfolio in other areas of the Philippines;
- The Company's Operating Agreement over the Berong nickel areas will be pursued;
- The Company will study the possibility of supplying bulk water to Metro Cebu on a commercial basis;
- A re-evaluation of other mineral properties in which Atlas has an interest, including the Diwata claims in Mindanao, will be undertaken; and
- The Company will evaluate other mining claims for possible acquisition.

2004 Compared with 2003

A consolidated net loss of ₱325.1 million was registered by the Company in 2004 compared with the previous year's net loss of ₱599.0 million. The significantly lower, by 46%, net loss was principally due to lower interest and financing charges and related foreign exchange losses as a consequence of the full settlement by Alakor Corporation ("Alakor") of the Company's debts to MMC.

Combined revenues rose to ₱2.2 million for the current year against the ₱1.2 million generated last year. The two fold increase was attributed to the construction contracts AVI was able to obtain in 2004.

The group wide costs and operating expenses increased to ₱199.3 million in contrast to the recorded amount of ₱131.8 million in 2003 due mainly from costs incurred on the preparation of the feasibility study.

AVI posted another loss of ₱52.2 million in 2004 compared to last year's loss of ₱63.7 million. It was able to secure project contracts for the supply of labor and technical supervision for the expansion of mill plant owned by a Mindanao-based mining firm. Revenues generated from these projects amount to ₱2.2 million against costs of ₱1.9 million. Operating expenses of AVI declined to ₱5.1 million compared to ₱23.2 million posted last year due to accrual in 2003 of professional fees to a certain retainer of a creditor.

As discussed in Item 1, CCC, TMM and BNC have not yet started commercial operations as of December 31, 2004.

Trade and other receivable account increased due to advances made to a service contractor and the reversal of an allowance made last year. Prepayments and Other Current Assets declined as an allowance

for probable losses was provided in 2004. The collection of receivable from an affiliate was the reason for the decrease in the Amounts Owed by a Related Party account. The accounts Land at Revalued Amounts and Revaluation Increment in Property decreased as a result of the disposal of certain landholdings of the Company to settle its debts to a local city government. Depreciation charges decreased the Idle Property, Plant and Equipment account. Other Noncurrent Assets increased due to BNC's expenditures for mine exploration works prior to and subsequent to drilling.

The decrease in Loans and Acceptances Payable and Trade and Other Payables accounts was principally due to the full settlement by Alakor of loans and advances, including interest and penalties, owed by the Company to MMC. The settled liabilities were subsequently transferred to Deposits on Subscriptions account which resulted in its increase. The additional advances made by Alakor and by other investors were the reasons for the increase in Amounts Owed to Related Parties account. The account Other Noncurrent Liability pertains to the installment portion of compromise agreement reached with a local city government.

Consolidated current ratio improved to 0.005 during the current year from 0.001 in 2003. Other key performance indicators are not applicable as the Company's mining operations remain suspended.

In April 2004, the Company entered into a new agreement with MMC, Alakor and Minoro. The new agreement provides, among others, the transfer of all right and interest Mitsubishi may have over the loans and advances owed by the Company amounting to US$71.4 million including interest accruing from these liabilities together with the security thereon. On June 7, 2004, MMC confirmed the receipt of full and final payment of the consideration for the assignment of these liabilities in favor of Alakor.

On June 5, 2004, the Company completed an agreement with Investika Ltd. ("IVK"), whereby IVK can earn a 20% interest in the Company's Palawan Nickel Project by an immediate investment of US$1.0 million.

A compromise agreement was reached by the Company and the Toledo City Government on December 11, 2004 settling the liabilities of the Company amounting to more than ₱100 million. The agreement provides cash payments of ₱10.0 million, issuance of 1 million shares of the Company's stock at par value and transfer of Company's certain landholdings in favor of the Toledo City Government.

Liquidity and Capital Resources

Net cash inflows was ₱8.0 million during the year compared to ₱0.7 million in 2003. The Company's net cash outflows from operating activities was ₱193.9 million compared to ₱59.2 million net cash outflows the previous year. Net cash from investing activities during the year was ₱7.3 million, a deterioration from net cash inflows of ₱39.7 million generated in 2003.

During 2004, the Philippine peso further depreciated by 1%. As of December 31, 2004, the rate of exchange for every US$1.00 is ₱56.28 compared to ₱55.586 as of December 31, 2003.

The Company continued its program to dispose of scrap, obsolete and excess materials, spare parts and supply items that will not be needed during the rehabilitation and resumption of its mining operations.

Due to continued non-operation of the mines, the Company maintained its policy to suspend expenditures on capital projects and exploration and research and development activities.

2003 Compared with 2002

The Company incurred another consolidated net loss of ₱599 million for the full year 2003 against a consolidated loss of ₱2,786 million registered last year. The 79% decline in losses was due mainly to lower interest and financing charges and unrealized foreign exchange losses.

An 88% drop in consolidated revenues was recorded in 2003 compared to 2002. Generated revenues reached only ₱1.2 million for the year 2003 compared to ₱8.1 million in 2002. Earnings derived from rental of idle assets and proceeds from sale of obsolete and excess materials available at the mine site are the main sources of revenues of the Company since it suspended its mining operations in 1993. AVI remained inactive throughout 2003 due to its continued inability to secure construction projects.

Consolidated costs and operating expenses were ₱131.8 million in 2003 and ₱140.5 million in 2002. The decrease was attributed to decline in contract costs as a result of AVI's inactivity during the year.

On the other hand, consolidated other charges were recorded at ₱468.3 million in 2003 and ₱2,653.5 million in 2002. Also, the Company booked an unrealized loss on foreign exchange transactions amounting to ₱177.8 million during the year primarily due to the continued erosion of the peso in terms of the US dollar. The loss last year was recorded at ₱749.7 million.

Consolidated total assets as of December 31, 2003 amounted to ₱1,985 million, ₱42 million lower than last year due mainly to depreciation charges on idle property, plant and equipment.

Total current assets as at December 31, 2003 totalled ₱9 million as compared to ₱18 million as at year-end 2002. Accounts receivable decreased as a result of recording additional provision for doubtful accounts. The increase in due from an affiliate account pertains to interest bearing advances extended to an affiliate.

Loans and acceptances payable increased due mainly to the restatement of foreign currency denominated debts at a higher foreign currency rates. Account payable and accrued expenses increased primarily due to recognition of additional interest and penalty charges on certain liabilities of the Company.

Current ratio for the year is 0.001 compared to 0.002 last year.

Liquidity and Capital Resources

During the year, net cash inflows was ₱0.7 million. Net cash used in operating activities was ₱59.2 million while net cash inflows from investing activities amount to ₱39.8 million.

The rate of exchange was set at ₱ 55.586 as of December 31, 2003 for every dollar which is equivalent to another peso value loss of 4 % compared to exchange rate of ₱ 53.254 set last year.

The Company continued its policy to suspend expenditures on capital projects, exploration and research and development in 2003. Further, it sustained its program to sell obsolete and excess materials that will not be needed during the rehabilitation and resumption of mining operations during the year. The Company believes that the number of its present employees will be retained in the ensuing year.

On October 3, 2000, the Board of Directors of the Company authorized it to enter into a MOA with Alakor for the rehabilitation of the minesite in Toledo. After it had completed the due diligence

conducted on the Company, Alakor notified the Company on November 9, 2000 of its decision to negotiate and offer a settlement agreement with the creditors of the Company.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (page 23) are filed as part of this Form 17-A.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

SyCip Gorres Velayo and Co. (SGV) has been the Company's independent auditor since 1958. No changes in and disagreement with Accountants on accounting and financial disclosure have occurred in the period under review.

PART III -- CONTROL AND COMPENSATION INFORMATION

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

Executive Officers of the Registrant

Office	Name	Citizenship	Age
Chairman of the Board & President	Alfredo C. Ramos	Filipino	61 @ b
Director and Chairman Emeritus	Jose C. Ibazeta	Filipino	63 Δ
Director, Treasurer & Corporate Sec.	Noel T. Del Castillo	Filipino	67 @ a c
Director, Exec. Vice President & CFO	Martin Buckingham	British	53 c
Director	Rogelio C. Salazar	Filipino	69 Δ
Director	Frank N. Lubbock	Australian	64 b
Director	Reginald Hare	Australian	80 ɵ b d e
Director	Jose P. de Guzman	Filipino	65 ɵ a *
Director	Ricardo V. Quintos	Filipino	68 @
Director	Felipe R. Relucio, Jr.	Filipino	63 @ c
Director	Alfredo R. Rosal, Jr.	Filipino	59 ɵ a
Vice President for Operations	Constante P. Bumanglag	Filipino	70 >
Asst.Vice President/Resident Manager	Rodrigo C. Cal	Filipino	43 >
Comptroller	Efren T. Dalimot	Filipino	59

* - Elected Chairman of Audit Committee on December 7, 2004.
a - Elected Member of the Audit Committee on December 7, 2004
b - Elected Member of Nomination Committee on December 7, 2004
c - Elected Member of Remuneration Committee on December 7, 2004
d Resigned as member of and Chairman of the Audit Committee on November 17, 2004.
e - Resigned as Director for Exploration effective December 7, 2004.
ɵ - Elected Independent Director on March 31, 2003.
> Appointed on March 15, 2004.
Δ - Nominee of Anscor
@ - Nominee of Alakor

DIRECTORS

a) **ALFREDO C. RAMOS**, Director of the Company since 1989, elected Chairman of the Board of the Company on April 2, 2003, Chairman of the Board of various publishing, finance and holding companies, among them Anvil Publishing, Atlas Publishing Corp., Convoy Consolidated Holdings, Inc., Penta Capital Finance Corporation and Trafalgar Holdings Philippines Inc. Chairman and President of Alakor Corporation, National Book Store Inc., Philodrill Corporation, Vulcan Industrial & Mining Corporation and United Paragon Mining Corporation. Graduate of Ateneo de Manila University with a Degree in Bachelor of Arts in 1963. Attended Graduate Studies on Bureau of Small Business also at Ateneo de Manila University in 1965.

b) **JOSE C. IBAZETA**, Director of the Company since 1984 , elected Chairman Emeritus on April 2, 2003, Chairman of the Board from May 1993 up to April 1, 2003, Ambassador-designate to Republic of Iraq, Director of ICTSI, AB Capital, AB Leasing, Anscor Hagedorn, Ensenada International Terminal S.A. de C.V. of Mexico and The Philippine Income Fund, Inc. Consultant

to the Chairman of the Board of Anscor. Affiliated with the Ateneo de Manila University as Trustee of the Ateneo Scholarship Foundation and Member of the Finance Committee. A Trustee of Radio Veritas, St.James the Great Parish Foundation, Inc., Catholic Priesthood Foundation, CCP Foundation and AIESEC Philippines. Graduate of Ateneo de Manila University Bachelor of Science in Economics in 1963. Obtained Masters in Business Administration from the University of San Francisco in 1968 and an MBA in Banking and Finance at New York University in 1975.

c) **NOEL T. DEL CASTILLO**, Director of the Company since July 22, 2002, Treasurer and Corporate Secretary of the Company. Director and Treasurer of Convoy Consolidated Holdings Corp. Director of Anglo Philippine Holdings Corp, Solar Publishing Corporation and Pargold Mining Corporation. Consultant to the Chairman and President of Alakor Corporation. Also, he is the Comptroller of Lirafil Corporation. He is a Certified Public Accountant and a Realtor. He completed the academic requirements for MBA at the Ateneo de Manila University.

d) **MARTIN C. BUCKINGHAM**, Director of the Company since December 4, 1996 and appointed CFO on July 22, 2002. A graduate in law from Cambridge University in the UK, has since served on a number of company boards, both public and private, including Consort Research Ltd., Clogau Gold Mines plc, Philippine Gold plc and Minoro Mining and Exploration Corporation.

e) **ROGELIO C. SALAZAR**, Director of the Company since May 1989, former President and Chief Executive Officer of the Company. Former President and Chief Operating Officer of International Container Terminal Services, Inc. President and Chief Executive Officer of Kamahalan Publishing Corp. and Kagitingan Printing Press Inc. Graduated magna cum laude at the University of the Philippines with a degree in Bachelor of Science in Chemical Engineering in 1957. He holds a Masters Degree in Science in Metallurgical Engineering from University of Wisconsin in 1959. Attended the Advance Management Program at the University of Hawaii in 1978 and its Update Program in July 1985.

f) **FRANK N. LUBBOCK**, Director of the Company since December 4, 1996, Chairman of the Board and Chief Executive Officer of Minoro Mining & Exploration Corp. Former Director of Base Metals Mineral Resources Corp. and Clogau Gold Mines plc., North Kargurli Gold Mines Ltd and Philippine Gold plc., the latter three companies listed on the London Stock Exchange. He was responsible for the development of several world class orebodies in Asia and Australia and involved in the acquisition of a number of non-operating mining companies in the Philippines. A qualified Mining Engineer, he graduated from the Kalgoorlie School of Mines in 1965. He is a Fellow of the Australasian Institute of Mining & Metallurgy.

g) **REGINALD HARE**, Director of the Company since October 1, 1999, elected Independent Director on March 31, 2003 and Chairman of the Board of Gumi Mining and Exploration, Ltd, a Papua New Guinea company. Fellow of Geological Society and the Australasian Institute of Mining and Metallurgy. Graduated with a degree in Geology and Agriculture at the University of Western Australia. Awarded the first Edward Sidney Simpson Prize in Geology. With more than 30 years of experience in managing publicly listed mining and exploration companies or subsidiaries in Australia.

h) **JOSE P. DE GUZMAN**, Director of the Company since October 1, 1999, elected Independent Director on March 31, 2003, a chemical engineer who has been in the mining industry for more than 30 years. He is currently president of Rapu-Rapu Mineral Inc, Acoje Mining Co. Inc., Minimax Mineral Exploration Corp., Goldrush Mineral Exploration Corp., Apical Mining Corporation and Philchrome Mining Corporation.

i) **RICARDO V. QUINTOS**, Director of the Company since October 27, 1999, Chairman of the Board of Jack Nicklaus Sportswear, a Partner of R. Quintos, H. G. Feliciano & Associates and Consultant on Agribusiness and Management. A graduate of Veterinary Medicine at the University of the Philippines and Bachelor of Science in Commerce at San Beda College. A former delegate to the 1971 Constitutional Convention. An author on various pioneering books on agriculture and livestock management. Acquired more than 30 years of managing agriculture-based companies and associations.

j) **FELIPE R. RELUCIO, JR.**, Director of the Company since July 22, 2002, President of Ibersia Development, Makbaklay Development Corporation, Kesang Mining Corporation and Ayamas Philippines Incorporated. He is currently a consultant to the office of Senator Rodolfo Biazon. A Chemical Engineer, he completed the academic requirements for MBA at the De La Salle College. He was formerly the General Manager of Veritas Newsmagazine.

k) **ALFREDO R. ROSAL, JR.**, Director of the Company since March 31, 2003 and elected Independent Director on even date. Managing Partner of Rosal Lazaro Miguel Law Offices. He was a former Associate Attorney of Sycip Salazar Luna Manalo & Feliciano Law Offices and a former Associate Member of Norberto J. Quisumbing & Associates. He was a former General Counsel to various local and foreign investment companies and a former Director and Corporate Secretary of Multistone Mining Corporation. He was a former President of Natural Resources Development Corporation and Bukidnon Forest, Inc. He graduated from the San Beda College of Law and earned his MBA at the University of the Philippines.

Executive Officers

a) **CONSTANTE P. BUMANGLAG**, appointed Vice President for Operations on March 15, 2004, is a registered Mining Engineer. He had served the Company from January 1965 to March 1990 and designated as Assistant Vice President before taking the helm as Vice President for Operations and Officer in-charge of United Paragon Mining Corporation. A graduate of the University of the Philippines with a degree in Bachelor of Science in Mining Engineering and a recipient of the Outstanding Professional of the Year and Outstanding Mining Engineer awards both given in 1995 by the Philippine Professional Regulations and the Chamber of Mines of the Philippines, respectively.

b) **RODRIGO C. CAL**, appointed Assistant Vice President and Resident Manager on March 15, 2004 and formerly the Company's Chief Geologist. He served as the General Manager of Hexagon Mining Corporation from 1995 to 2001. He has acquired more than 17 years of experience in the field of geology and mining.

c) **EFREN T. DALIMOT**, has been with the Company since 1976 occupying various positions in the Accounting Division and promoted to his present position as Comptroller on August 1, 1998.

The Directors of the Company are elected at the annual general stockholders' meeting to hold office until the succeeding annual general meeting and until their respective successors shall have been elected and qualified. The officers of the Company are appointed or elected annually by the Board of Directors during its organizational meeting following the Annual General Stockholders' Meeting, each to hold office until their successors shall have been elected or appointed and have qualified. There is no immediate family relationships among the directors and officers listed. The Company has no significant

employees and is not aware of any legal proceedings of the nature required to be disclosed under Part IV, paragraph (A), (4) and part 1(C) of SRC Rule 12, Annex C with respect to directors and executive officers.

The Company believes that the incumbent independent directors continue to qualify as such under the requirements of the SRC Rule 38.

ITEM 10. EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid during the last two fiscal years and to be paid in the ensuing year to the four most highly compensated officers follows:

ANNUAL COMPENSATION *		
Name and Position	**Year**	**Salary**
Constante P. Bumanglag -- Vice President for Operations **Rodrigo C. Cal** -- Asst. Vice President **Efren T. Dalimot** -- Comptroller **Jesus C. Valledor, Jr** -- Administrative Officer		
Vice – President and three most highly compensated executive officers	2006 (est.) 2005 2004	₱4.0 m 3.5 m 3.7 m

- - Excluding subsidiaries

The Company's President, Mr. A.C. Ramos, and Treasurer and Corporate Secretary, Mr. N.T. Del Castillo, are top executive and consultant, respectively, of Alakor while the Executive Vice President and CFO, Mr. M.C. Buckingham is a Non-Executive Director of Minoro. Mr. Ramos and Mr. Del Castillo are, thus, compensated by Alakor and the Company has not been billed yet for services they performed as officers of the Company.

No compensation of whatever form is presently given to the Company's directors. The Company has not entered into any arrangement or contract that will compensate its directors and officers for any services provided as director or officer of the Company. There are no warrants and options outstanding held by the Company's directors and executive officers. However, the Company's Board approved on January 27, 2005 a proposal to grant Stock Options to directors and qualified officers and employees under such terms and conditions as management shall subsequently formulate and submit the same for approval by the Board, the stockholders and the Securities and Exchange Commission. Reference is also made to Notes 15 and 16.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT (AS OF DECEMBER 31, 2005)

(a) Security Ownership of Certain Record and Beneficial Owners

Title of Class	Name of owner	No. of Shares	Citizenship	Percent of class	
Common	PCD Nominee (Fil)	219,661,944	Filipino	61.72 %	X
Common	PCD Nominee (Non-Fil)	52,370,550	Foreign	15.00 %	X
Common	Convoy Consolidated	8,116,510	Filipino	2.28 %	>
Common	Minoro Mining Exp.	4,789,795	Filipino	1.35 %	O
Common	Phil. Overseas Drilling & Oil Dev. Corp	2,621,000	Filipino	0.74 %	>
Common	Anscor Consolidated	839,313	Filipino	0.24 %	Δ
Common	Alakor Securities Corp.	181,000	Filipino	0.05 %	>
Common	National Bookstore	45,550	Filipino	0.01 %	>
Common	Alakor Corporation	4,275	Filipino	*	>

(b) Security Ownership of Management

Title of Class	Name of Owner	No. of Shares	Citizenship	Percent of Class		
Common	Alfredo C. Ramos	100	Filipino	*	r	
Common	Jose C. Ibazeta	1	Filipino	*	r	
Common	Noel T. Del Castillo	1,000	Filipino	*	r	
Common	Martin Buckingham	1	British	*	r	^
Common	Rogelio C. Salazar	10,010	Filipino	*	r	
Common	Frank N. Lubbock	1	Australian	*	r	^
Common	Reginald Hare	1,001	Australian	*	r	
Common	Jose P. de Guzman	1	Filipino	*	r	
Common	Ricardo V. Quintos	1	Filipino	*	r	
Common	Felipe R. Relucio, Jr.	1,000	Filipino	*	r	
Common	Alfredo R. Rosal, Jr.	100	Filipino	*	r	
Common	All Directors and Officers as a group	13,216		*	r	

* -- Less than 0.01%
Δ -- A subsidiary of Anscor with address at 7/F Pacific Star Bldg., Sen. Puyat Ave., Makati City
^ -- Owns a 331/3% beneficial interest in Minoro.
> -- Belongs to a consortium headed by Mr. Alfredo C. Ramos with address at 9/F Quad Alpha, 125 Pioneer St., Mandaluyong City
o -- Only Minoro can identify who will dispose/vote the securities and has not informed the Company. Minoro hold offices at Suite 511 CFC Bldg., Sen. Puyat Ave., Makati City
x -- Only broker members can identify holders of more than 5% security. PCD Nominee hold offices a G/F MSE Bldg., 6767 Ayala Ave., Makati City.
r -- record owner

The Company has no information of person(s) holding 5% or more of the securities held under a voting trust or similar agreement. The Company is not aware, except as are disclosed, of any arrangements that may result in a change in control of the Company.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Management is not aware of any transaction in the last two (2) years or proposed transaction to which the Company was or is to be a party in which any of its directors, executive officers or their immediate family have or is to have any material interest. The Company has no parent corporation. No director has resigned or declined to stand for re-election to the board of directors since the date of the last annual meeting of shareholders because of a disagreement with the Company on any matter relating to the Company's operations, policies or practices. Please refer to Notes 1, 2 and 15.

PART IV -- CORPORATE GOVERNANCE

ITEM 13. CORPORATE GOVERNANCE

The evaluation system adopted by the Company is based primarily on the SEC Corporate Governance Self-Rating Form (CG-SRF). Current pronouncements and/or rulings by regulatory bodies with regard to leading practices on good corporate governance are adopted/incorporated to assure full compliance thereon. Further, the Company has not deviated from its Manual on Corporate Governance since it filed its self-rated form dated July 31, 2003.

PART V -- EXHIBITS AND SCHEDULES

ITEM 14. EXHIBITS AND REPORTS ON SEC FORM 17-C

(a) Exhibits – See accompanying Index to Exhibits (page 23)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

(b) Reports on SEC Form 17-C

Date Filed	Item	Detail
Jan. 25, 2005	Item 9 – Other events	Negotiations with Chinese investors and conclusion of an exit agreement with the Toledo Mining Plc.
Jan. 28, 2005	Item 9 – Other events	Approval of the Board on proposal to grant stock options to directors, qualified officers and employees.
Feb. 3, 2005	Item 9 – Other events	Participation in the Philippines Mining 2005 Conference and distribution of information materials.
Apr 19, 2005	Item 9. – Other events	Postponement of annual meeting of stockholders.
May 4, 2005	Item 9. – Other events	Transmittal of approved MPSA covering the Carmen orebody and the Environmental Protection and Enhancement Program
May 20, 2005	Item 9 – Other events	Amended the disclosure on the postponement of annual meeting of stockholders.
Sept 23, 2005	Item 9 – Other events	Clarification on reported postponement of public offering of CCC.
Oct 4, 2005	Item 9 – Other events	Reports on Toledo copper mine facility rehabilitation.
Oct 11, 2005	Item 9 – Other events	Participation in the 6th Asia Pacific Mining Conference and Exhibition held on Oct 11 to 13, 2005
Dec 5, 2005	Item 9 – Other events	Disclosure on status of Berong Nickel Project and the granting of Temporary Exploration Permit.
Dec 29, 2005	Item 9 – Other events	Submission of certificate on the attendance in the Board meetings of each director for year 2005.
Jan 23, 2006	Item 9 – Other events	Submission of the extent of the Atlas' compliance with its adopted Manual on Corporate Governance for 2005
Feb 2, 2006	Item 9 – Other events	Update on pre-mining activities on the Berong Nickel Project.
Feb 22, 2006	Item 9 – Other events	Disclosure on Heads of Agreement signed with Crescent Asian Special Opportunities Porfolio (CASOP)
Apr 17, 2006	Item 9 – Other events	Loan Agreement signed with Toledo Mining Corp.
Apr 20, 2006	Item 9 – Other events	Postponement of annual meeting of stockholders.
May 8, 2006	Item 9 – Other events	Completion of due diligence and signing of final agreements for financing package with CASOP
May 15, 2006	Item 9 – Other events	Completion of closing requirements of agreements with CASOP

SIGNATURES

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

By:

ALFREDO C. RAMOS
Chairman of the Board and President

MARTIN C. BUCKINGHAM
Executive Vice President and CFO

NOEL T. DEL CASTILLO
Corporate Secretary and Treasurer

CONSTANTE P. BUMANGLAG
Vice President for Operations

EFREN T. DALIMOT
Comptroller and Principal Accounting Officer

SUBSCRIBED AND SWORN to before me this 19 MAY 2006 affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C.T.CERT.NO.	DATE OF ISSUE	PLACE OF ISSUE
Alfredo C. Ramos	12099631	01-02-2006	Manila
Noel T. Del Castillo	213278808	01-20-2006	Mandaluyong City
Martin C. Buckingham	Passport -761076263	02-04-2005	Manila
Constante P. Bumanglag	21402355	02-22-2006	Mandaluyong City
Efren T. Dalimot	12602490	01-09-2006	Toledo City

Doc. No. 111
Page No. 24
Book No. 94
Series of 2006

BENIGNO F. MORALES
NOTARY PUBLIC
DEC. 31, 2007
PTR NO 0806937
ISSUED ON 1-2-06
MANDALUYONG CITY

Notary Public

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

	Page No.
CONSOLIDATED FINANCIAL STATEMENTS	
Statement of Management's Responsibility for Financial Statements	24
Report of Independent Public Accountants	25
Consolidated Balance Sheets as of December 31, 2005 and 2004	27
Consolidated Statements of Income for the years ended December 31, 2005, and 2004	28
Consolidated Statement of Changes in Capital Deficiency for the years ended December 31, 2005, and 2004	29
Consolidated Statements of Cash Flows for the years ended December 31, 2005, and 2004	31
Notes to Consolidated Financial Statements	32
PARENT COMPANY FINANCIAL STATEMENTS	70
SUPPLEMENTARY SCHEDULES	
Report of Independent Public Accountants on Supplementary Schedules	112
A. Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)	*
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)	113
C. Non-Current Marketable Equity Securities, Other Long Term Investments and Other Investments	*
D. Indebtedness to Unconsolidated Subsidiaries and Affiliates	*
E. Property, Plant and Equipment	*
F. Accumulated Depreciation	*
G. Other Assets	*
H. Long Term Debt	*
I. Indebtedness to Affiliates and Related Parties (Long Term Loans From Related Companies)	*
J. Guarantees of Securities of Other Issuers	*
K. Capital Stock	114

***** *These schedules have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.*

ATLAS CONSOLIDATED MINING & DEVELOPMENT CORPORATION
7th Flr. Quad Alpha Centrum, 125 Pioneer Street, Mandaluyong City, Metro Manila, Philippines 1554
Telephone Nos.: (632) 635-2387, (632) 635-4495 Fax No.: (632) 635-2387

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Atlas Consolidated Mining and Development Corporation and Subsidiaries is responsible for all information and representations contained in the financial statements for the years ended December 31, 2005 and 2004. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Alfredo C. Ramos Chairman of the Board and President	**Martin C. Buckingham** Executive Vice President and Chief Financial Officer	**Constante P. Bumanglag** Vice President for Operations

SUBSCRIBED AND SWORN to before me this ____ day of 19 MAY 2006 affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C.T.CERT.NO.	DATE OF ISSUE	PLACE OF ISSUE
Alfredo C. Ramos	12099631	01-02-2006	Manila
Martin C. Buckingham	Passport -761076263	02-04-2005	Manila
Constante P. Bumanglag	21402355	02-22-2006	Mandaluyong City

Doc. No. 112
Page No. 24
Book No. 94
Series of 2006

BENIGNO F. MORALES
NOTARY PUBLIC
DEC. 31, 2007
PTR NO 0806937
ISSUED ON 1-2-06
MANDALUYONG CITY

Notary Public

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Atlas Consolidated Mining and Development Corporation
7th Floor, Quad Alpha Centrum
125 Pioneer St., Mandaluyong City

We have audited the accompanying consolidated balance sheets of Atlas Consolidated Mining and Development Corporation and Subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlas Consolidated Mining and Development Corporation and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicate that the Company and its subsidiaries incurred cumulative losses of ₱10,738.4 million and ₱10,826.9 million as of December 31, 2005 and 2004, respectively, which resulted in capital deficiency of ₱3,034.9 million and ₱2,000.0 million, respectively. In addition, the Company's operations have not yet resumed since it shut down mining and milling operations in 1994. These conditions, along with other matters as set forth in Note 1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that may result should the Company be unable to continue as a going concern. As discussed in Note 23, the Company was able to obtain funding for the rehabilitation of the Toledo Copper Mine in 2006. Management's plans, in regard to these matters, are also discussed in Note 1 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario

Jaime F. Del Rosario
Partner
CPA Certification No. 56915
SEC Accreditation No. 0076-A
Tax Identification No. 102-096-009
PTR No. 4180830, January 2, 2006, Makati City

May 8, 2006

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amount in Thousands, Except Par Value)

	December 31	
	2005	2004 (As restated, Note 3)
ASSETS		
Current Assets		
Cash	**₱43,910**	₱9,729
Trade and other receivables - net (Note 4)	**1,960**	5,012
Inventories - net of allowance for probable losses of ₱386,820	**–**	–
Prepayments and other current assets - net (Note 5)	**5,042**	949
Total Current Assets	**50,912**	15,690
Noncurrent Assets		
Available-for-sale (AFS) investments (Note 6)	**3,672**	–
Investments in shares of stock - net of allowance for decline in value of ₱5,154 (Note 6)	**–**	1,900
Property, plant and equipment - net (Notes 7, 9 and 12)	**1,593,943**	1,816,584
Other noncurrent assets - net (Note 8)	**134,592**	15,775
Total Noncurrent Assets	**1,732,207**	1,834,259
TOTAL ASSETS	**₱1,783,119**	₱1,849,949
LIABILITIES AND CAPITAL DEFICIENCY		
Current Liabilities		
Loans and acceptances payable (Note 9)	**₱405,141**	₱339,748
Trade and other payables (Note 10)	**2,441,609**	3,041,500
Amounts owed to related parties (Notes 1, 11, 14 and 23)	**1,821,369**	264,352
Total Current Liabilities	**4,668,119**	3,645,600
Noncurrent Liabilities		
Deferred income tax liabilities (Note 16)	**107,779**	164,880
Pension liability (15)	**35,276**	30,584
Liability for mine rehabilitation (Note 3)	**4,336**	3,787
Other noncurrent liability (Note 1)	**2,499**	5,000
Total Noncurrent Liabilities	**149,890**	204,251
Total Liabilities	**4,818,009**	3,849,851
Capital Deficiency (Notes 1)		
Capital stock - ₱10 par value (Notes 11 and 23)	**3,559,149**	3,559,149
Additional paid-in capital	**12,241**	12,241
Deposits for future stock subscriptions (Notes 1 and 11)	**3,910,000**	4,924,725
Revaluation increment on land (Notes 7 and 12)	**218,559**	330,793
Net unrealized gains on AFS investments (Notes 3 and 6)	**3,597**	–
Deficit (Note 1)	**(10,738,436)**	(10,826,935)
	(3,034,890)	(2,000,027)
Minority interest	**–**	125
Total Capital Deficiency	**(3,034,890)**	(1,999,902)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	**₱1,783,119**	₱ 1,849,949

See accompanying Notes to Consolidated Financial Statements.

SGVMC405036

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amount in Thousands, Except Per Share Amounts)

	Years Ended December 31	
	2005	2004 (As restated, see Note 3)
REVENUE		
Gain on sale of property, plant and equipment and other noncurrent assets	**₱23,506**	₱20,618
Unrealized foreign exchange gains	**14,255**	–
Gain on condonation of liability to Toledo City government (Note 1)	–	86,732
Others	**6,122**	5,620
	43,883	112,970
EXPENSES		
Operating expenses (Note 13)	**282,893**	188,311
Interest and financing charges - net	**168,094**	57,846
Donation to Toledo City government (Note 1)	–	81,330
Unrealized foreign exchange losses	–	53,486
Impairment loss on donated land	–	42,359
Others	**3,410**	–
	454,397	423,332
LOSS BEFORE INCOME TAX	**410,514**	310,362
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 16)	**3,993**	(39,700)
LOSS FROM CONTINUING OPERATION (Note 19)	**(414,507)**	(270,662)
DISCONTINUED OPERATION		
Gain (loss) from a discontinued operation (Notes 2, 17 and 19)	**499,961**	(52,226)
NET INCOME (LOSS)	**₱85,454**	(₱322,888)
ATTRIBUTABLE TO:		
Equity holders of the parent	**86,578**	(321,563)
Minority interests	**(1,124)**	(1,325)
EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Note 19)		
Basic, for loss for the year from continuing operation	**(₱1.16)**	(₱0.7
Basic, for income (loss) for the year from a discontinued operation	**₱1.4**	(₱0.1
Diluted, for loss for the year from continuing operation	**(₱1.16)**	(₱0.7
Diluted, for income (loss) for the year from a discontinued operation	**₱1.4**	(₱0.1

See accompanying Notes to Consolidated Financial Statements.

SGVMC405036

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

FOR THE YEARS ENDED DECEMBER 31, 2005 and 2004

(Amount in Thousands)

	Attributable to equity holders of the parent								
	Capital Stock (Notes 11 and 23)	Additional Paid-in Capital	Deposits for Future Stock Subscriptions (Notes 1 and 11)	Revaluation Increment on Land (Notes 7 and 12)	Net Unrealized Gains on AFS Investments	Deficit	Total	Minority Interest	Total
Balances at January 1, 2004, as previously reported	₱3,559,149	₱12,241	₱883,854	₱414,854	₱–	(₱10,593,457)	(₱5,723,359)	₱–	(₱5,723,359)
Effect of adoption of PFRS (Note 3)	–	–	–	–	–	4,024	4,024	–	4,024
Balances at January 1, 2004, as restated	3,559,149	12,241	883,854	414,854	–	(10,589,433)	(5,719,335)	–	(5,719,335)
Impairment of land (Note 1)	–	–	–	(28,805)	–	28,805	–	–	–
Donation of land	–	–	–	(55,256)	–	55,256	–	–	–
Conversion of liabilities to deposits for future stock subscriptions (Note 11)	–	–	4,040,871	–	–	–	4,040,871	–	4,040,871
Investments by minority	–	–	–	–	–	–	–	1,450	1,450
Net loss, as restated	–	–	–	–	–	(321,563)	(321,563)	(1,325)	(322,888)
Balances at December 31, 2004, as restated	₱3,559,149	₱12,241	₱4,924,725	₱330,793	₱–	(₱10,826,935)	(₱2,000,027)	₱125	(₱1,999,902)

(Forward)

	Attributable to equity holders of the parent								
	Capital Stock (Notes 11 and 23)	Additional Paid-in Capital	Deposits for Future Stock Subscriptions (Notes 1 and 11)	Revaluation Increment on Land (Notes 7 and 12)	Net Unrealized Gains on AFS Investments	Deficit	Total	Minority Interest	Total
Balances at December 31, 2004, as previously reported	₱3,559,149	₱12,241	₱4,924,725	₱330,793	₱–	(₱10,834,526)	(₱2,007,618)	₱125	(₱2,007,493)
Effect of adoption of PFRS (Note 3)	–	–	–	–	–	7,591	7,591	–	7,591
Balances at December 31, 2004, as restated	3,559,149	12,241	4,924,725	330,793	–	(10,826,935)	(2,000,027)	125	(1,999,902)
Effect of adoption of PAS 39, net of tax effect (Note 3)	–	–	–	–	–	1,921	1,921	–	1,921
Balances at January 1, 2005	3,559,149	12,241	4,924,725	330,793	–	(10,825,014)	(1,998,106)	125	(1,997,981)
Reversal of deposits for future stock subscriptions to liability (Note 11)	–	–	(1,014,725)	–	–	–	(1,014,725)	–	(1,014,725)
Reversal of revaluation increment on land of the disposed subsidiary (Note 12)	–	–	–	(163,069)	–	–	(163,069)	–	(163,069)
Increase in revaluation increment (Note 16)	–	–	–	45,902	–	–	45,902	–	45,902
Effect of change in tax rate	–	–	–	4,933	–	–	4,933	–	4,933
Investments by minority	–	–	–	–	–	–	–	999	999
Net income	–	–	–	–	–	86,578	86,578	(1,124)	85,454
Net unrealized gains on AFS investments (Note 3)	–	–	–	–	3,597	–	3,597	–	3,597
Total income (loss) recognized for the year	–	–	–	–	3,597	86,578	90,175	(1,124)	89,051
Balances at December 31, 2005	₱3,559,149	₱12,241	₱3,910,000	₱218,559	₱3,597	(₱10,738,436)	(₱3,034,890)	₱–	(₱3,034,890)

See accompanying Notes to Consolidated Financial Statements.

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amount in Thousands)

	Years Ended December 31	
	2005	2004 (As restated, see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱410,514)**	(₱310,362)
Adjustments for:		
Interest and financing charges	**168,261**	59,116
Depreciation (Notes 7 and 13)	**79,843**	30,966
Unrealized foreign exchange (gains) losses	**(14,255)**	53,487
Interest income	**(167)**	(781)
Donation to Toledo City Government (Note 1)	**–**	81,330
Impairment loss on donated land	**–**	42,359
Provisions probable losses	**–**	6,685
Gain on sale of property, plant and equipment and other noncurrent assets	**(23,506)**	(22,569)
Gain on condonation of liability to Toledo City Government (Note 1)	**–**	(86,732)
Operating loss before working capital changes	**(200,338)**	(146,501)
Decrease (increase) in:		
Trade and other receivables	**2,137**	(4,647)
Prepayments and other current assets	**(4,467)**	(557)
Decrease in trade and other payables	**(190,005)**	(42,962)
Net cash used in operations	**(392,673)**	(194,667)
Interest received	**167**	781
Income taxes paid	**–**	(50)
Net cash used in operating activities	**(392,506)**	(193,936)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment and other noncurrent assets	**23,506**	22,569
Additions to property, plant and equipment (Note 7)	**(33,837)**	(1,650)
Increase in other noncurrent assets	**(118,928)**	(15,072)
Changes in minority interest	**999**	1,450
Proceeds from sale of discontinued operation	**1**	–
Net cash from (used in) investing activities	**(128,259)**	7,297
CASH FLOWS FROM FINANCING ACTIVITIES		
Net changes in amounts owed to/by related parties	**474,802**	194,683
Net changes in loans and acceptance payable	**80,144**	–
Cash from financing activities	**554,946**	194,683
NET INCREASE IN CASH	**34,181**	8,044
CASH AT BEGINNING OF YEAR	**9,729**	1,685
CASH AT END OF YEAR	**₱43,910**	₱9,729

See accompanying Notes to Consolidated Financial Statements.

SGVMC405036

1. Corporate Information, Status of Operations and Management Plans

Corporate Information

Atlas Consolidated Mining and Development Corporation (the Company) was incorporated in the Philippines on March 9, 1935. Its corporate life was extended up to March 2035. The Company and its subsidiaries (the Group) are primarily engaged in mineral and metallic mining and exploration that primarily produces copper concentrates and gold with silver and pyrites as major by-products. The registered office address of the Company is 7th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City.

As of December 31, 2005, the Company has eight subsidiaries engaged in businesses including mining, professional services, bulk water supply and as holding companies. The Group has no geographical segments as they were incorporated and are operating within the Philippines.

The accompanying consolidated financial statements as of and for the years then ended December 31, 2005 and 2004 were authorized for issue by the Board of Directors (BOD) on May 8, 2006.

Status of Operations

As shown in the accompanying consolidated financial statements, the Group incurred cumulative losses amounting to ₱10,738,436 in 2005 and ₱10,826,935 in 2004. As of December 31, 2005 and 2004, the total current liabilities exceeded the total current assets by ₱4,617,207 and ₱3,629,910, respectively. In addition, the total liabilities exceeded the total assets, resulting to a capital deficiency of ₱3,034,890 and ₱1,999,902 as of December 31, 2005 and 2004, respectively.

The Company's copper mining operations which started in 1955 are centered in Toledo City, Cebu where three open pit mines, two underground mines and three milling complexes are located. A typhoon hit the province of Cebu in December 1993, necessitating a suspension of the Company's Toledo mine operations due to the flooding and subsequent muck rush of the underground facilities. Operations in the mines have not yet resumed to date.

These conditions, among others, indicate that the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

In 2004, the Company actively supported and funded the intended activities of the recently activated Mine Rehabilitation Fund Committee and its component body, the Multipartite Monitoring Team. During the year, the Company continued the implementation of its care and maintenance program designed for environmental management and protection within its areas of activities while mining operations remain suspended. The program was carried out in coordination with the Mines and Geosciences Bureau (MGB) and embraces measures on reforestation, ground disposal, camp security assurance acid mine drainage control and monitoring, and post-shutdown administrative services. A total of ₱5.4 million and ₱17.3 million were expended by the Company for this program in 2005 and 2004, respectively. The Department of Environment and Natural Resources (DENR) approved, on January 24, 2005, the issuance in favor of the Company of a Certificate of Non-Coverage on the Toledo mining operations in lieu of the Environmental Compliance Certificate.

Mining Claims and Properties

The Company owns several mining claims and is a holder of rights of mining claims by virtue of Operating Agreements with private claim owners. These mining claims are covered by lease contracts granted by the government, Declaration of Location (DOL) and Mining Lease Applications (MLA).

As of December 31, 2005, the Company has three existing mining lease contracts covering 54.0 hectares of the Toledo mine site which will expire in 2006 and 2007. Mining claims with leased contracts issued or renewed after the 1987 constitution and those under DOL and MLA are now covered with applications for Mineral Production and Sharing Agreement (MPSA). On April 30, 2005, the DENR-MGB issued to the Company the MPSA covering the Carmen properties in Cebu. In 2005, the DENR-MGB issued to Berong Nickel Corporation (BNC), a subsidiary, a Temporary Exploration Permit on the Berong properties in Palawan.

Mining properties under approved MPSA and with MPSA and Exploration Permit (EP) applications are as follows:

Location	Total Area In Hectares	Number of Applications
Palawan	27,759.68	7
Cebu	8,251.78	9
Benguet	7,339.18	3
Camarines Norte	2,987.11	1
Agusan and Surigao Del Sur	5,155.22	1
Total	51,492.97	21

The above mentioned MPSA and EP applications are pending with the DENR-MGB for review and evaluation. The Company believes that a favorable response will be obtained from the DENR-MGB on all of its applications.

Management Plans

On October 3, 2000, the Company entered into a Memorandum of Agreement (MOA) with Alakor Corporation (Alakor), the new investor. The MOA provides for, among others, a weekly funding to meet the Company's general and administrative expenses, maintenance costs of property, plant and equipment, payment of obligations to employees and creditors and rehabilitation of the Toledo copper mine. In consideration, the Company will:

a) Issue to Alakor new fully paid shares at par value prevailing at the date of issue, or at market price on the day prior to the issue, whichever is higher, equivalent to the face value of the debts assumed or agreed to be discharged including interest and penalties, if any; and

b) Subject to relevant shareholders approval at the appropriate time, after the settlement of certain creditors and the issuance of shares, undertake a reconstruction of the Company's capital to write off irrevocable losses and reduce the number of issued shares and/or their par value on terms to be mutually agreed.

On the basis of the MOA, Alakor, on April 6, 2001, entered into an assignment and settlement agreements with local and foreign banks representing the restructured obligations and certain bank loans, whereby Alakor fully assumed and completely settled the debts of the Company from the said banks. In addition to these obligations, Alakor also settled the payables to A. Soriano Corporation and its subsidiary, Anscor Insurance Brokerage, Inc., claims of Itochu Corporation, and liabilities to Orica Explosives Philippines, Inc. Total bank loans, restructured obligations and payable to creditors and related companies (including interest and penalty) assumed by Alakor in 2002 amounted to ₱736,009. The amount due to Alakor was included as part of "Amounts owed to related parties" account and was subsequently transferred to the "Deposits for future stock subscriptions" account. A portion of this balance amounting to ₱810,019 was converted into shares of stock in 2003.

On March 25, 2004, Alakor settled the Company's obligations to Mitsubishi Metals Corporation (MMC) amounting to US$71,385.

In 2005 and 2004, Minoro Mining and Exploration Corporation (MMEC) assigned the intellectual and incorporeal rights on a feasibility study over the Toledo copper project and cash advances amounting to ₱54,778 and ₱99,265, respectively to Alakor. The incorporeal rights are property rights previously held in trust by MMEC for the benefit and to the credit of Alakor.

On June 15, 2004, the BOD approved the transfer of certain parcels of land and applications for and approved MPSA of the Company in favor of BNC.

On September 29, 2004, the Company, MMEC, Investika, Ltd (Investika) and Toledo Mining Corporation Plc (TMC), entered into an agreement to develop "the Palawan Nickel project."

On November 3, 2004, the Company entered into Heads of Agreement (the Agreement) with Multicrest Mining Corporation (Multicrest) to acquire a 100% interest in the rights and interests in EP Application known as Tagkawayan project. Under the Agreement, the Company is to pay Multicrest ₱500 for the right to exercise the option to acquire a 100% interest in the Project. In consideration for the payment, the Company will also be granted the exclusive right to explore or work in the Project for 2 years from the issuance of the EP by the MGB, subject to extension under certain terms. Within 10 days from the grant of EP, the Company will pay Multicrest ₱900.

On December 11, 2004, the Company and the Toledo City government (City Government) signed a compromise agreement that settles the Company's real property tax obligations incurred in the past decade. Under the compromise agreement, the Company settles with the City Government a delinquent real property tax liability of ₱106,732, net of the Company's receivables from the City Government of ₱9,415, under the following payment terms: ₱5,000 in cash upon signing, another ₱5,000 upon resumption of operations, ₱10,000 worth of company shares and parcels of land of ₱123,690 (at appraised value; ₱71, at cost). A gain on condonation of liability to Toledo City government and a donation to the Toledo City government were recognized in 2004 amounting to ₱86,732 and ₱81,330, respectively.

On January 19, 2005, the Company, MMEC, Investika and TMC entered into a venture agreement (the Venture Agreement) covering all mining tenements and applications for mining tenements, MPSA and EP covering the areas known as the Berong Mineral Properties and the Ulugan Mineral Properties (Mineral Properties) and held by the Company and/or MMEC and/or Anscor Property Holdings, Inc. and/or Multicrest. The Venture Agreement provides that the Company and/or MMEC grant to Investika and/or TMC the right to earn a percentage equity in BNC and TMM Management, Inc. (TMM), subsidiaries, upon fulfillment of certain conditions, including the granting of advances to BNC and TMM.

Also on January 19, 2005, TMM entered into a management agreement with BNC, wherein TMM will manage the operations of the latter with respect to the Mineral Properties and to any and all of the MPSA which shall be executed by BNC and the Government of the Philippines. In consideration of such services, TMM will receive a monthly fee of ₱200.

As of May 8, 2006, the Company and Alakor are negotiating the settlement of liabilities with Toledo Power Company (TPC)/Toledo Holdings Corporation (THC; see Note 22) and all other major creditors. The Company and Alakor strongly believe that the outcome of the negotiations will eventually be beneficial to the Group and accelerate the planned rehabilitation process.

2. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation

The consolidated financial statements of the Group have been prepared in conformity with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). These are the Group's first consolidated financial statements prepared in conformity with PFRS.

The Group prepared its consolidated financial statements until December 31, 2004 in conformity with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS). The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the consolidated financial statements, with January 1, 2004 as the date of transition. The Group applied the accounting policies set forth below to all the years presented except those relating to financial instruments. An explanation of how the adoption of PFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 3.

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for AFS investments and other noncurrent liability which have been measured at fair value.

The consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency.

Principles of Consolidation

The consolidated financial statements include the accounts of the Group as at December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries	Nature of Business	Place of Incorporation	Status of Operation	% of Ownership 2005	% of Ownership 2004
Carmen Copper Corporation (CCC)	Exploration and mining	Philippines	Preoperating	100%	100%
TMM	Professional services	Philippines	Preoperating	60%	60%
BNC	Exploration and mining	Philippines	Preoperating	50%	50%
Atlas Exploration, Inc (AEI)	Exploration and mining	Philippines	Preoperating	100%	–
AquAtlas, Inc. (AAI)	Bulk water supply	Philippines	Preoperating	100%	–
Ulugan Nickel Corporation (UNC)	Exploration and mining	Philippines	Preoperating	100%	–
Ulugan Resources Holding, Inc. (URHI)	Holding company	Philippines	Preoperating	100%	–
Nickeline Resources Holdings, Inc. (NRHI)	Holding company	Philippines	Preoperating	60%	–
The ACMDC Ventures, Inc. (AVI)	Construction and engineering works	Philippines	Operating	–	100%

On December 29, 2005, the Company sold all its rights, title and interests to all its shares in the common stock of AVI. The sale resulted to a gain of ₱499,961 (see Note 17).

The Company has the power to govern the financial and operating policies of BNC making it eligible for consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statements of income and within capital deficiency in the consolidated balance sheets, separately from the parent capital deficiency.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments and estimates used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements, giving due consideration to materiality. Actual results could differ from such judgments and estimates. The Group believes that the following represent a summary of these significant judgments and estimates, and related impact and associated risks in the consolidated financial statements.

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the sale of service and the costs of providing the service and the currency that management uses when controlling and monitoring the performance and financial position of the Group.

Recoverability of Mine Development 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 in the period incurred 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 development costs amounted to ₱926,729 as of December 31, 2005 and 2004. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds its fair value (see Note 7).

Deferred Income Tax Assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. No deferred income tax assets were recognized in 2005 and 2004. The Group has temporary differences for which deferred income tax assets have not been recognized amounting to ₱1,870,414 as of December 31, 2005 and ₱1,629,401 as of December 31, 2004 (see Note 16).

Determining the Appraised Value of Land
The appraised value of land is based on a valuation by 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 (see Note 7).

Estimating Allowance for Doubtful accounts
The Group's allowance for doubtful accounts relates substantially to trade receivables and other receivables. The Group evaluates specific accounts where the Group has information that certain customers are unable to meet their financial obligations. Factors such as the Group's length of relationship with the customers and the customers' current credit status are considered to determine the amount of reserves that will be recorded in the trade and other receivables account. These reserves are re-evaluated and adjusted as additional information becomes available. Allowance for doubtful accounts as of December 31, 2005 and 2004 amounted to ₱60,712 and ₱173,240, respectively. Trade and other receivables, net of valuation allowance, amounted to ₱1,960 and ₱5,012 as of December 31, 2005 and 2004, respectively (see Note 4).

Estimating Allowance for Probable Losses
The Group estimates the allowance for probable losses based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for probable losses would increase recorded expenses and decrease current assets. As of December 31, 2005 and 2004, allowance for probable losses amounted to ₱386,820. The carrying amount of the inventories, net of allowance for probable losses, is nil as of December 31, 2005 and 2004 respectively.

Pension and Other Retirement Benefits
The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 15 and include, among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's pension and other post-employment obligations. Retirement benefit expense amounted to ₱4,692 and ₱4,661 in 2005 and 2004, respectively. The Company's pension liability amounted to ₱35,276 and ₱30,584 as of December 31, 2005 and 2004, respectively.

Estimating Useful Lives of Property, Plant and Equipment
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 the factors and circumstances mentioned above. As of December 31, 2005 and 2004, the net book values of property, plant and equipment of the Group amounted to ₱1,593,943 and ₱1,816,584, respectively (see Note 7).

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 orebody, 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 execution 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.

Estimating Costs of Mine Rehabilitation
The Group estimates the costs of mine rehabilitation based on previous experience in rehabilitating fully mined areas in sections of the mine site. These costs are adjusted for inflation factor based on the average annual inflation rate as of adoption date or date of re-evaluation of the asset dismantlement, removal or restoration costs, and are measured at present value using the market interest rate for a comparable instrument adjusted for the Group's credit standing. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's depletion and obligations for mine rehabilitation. Depletion of these costs were discontinued as there is no production of ore. Liability for mine rehabilitation amounted to ₱4,336 and ₱3,787 as of December 31, 2005 and 2004, respectively.

Impairment of AFS Investments
The determination of impairment loss for available-for-sale investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Group's investments (see Note 6).

Impairment of Property, Plant and Equipment
Philippine GAAP requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property, plant and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment is impaired. Any resulting impairment loss could have a material adverse impact on the consolidated financial condition and results of operations. As of December 31, 2005 and 2004, the aggregate net book values of property, plant and equipment amounted to ₱1,593,943 and ₱1,816,584, respectively (see Note 7).

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 net income or loss and equity. Fair value of financial assets and liabilities as of December 31, 2005 amount to ₱49,542 and ₱4,670,620, respectively (see Note 21).

Financial Assets and Financial Liabilities (Effective January 1, 2005)
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

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 expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to capital deficiency, 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 realized the asset and settle the liability simultaneously.

Financial assets and financial liabilities are further classified as either financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity investments, and AFS investments, as appropriate. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial Assets at Fair Value through Profit or Loss
Financial assets classified as held for trading are included in the category ‘financial assets at fair value through profit or loss’. Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term or if upon initial recognition, it is designated by the management at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated and considered effective hedging instruments. Assets or liabilities classified under this category are carried at fair value in the consolidated balance sheets. Gains or losses on investments held for trading are recognized in the consolidated statements of income.

The Group does not have financial assets at fair value through profit or loss as of December 31, 2005.

Held-to-Maturity Investments
Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost.

The Group does not have held-to-maturity investments as of December 31, 2005.

Loans and Receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2005, the Group's loans and receivables include trade and other receivables.

AFS Investments
AFS investments are those nonderivative financial assets that are designated AFS or are not classified in any of the three preceding categories. AFS assets are carried at fair value in the consolidated balance sheets. Changes in the fair value of such asset are accounted for in consolidated capital deficiency.

As of December 31, 2005, the Group's AFS financial asset includes investments in proprietary membership shares.

Interest-bearing Loans and Borrowings
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Assets and Liabilities (Effective January 1, 2005)
Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial Liabilities
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 profit or loss.

Impairment of Assets
The Group assesses at each balance sheet date whether an asset or group of assets is impaired.

Impairment of Financial Assets (Effective January 1, 2005)

Assets Carried at Amortized Cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments
If an AFS investments is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Cash
Cash includes cash on hand and with banks.

Trade and Other Receivables
Prior to 2005, trade and other receivables, generally with a 30-day term, are recognized and carried at original invoice amount less an allowance for doubtful accounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

Inventories
Inventories are valued at the lower of cost and net realizable value after allowance for probable losses. Cost is determined using the average method. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of selling and distribution.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

The input VAT is recognized as an asset and will be used to offset against the Group's current output VAT liabilities and any excess will be claimed as tax credits. Input VAT is stated at its estimated net realizable value.

Investments in Shares of Stock
Investments in shares of stock are carried at cost less allowance for any substantial and presumably permanent decline in the carrying value of the investments.

Property, Plant and Equipment
Property, plant and equipment, except land which is stated at appraised values, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. 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.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Number of Years
Buildings and improvements	4 to 25
Machinery and equipment	4 to 25
Transportation equipment	10
Office furniture and fixtures	5

The useful lives and depreciation methods are reviewed periodically to ensure that the periods and methods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant, and equipment as a replacement if the recognition criteria are satisfied.

Land is carried at revalued amounts as determined by independent firms of appraisers as of December 31, 2005. Valuation is performed frequently enough to ensure that the fair value of the land does not differ materially from its carrying amount.

The net appraisal increment resulting from the revaluation of land was credited to the "Revaluation increment on land" account shown under the Capital Deficiency section of the consolidated balance sheets. Any appraisal decrease is first offset against revaluation increment on earlier revaluation. The revaluation increment pertaining to disposed land is transferred to the "Deficit" account.

Mine Exploration and Development 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 Development Projects 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. Depletion of mine development costs is calculated using the unit-of-production method.

Deposits for Future Stock Subscriptions

Deposits for future stock subscriptions for which there is no confirmed subscription agreements and that exhibit characteristics of a liability is recognized as a financial liability in the consolidated balance sheet, net of transaction costs.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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 discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

Liability for Mine Rehabilitation

Rehabilitation of the mined-out areas is performed progressively and charged to costs as part of normal operating activity. In addition, an assessment is made at each operation of the discounted cost at balance sheet date of any future rehabilitation work that will be incurred as a result of currently existing circumstances and regulations, and a provision is accumulated for this operation cost. This provision is charged on a proportionate basis to production over the shorter of the life of the operation or the term of the mining rights. The estimated cost of rehabilitation is assessed on a regular basis. Rehabilitation costs include reforestation of areas affected by operations, clean-up of polluted materials, dismantling of temporary facilities and monitoring of sites for a period of 10 years after completion of operations. Any changes in estimates are dealt with on a prospective basis.

Revenue and Cost Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Scrap Sales

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest

Interest income is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

Borrowing Costs
Borrowing costs are charged to expense as incurred.

Pension Benefits
The Company has a defined benefit pension plan, which require contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Foreign Currency Translation
The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Income Taxes
Current Income Tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Income Tax
Deferred income tax is provided using the liability method on temporary differences at the balance sheet 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 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, carryforward 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 carryforward 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 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 balance sheet 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 balance sheet 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 rates that are expected to apply to the year 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 balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statements of income.

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

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 benefit is probable.

Business Segment
For management purpose, the Group is organized into two major operating segments (mining and non-mining businesses) according to the nature of products and the services provided with each segment representing a strategic business unit that offers different products and serves different markets. The entities are the basis upon which the Group reports its primary segment information. Financial information on business segments in presented in Note 18.

Earnings (Loss) Per Share
Earnings (loss) per share is computed by dividing net income (loss) attributable to equity holders of the parent by the weighted average number of shares outstanding, adjusted for any stock dividends declared during the year.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's position at the balance sheet 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 the consolidated financial statements when material.

3. Explanation of Transition to PFRS

As stated in Note 2, these are the Group's first consolidated financial statements prepared in conformity with PFRS. The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing these consolidated financial statements, with January 1, 2004 as the date of transition.

The adoption of PFRS resulted in certain changes to the Group's previous accounting policies. The comparative figures for the 2004 consolidated financial statements were restated to reflect the changes in policies except those relating to financial instruments. The Group availed of the exemption under PFRS 1 and applied PAS 32 and PAS 39, the standards on financial instruments, from January 1, 2005.

An explanation of the effects of the adoption of PFRS is set forth in the following sections (in thousands).

Reconciliation of equity as of January 1, 2004 (date of transition)

	Notes	Previous GAAP	Effect of Adoption of PFRS	PFRS
Assets				
Current Assets				
Cash and cash equivalents		₱1,685	₱–	₱1,685
Trade and other receivables - net		364	–	364
Prepayments and other current assets		7,077	–	7,077
Total Current Assets		9,126	–	9,126
Investments - net		1,900	–	1,900
Amounts owed by a related party		5,052	–	5,052
Property, plant and equipment - net	a	1,968,613	978	1,969,591
Other noncurrent asset - net		613	–	613
Total Noncurrent Assets		1,976,178	978	1,977,156
Total Assets		₱1,985,304	₱978	₱1,986,282
Liabilities and Capital Deficiency				
Current Liabilities				
Loans and acceptances payable		₱2,206,804	₱–	₱2,206,804
Trade and other payables		5,115,754	–	5,115,754
Total Current Liabilities		7,322,558	–	7,322,558
Noncurrent Liabilities				
Amounts owed to related parties		149,237	–	149,237
Deferred income tax liabilities	a	195,225	9,368	204,593
Pension liability	b	41,643	(15,720)	25,923
Liability for mine rehabilitation	a	–	3,306	3,306
Total Noncurrent Liabilities		386,105	(3,046)	383,059
Total Liabilities		7,708,663	(3,046)	7,705,617
Capital Deficiency				
Capital stock		3,559,149	–	3,559,149
Additional paid-in capital		12,241	–	12,241
Deposits for future stock subscriptions		883,854	–	883,854
Revaluation increment on land		414,854	–	414,854
Deficit	a and b	(10,593,457)	4,024	(10,589,433)
Total Capital Deficiency		(5,723,359)	4,024	(5,719,335)
Total Liabilities and Capital Deficiency		₱1,985,304	₱978	₱1,986,282

Reconciliation of equity as of December 31, 2004 (end of last period presented under previous GAAP)

	Notes	Previous GAAP	Effect of Adoption of PFRS	PFRS
Assets				
Current Assets				
Cash and cash equivalents		₱9,729	₱–	₱9,729
Trade and other receivables - net		5,012	–	5,012
Prepayments and other current assets		949	–	949
Total Current Assets		15,690	–	15,690
Investments		1,900	–	1,900
Property, plant and equipment - net	a	1,815,606	978	1,816,584
Other noncurrent assets - net		15,775	–	15,775
Total Noncurrent Assets		1,833,281	978	1,834,259
Total Assets		₱1,848,971	₱978	₱1,849,949
Liabilities and Capital Deficiency				
Current Liabilities				
Loans and acceptances payable		₱339,748	₱–	₱339,748
Trade and other payables		3,041,500	–	3,041,500
Amounts owed to related parties		264,352	–	264,352
Total Current Liabilities		3,645,600	–	3,645,600
Noncurrent Liabilities				
Deferred income tax liabilities	a	155,667	9,213	164,880
Pension liability	b	50,197	(19,613)	30,584
Liability for mine rehabilitation	a	–	3,787	3,787
Other noncurrent liability		5,000	–	5,000
Total Noncurrent Liabilities		210,864	(6,613)	204,251
Total Liabilities		3,856,464	(6,613)	3,849,851
Capital Deficiency				
Capital stock		3,559,149	–	3,559,149
Additional paid-in capital		12,241	–	12,241
Deposits for future stock subscriptions		4,924,725	–	4,924,725
Revaluation increment on land		330,793	–	330,793
Deficit	a and b	(10,834,526)	7,591	(10,826,935)
		(2,007,618)	7,591	(2,000,027)
Minority interest		125	–	125
Total Capital Deficiency		(2,007,493)	7,591	(1,999,902)
Total Liabilities and Capital Deficiency		₱1,848,971	₱978	₱1,849,949

Reconciliation of net loss for the year ended December 31, 2004

	Notes	Previous GAAP	Effect of Adoption of PFRS	PFRS
Revenue		₱112,970	₱–	₱112,970
Expenses	b	(426,745)	(3,413)	(423,332)
Loss before income tax		313,775	(3,413)	310,362
Benefit from deferred income tax	a	(39,546)	(154)	(39,700)
Loss from continuing operation		274,229	(3,567)	270,662
Discontinued operation		52,226	–	52,226
Net loss		₱326,455	(₱3,567)	₱322,888
Attributable to:				
Equity holders of the parent		(₱325,130)	(₱3,567)	(₱321,563)
Minority interest		(1,325)	–	(1,325)
Loss per share from continuing operation attributable to equity holders of the parent		₱0.7	₱0.01	₱0.7
Loss per share from discontinued operation attributable to equity holders of the parent		₱0.1	₱–	₱0.1

a. PAS 16, *Property, Plant and Equipment*

Property, plant and equipment under PFRS include the estimated costs of dismantling or removing structures used in operation for which the Group is liable. Under previous GAAP, dismantling or removal costs were recognized when incurred. The change increased property, plant and equipment by ₱978 as of January 1, 2004 and December 31, 2004 and increased liability for mine rehabilitation by ₱3,306 and ₱3,787 as of January 1, 2004 and December 31, 2004, respectively; and increased deficit by ₱12,520 and ₱12,822 as of January 1, 2004 and December 31, 2004, respectively.

In addition, PFRS require that depreciation reflect the useful life of the significant components of the assets. Under previous GAAP, depreciation was based on the useful life determined for each property, plant and equipment.

In 2005, as a result of the review of the remaining estimated useful lives of property, plant and equipment in connection with the adoption of PAS 16, the estimated useful lives of certain buildings and improvements and machinery and equipment were shortened to 5 years. The change was accounted for as a change in estimate and depreciation was adjusted prospectively. The effect of change in the estimated useful lives was an increase in depreciation by ₱48,830 in 2005. As of December 31, 2005 and 2004, the aggregate net book values of property, plant and equipment amounted to ₱1,593,943 and ₱1,816,584, respectively (see Note 7).

b. PAS 19, *Employee Benefits*

Under previous GAAP, pension benefits were actuarially determined and past service cost and experience adjustments were amortized over the expected average remaining working lives of the covered employees. Under PFRS, pension benefits are determined using the projected unit credit method. Actuarial gains and losses that exceed a 10% "corridor" are amortized over the expected average remaining working lives of participating employees and vested past service cost, recognized immediately (see Note 2). The adoption of the standard increased the deficit as of January 1, 2004 and December 31, 2004 by ₱15,720 and ₱19,613 representing the difference between pension costs accrued and the transition liability. Pension expense decreased by ₱3,893 in 2004.

c. Financial Instruments

PAS 32, *Financial Instruments: Disclosure and Presentation*

PAS 32 covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the consolidated financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks associated with financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of financial assets and financial liabilities, and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.

The standard also requires presentation of financial assets and financial liabilities on a net basis when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognized amounts; and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The change in accounting policy resulted in the reclassification of deposits for future stock subscriptions amounting to ₱1.0 billion from capital deficiency to liability.

PAS 39, *Financial Instruments: Recognition and Measurement*

PAS 39 establishes the accounting and reporting standards for the recognition and measurement of the entity's financial assets and financial liabilities. PAS 39 requires financial instruments at fair value through profit or loss to be recognized initially at fair value, including related transaction costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities classified under fair value through profit and loss and derivatives, which are subsequently measured at fair value.

PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the consolidated balance sheets as either an asset or liability measured at its fair value. PAS 39 requires that changes in the derivative's fair value be recognized currently in the consolidated statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the consolidated statements of income, or deferred in the capital deficiency as "Cumulative translation adjustments". PAS 39 requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through income.

As allowed by the Securities and Exchange Commission (SEC), the adoption of PAS 39 did not result in the restatement of prior year consolidated financial statements. The cumulative effect of adopting this accounting standard was charged to the January 1, 2005 deficit. The adjustment pertains to implementation of the effective interest method for the other noncurrent liability and the bifurcation of embedded derivatives.

The adoption of PAS 39 on January 1, 2005 resulted to recognition of a Day 1 gain on outstanding financial assets and liabilities amounting to ₱1,921, net of tax. Net interest expense, representing accretion of the financial assets and liabilities, recognized in the 2005 consolidated statement of income amounted to ₱324.

The adoption of PAS 39 on December 31, 2005 resulted to a net unrealized gains on AFS investments of ₱3,597 which is deducted from capital deficiency. Marked-to-market gains on third currency embedded derivatives amounting to ₱707 was included in other income in 2005. Outstanding embedded derivatives as of December 31, 2005 amounting to ₱667 are included under "Prepayments and other current assets" account in the consolidated balance sheets.

Effect on the Consolidated Statement of Cash Flows for 2004

There are no material differences between the consolidated statement of cash flows prepared under PFRS and the consolidated statement of cash flows presented under previous GAAP.

Other Adopted PFRS

The Group has also adopted the following revised and new standards and comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on capital deficiency as at January 1, 2004 and December 31, 2004.

- PAS 1, *Presentation of Financial Statements*;
- PAS 2, *Inventories*;
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- PAS 10, *Events after the Balance Sheet Date*;
- PAS 17, *Leases*;
- PAS 21, *Effects of Changes in Foreign Exchange Rates*;
- PAS 24, *Related Party Disclosures*; and
- PAS 33, *Earnings per Share*.

Standards not yet Effective

The Group did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, *Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures*. The revised disclosures from the amendments will be included in the consolidated financial statements when the amendments are adopted in 2006.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources* - (Effective 2006). Adoption of PFRS 6 in 2006 will not have a significant impact on the Group's financial position and results of operations.

- PFRS 7, *Financial Instruments – Disclosures*. The revised disclosures on financial instruments provided by this standard will be included in the consolidated financial statements when the standard is adopted in 2007.

4. Trade and Other Receivables

	2005	2004
Contracts receivable	**₱–**	₱131,440
Less deposits and advances on contracts	**–**	8,519
	–	122,921
Advances to subcontractors, suppliers and other receivables	**62,773**	55,331
	62,773	178,252
Less allowance for doubtful accounts	**60,712**	173,240
	₱1,960	₱5,012

A portion of the deposits and advances on contracts amounting to ₱2,652, representing the excess cash advances extended by a customer over the value of the construction project undertaken by AVI, is secured by a deed of assignment of a certain parcel of land owned by AVI (see Note 7).

On March 29, 2002, AVI executed a Deed of Assignment in Payment of Debt with the said customer. On the same date, in a separate agreement, the customer granted AVI exclusive option to purchase the parcel of land until September 10, 2005. AVI did not exercise its option to repurchase the land.

5. Prepayments and Other Current Assets

	2005	2004
Prepaid:		
Taxes and licenses	**₱480**	₱7,020
Rent	–	425
Others	**4,562**	189
	5,042	7,634
Less allowance for probable losses	**–**	6,685
	₱5,042	₱949

6. AFS Investments/Investments in Shares of Stock

AFS investments represent various investments in proprietary membership shares with a fair value of ₱3,672 as of December 31, 2005. In 2004, these investments in shares of stock were carried at the lower of aggregate cost and market value. On January 1, 2005, the investments in shares of stock were reclassified to AFS investments.

7. Property, Plant and Equipment

	Land	Mine Development Costs	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Road Construction and Rehabilitation	**2005 Total**	2004 Total (As restated, see Note 3)
At revalued amount:									
Balances at beginning of year	₱491,011	₱–	₱–	₱–	₱–	₱–	₱–	**₱491,011**	₱614,701
Increase in revaluation	65,574	–	–	–	–	–	–	**65,574**	–
Disposals	(241,024)	–	–	–	–	–	–	**(241,024)**	(123,690)
Balances at end of year	315,561	–	–	–	–	–	–	**315,561**	491,011
At cost:									
Balances at beginning of year, as previously stated	–	1,283,277	337,958	3,968,116	4,139	13,026	–	**5,606,516**	5,609,046
Effect of change in accounting for mine rehabilitation costs	–	978	–	–	–	–	–	**978**	978
Balances at beginning of year, as restated	–	1,284,255	337,958	3,968,116	4,139	13,026	–	**5,607,494**	5,610,024
Additions	–	–	15,556	5,219	–	459	12,603	**33,837**	1,650
Disposals and transfers	–	–	(2,031)	(67,428)	(4,139)	(7,867)	–	**(81,465)**	(4,180)
Balances at end of year	–	1,284,255	351,483	3,905,907	–	5,618	12,603	**5,559,866**	5,607,494
Accumulated depreciation, depletion and impairment loss:									
Balances at beginning of year	–	357,526	280,482	3,628,068	4,135	11,710	–	**4,281,921**	4,255,135
Depreciation	–	–	36,136	43,829	–	373	–	**80,338**	30,966
Disposals and transfers	–	–	(1,392)	(67,397)	(4,135)	(7,851)	–	**(80,775)**	(4,180)
Balances at end of year	–	357,526	315,226	3,604,500	–	4,232	–	**4,281,484**	4,281,921
Net book values	₱315,561	₱926,729	₱36,257	₱301,407	₱–	₱1,386	₱12,603	**₱1,593,943**	₱1,816,584

As discussed in Note 1, the full recovery of the Company's mine development costs is dependent upon the rehabilitation of the Toledo copper mine, approval of the MPSA applications and success of actual future operations.

The Company entered into a Mortgage Agreement with MMC covering certain buildings and machinery and equipment located in the Carmen Concentrator area in the Toledo mine site with a net book value of ₱154,627 as of December 31, 2003. The security interest of MMC under the Mortgage Agreement was subsequently transferred to Alakor pursuant to the Assignment and Settlement Agreement dated March 25, 2004 (see Notes 1 and 9).

8. Other Noncurrent Assets

	2005	2004
Input taxes	**₱608,883**	₱607,475
Deferred mine exploration costs	**129,399**	13,523
Development projects	**38,989**	38,989
Others	**30,795**	29,262
	808,066	689,249
Less allowance for probable losses	**673,474**	673,474
	₱134,592	₱15,775

9. Loans and Acceptances Payable

	2005	2004
Drafts and acceptances payable	**₱179,324**	₱185,229
Notes payable	**135,321**	–
Bank loans	**90,496**	154,519
	₱405,141	₱339,748

Notes Payable

Euronote Profits Ltd. (Euronote), a related party, approved the Company's request for a US$2 million loan on May 16, 2005 with repayment terms of one lump sum payment of the principal amount plus interest thereon at 12% per annum on or before December 29, 2005. The loan was renewed for another 6 months. Another loan was extended to the Company on December 15, 2005 amounting to US$0.750 million payable on or before May 15, 2006.

Bank Loans

	2005	2004
The Company	**₱90,496**	₱95,975
AVI	**–**	58,544
	₱90,496	₱154,519

The Company's bank loans consist of unsecured short-term borrowings and export packing credits obtained from local banks which bear annual interest ranging from 6.2% to 8.3% (for US dollar-denominated loans) and from 13.5% to 20.0% (for peso-denominated loans).

The AVI's bank loans in 2004 represented short-term peso loans obtained from local banks which bear annual interest at rates ranging from 10.00% to 16.75%. These loans are secured by chattel mortgages on the AVI's machinery and equipment, transportation equipment, the assignment of surety bonds and joint surety by certain officers of AVI.

AVI defaulted on the principal and interest payments on its bank loans amounting to ₱58,544 and ₱9,691, respectively, in 2004. Related penalties imposed by the creditor bank on unpaid interest and principal amounted to ₱21,956 in 2004.

10. Trade and Other Payables

	2005	2004
Accounts payable:		
Trade	**₱219,174**	₱643,676
Nontrade	**447,750**	448,245
TMC (see Note 1)	**223,857**	54,668
Termination pay to employees	**127,547**	182,229
Investika (see Note 1)	**51,623**	12,822
Others	**1,469**	19,522
Accrued expenses:		
Taxes (see Note 1)	**932,635**	964,453
Interests (see Note 9)	**223,099**	278,540
Others	**214,455**	437,345
	₱2,441,609	₱3,041,500

Nontrade payables consist mainly of the payable to TPC amounting to ₱440,359. As discussed in Note 1, negotiations regarding the settlement of the liability to TPC are ongoing as of May 8, 2006 (see Note 22).

11. Capital Stock and Deposits for Future Stock Subscriptions

	2005		2004	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized	**650,000,000**	**₱6,500,000**	650,000,000	₱6,500,000
Issued:				
Balances at beginning and end of year	**355,914,952**	**₱3,559,149**	355,914,952	₱3,559,149

An analysis of the deposits for future stock subscriptions follows:

	Alakor	Toledo City Government	Total
Balances at December 31, 2003	₱883,854	₱–	₱883,854
Movement during the year:			
Conversion of advances from a stockholder to deposits for future stock subscriptions	4,030,871	–	4,030,871
Conversion of tax liabilities to deposits for future stock subscriptions	–	10,000	10,000
Balances at December 31, 2004	4,914,725	10,000	4,924,725
Movement during the year:			
Reversal of deposits for future stock subscriptions to liability	(1,014,725)	–	(1,014,725)
Balances at December 31, 2005	₱3,900,000	₱10,000	₱3,910,000

On February 24, 2003, the Company's BOD approved the increase in authorized capital stock from ₱6,500,000, divided into 650,000,000 shares, to ₱12,000,000 divided into 1,200,000,000 shares, both with par value of ₱10 per share. This was duly ratified during the Special/Advance Meeting of Stockholders held on March 31, 2003. As of May 8, 2006, the Company has not yet submitted an application to the SEC for approval of the said increase.

On June 15, 2004, the Company's BOD approved the conversion of "Liabilities settled by Alakor" into Deposits for Future Stock Subscriptions.

The Company's BOD approved on January 27, 2005 a proposal to grant stock options to directors and qualified officers and employees of the Company under such terms and conditions as management shall subsequently formulate and submit for approval by the Board of Directors, the Stockholders and the SEC.

On December 16, 2005, Alakor entered into an irrevocable subscription agreement for ₱3.9 billion of capital stock of the Company. The remaining unsubscribed portion of the deposits for future stock subscriptions was reclassified as liability under the amounts owed to related parties, representing the portion of the debt covered by the Assignment and Settlement Agreement between MMC, Alakor and the Company.

12. Revaluation Increment on Land

The balance of this account represents the Company's revaluation increment on land amounting to ₱218,559 and ₱330,793 as of December 31, 2005 and 2004, respectively. In 2005, the revaluation increment on land of AVI amounting to ₱163,069 as of December 31, 2004 was reversed due to the sale of interest of the shares in AVI (see Note 7).

13. Operating Expenses

	2005	2004
Depreciation (see Note 7)	**₱79,843**	₱30,548
Feasibility study cost (see Note 1)	**56,781**	99,265
Salaries, wages and benefits	**52,298**	34,167
Professional fees	**41,795**	3,547
Provision for doubtful accounts	**13,217**	–
Utilities	**7,159**	7,029
Transportation and travel	**5,047**	2,201
Retirement benefits (see Note 15)	**4,692**	4,661
Taxes and licenses	**2,673**	752
Rentals	**1,430**	1,063
Others	**17,958**	5,078
	₱282,893	₱188,311

As per management agreement, TMM, a management company, charges its direct and administrative costs to its clients. In 2005, depreciation expense amounting to ₱495 was charged to one of its clients outside the Group.

In 2004, the depreciation of AVI amounting to ₱418 was included in the "loss from a discontinued operation" account.

14. Related Party Disclosures

The Group's transactions with related parties consist mainly of advances for administrative and operating expenses and assignment of receivables and payables.

The consolidated balance sheets include the following amounts resulting from the transactions with related parties:

	Relationships with Related Parties	**2005**	2004
Amounts owed to related parties:			
Alakor	Stockholder	**₱1,811,369**	₱259,352
Anglo Philippine Corporation	Related party	**10,000**	5,000
		₱1,821,369	₱264,352

As mentioned in Note 23, about ₱604.5 million ($11.67 million) of the amounts owed to Alakor were purchased by the Euronote. The Company and the Euronote agreed to restructure these payables.

As discussed in Notes 1 and 11, the amounts due to Alakor represent mainly the liabilities assumed from the Company's creditors. The increase in the balance represents additional advances made to the Company for day-to-day operations and the unsubscribed portion of the deposits for future stock subscriptions classified to this account.

The Company entered into an Assignment and Settlement Agreement with Alakor and Anscor in September 2001 to settle the Company's outstanding obligations with Anscor. The agreement provided for the assignment of the Anscor obligations amounting to ₱476,171 to Alakor in consideration for a cash payment equivalent to 3% of the principal obligations. These liabilities were settled in 2002 and were included among those liabilities in amounts owed to related parties.

On March 25, 2004, an Assignment and Settlement Agreement was entered into by the Company, Alakor, MMEC and MMC. The agreement provided for the transfer to Alakor of the outstanding liabilities owed by the Company to MMC totaling US$71,385 (loan principal of US$33,680 and interest and penalties of US$31,277; and advances against export of US$4,590 and interest and penalties of US$1,838) as of December 31, 2003. The Company recognized additional liabilities for interest and penalty charges on the loans and advances in 2003 totaling ₱180,722 based on the statement of account submitted by MMC. On June 7, 2004, MMC confirmed the receipt of full and final payment of consideration for the assignment of these loans in favor of Alakor.

Compensation of Key Management Personnel of the Company

The Company considered all senior officers as key management personnel.

	2005	2004
Short-term benefits	**₱3,500**	₱3,700
Retirement benefits	**1,249**	1,178
	₱4,749	₱4,878

15. Retirement Benefits

The Company has an unfunded defined benefit pension plan covering substantially all of its employees.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the amounts recognized in the consolidated balance sheets.

Net Benefit Expense

	2005	2004
Current service cost	**₱1,641**	₱1,594
Interest cost on benefit obligation	**3,374**	3,067
Net actuarial gain recognized in the year	**(323)**	–
Net benefit expense	**₱4,692**	₱4,661

Pension Liability

	2005	2004
Defined benefit obligation	**₱31,241**	₱24,280
Unrecognized actuarial losses	**4,035**	6,304
	₱35,276	₱30,584

Changes in the present value of the defined benefit obligation are as follows:

	2005	2004
Opening defined benefit obligation	**₱24,280**	₱25,923
Interest cost	**3,374**	3,067
Current service cost	**1,641**	1,594
Actuarial losses (gains)	**1,946**	(6,304)
Closing defined benefit obligation	**₱31,241**	₱24,280

The overall expected rate of return on 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 principal assumptions used in determining pension benefit obligations for the Company's plans are shown below:

	2005	2004
Discount rate	**10.5%**	13.9%
Future salary increase	**10.0%**	10.0%

16. Income Taxes

A reconciliation of pretax loss computed at the statutory tax rate to provision for income tax follows:

	2005	2004 (As restated, see Note 3)
Pretax loss at statutory tax rate	**(₱133,417)**	(₱99,316)
Additions to (reductions from) income taxes resulting from:		
Change in unrecognized deferred income tax assets	**78,329**	(139,759)
Expired NOLCO	**57,912**	209,546
Nondeductible representation expense	**1,831**	438
Interest income subjected to final tax and others	**(31)**	(250)
Nondeductible interest expense	**–**	116
Nondeductible cost of donated land	**–**	22
Nontaxable gain on condonation	**–**	(27,754)
Net unrealized foreign exchange losses on liabilities subject to equity conversion	**–**	17,093
Others	**(631)**	164
	₱3,993	(₱39,700)

Details of deferred income tax liabilities follow:

	2005	2004 (As restated, see Note 3)
Revaluation increment on land	**₱93,668**	₱155,667
Mine rehabilitation costs	**9,035**	9,213
Unrealized foreign exchange difference	**4,277**	–
Accretion of interest - net	**799**	–
	₱107,779	₱164,880

The Group has temporary differences for which no deferred income tax assets were recognized as it is not probable that sufficient taxable profits will be available against which the benefit can be utilized. The temporary differences follow:

	2005	2004 (As restated, see (Note 3)
NOLCO	**₱900,351**	₱677,248
Allowance for probable losses on:		
Inventory	**386,820**	386,820
Mine development costs	**249,206**	249,206
Doubtful accounts	**60,647**	47,429
Other nonoperating properties	**66,434**	66,434
Provision for impairment loss on idle buildings and machinery and equipment	**171,680**	171,680
Unfunded retirement benefit costs	**35,276**	30,584
	₱1,870,414	₱1,629,401

The carryforward benefits of NOLCO and the years in which these benefits can be availed of are as follow:

Year Incurred	NOLCO	Available Until
2003	₱241,369	December 31, 2006
2004	257,688	December 31, 2007
2005	401,294	December 31, 2008
	₱900,351	

The movements in NOLCO follow:

	2005	2004
Balances at beginning of year	**₱677,248**	₱1,105,623
Additions	**401,294**	257,688
Expiration	**(178,191)**	(686,063)
Balances at end of year	**₱900,351**	₱677,248

Republic Act (RA) No. 9337 was recently enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA are as follows:

- Increase in the corporate income tax rate from 32% to 35%, with a reduction thereof to 30% beginning January 1, 2009;
- Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;
- Revised invoicing and reporting requirement for VAT;
- Expanded scope of transaction subject to VAT; and
- Provided thresholds and limitation on the amount of VAT credits that can be claimed.

On January 31, 2006, the Bureau of Internal Revenue issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12%, effective February 1, 2006.

Due to the enactment of the RA, the current provision for income tax in 2005 was measured at 32.5% and the deferred income tax liabilities as of December 31, 2005 were measured at 35%, except for revaluation increment on land, which has been measured at 30%.

17. Discontinued Operation

The results of AVI for 2004 are presented below:

Revenue	₱4,470
Expenses	56,646
Loss before income tax	52,176
Provision for income tax	50
Loss for the year from a discontinued operation	₱52,226

The net cash flows incurred by AVI in 2004 are as follows:

Operating cash outflow	₱2,879
Net cash inflow	470

On December 29, 2005, the Company sold all its rights, title and interest in AVI to a third party for ₱1, resulting to a gain of ₱499,961.

18. Segment Information

The Group's segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit. Mining segment is engaged in exploration and mining operations. Non-mining segment is engaged in services, bulk water supply or acts as holding company.

2005

	Mining	**Non-Mining**	**Total**	**Elimination**	**Consolidated**
Revenue	**₱43,883**	**₱–**	**₱43,883**	**₱–**	**₱43,883**
Expense	**(481,228)**	**(3,629)**	**(484,857)**	**(30,460)**	**(454,397)**
Discontinued operation	**–**	**499,961**	**499,961**	**–**	**499,961**
Net income (loss)	**119,543**	**(3,629)**	**115,914**	**(30,460)**	**85,454**
Assets	**1,761,419**	**27,321**	**1,788,740**	**(5,621)**	**1,783,119**
Segment liabilities	**4,674,954**	**25,539**	**4,688,152**	**(13,198)**	**4,674,954**
Unallocated liabilities	**143,055**	**–**	**143,055**	**–**	**143,055**
Total liabilities	**4,662,613**	**25,539**	**4,688,152**	**(13,198)**	**4,818,009**

2004

	Mining	Non-Mining	Total	Elimination	Consolidated
Revenue	₱112,970	₱–	₱112,970	₱–	₱112,970
Expense	(450,263)	(3,629)	(453,792)	(30,460)	(423,332)
Discontinued operation	–	(52,226)	(52,226)	–	(52,226)
Net loss	297,493	55,855	353,348	(30,460)	(322,888)
Assets	1,613,035	245,955	1,858,990	(9,041)	1,849,949
Segment liabilities	3,153,265	507,622	3,660,887	(6,500)	3,654,387
Unallocated liabilities	118,726	76,738	195,464	–	195,464
Total liabilities	3,271,991	584,360	3,857,351	(6,500)	3,849,851

19. Earnings (Loss) Per Share

Earnings (loss) per share was computed as follows:

	2005	2004 (As restated, see Note 3)
Loss attributable to equity holders of the parent from continuing operation	**(₱413,383)**	(₱269,337)
Gain (loss) attributable to equity holders of the parent from discontinued operation	**499,961**	(52,226)
Net income (loss) attributable to equity holders of the parent	**86,578**	(321,563)
Weighted average number of shares outstanding (in thousands)	**355,915**	355,915
Loss per share attributable to equity holders of the parent from continuing operation	**(₱1.1**	(₱0.7
Earnings (loss) per share attributable to equity holders of the parent from discontinued operation	**₱1.4**	(₱0.1

20. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash, trade and other receivables, AFS investments, trade and other payables, amounts owed to related parties and interest-bearing loans. The main purpose of these financial instruments is to raise finances for the Group's operations and its investments in existing and in new projects.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding loans; credit risk involving possible exposure to counter-party default on its cash, trade and other receivables; foreign currency risk arising from service agreements denominated in third party currency; and liquidity risk in terms of the proper matching of the type of financing required for specific investments.

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to its short-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities.

Credit risk
For its cash investments, the Group's credit risk is generally concentrated on possible default of the counter-party, with a maximum exposure equal to the carrying amount of these investments. The risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing.

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of services are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and managements of credit exposures.

Foreign Currency Risk
The Company has transactional currency exposures from service contracts denominated in US dollars.

Liquidity risk
The Group's exposure to liquidity risk refers to the lack of funding needed to finance its capital expenditures, service its maturing loans obligations in a timely fashion, meets its working capital requirements. To manage this exposure, the Group maintains its internally generated funds and prudently manages the proceeds obtained from advances from related parties.

21. Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the 2005 consolidated financial statements.

	Carrying Amount	Fair Value
Financial assets		
Cash	₱43,910	₱43,910
Trade and other receivables	1,960	1,960
Available-for-sale financial assets	3,672	3,672
Financial liabilities		
Loans and acceptance payable	₱405,141	₱405,141
Trade and other payables	2,441,611	2,441,611
Amounts owed to related parties	1,821,369	1,821,369
Other noncurrent liability	2,499	2,499

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and other financial assets

The carrying amount of cash and other financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Short-term borrowings

The fair value of fixed rate interest bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk as of December 31, 2005:

	< year	1-5years	>5 years	Total
Fixed rate:				
Bank loans	₱90,496	₱–	₱–	₱90,496
Notes payable	135,321	–	–	135,321
	₱225,817	₱–	₱–	₱225,817

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

22. **Significant Agreements**

TPC and THC

In February 2002, TPC and its wholly owned subsidiary, THC, signed the following agreements with the Company:

a) Release and Quitclaim, wherein the Company assigns to THC a portion of an area covered by two foreshore leases, three deep wells and portions of cadastral lots located in Toledo City, Cebu in settlement of its obligations to TPC for financial assistance extended and assumption of the Company's liability to National Power Corporation;

b) Deed of Absolute Sale, wherein the Company sells to THC parcels of land under the name of a trustee located in Don Andres Soriano, Toledo, Cebu in consideration of ₱62;

c) Easement of Road Right-of-Way, wherein the Company grants TPC perpetual easement of road right-of-way within the Company's minesite area in Toledo, Cebu;

d) Right to Use Facilities, wherein TPC grants the Company the perpetual right to use the former's port facilities located in Toledo, Cebu as additional consideration to the latter for the rights granted under the Easement of Road Right-of-Way Agreement;

e) Deed of Assignment of Rights, wherein the Company assigns to THC all its rights, interest, participation and obligations over the portions of the areas located in Sangi, Toledo, which are covered by two foreshore leases in consideration of ₱19,904; and

f) Deed of Absolute Sale, wherein the Company's sells to THC three deepwells located in a lot under the name of a trustee in Calumpao, Toledo in consideration of ₱2,067. This agreement likewise grants a perpetual right-of-way over the above described lot.

The Company's BOD, however, withheld ratification of the foregoing agreements due to several reasons namely: (a) the Company believes that a more satisfactory and balanced settlement can be reached with TPC to the advantage of all parties concerned; (b) the agreements only dealt with a portion of the Company's liability to TPC; and (c) part of the land areas ceded in the agreements are essential to future copper concentrate transport plans and are not necessarily needed by TPC. Accordingly, the Company did not reflect the transactions resulting from the said agreements in the Company's records as of December 31, 2005 and 2004.

As of May 8, 2006, the Company is renegotiating with TPC and THC the terms of the agreements. The Company believes that a satisfactory settlement with TPC and THC can be reached.

23. Events After the Balance Sheet Date

On May 5, 2006, the Company entered into the following agreements:

a. a Convertible Loan (the Loan) and Security Agreement with CCC and CASOP Atlas II, Ltd (CASOP) wherein CASOP will extend the Loan to CCC in the principal amount up to but not in excess of the Commitment amount of US$5 million. Unless the Loan has been previously converted, CCC shall repay the Loan two (2) years from the date of the Loan or such other date as may be separately agreed upon in writing by CASOP and CCC. The Loan is convertible at any time prior to maturity date or to the date of early repayment into not less than 5.17% up to not more than 5.7% of the total issued and outstanding shares of CCC. The proceeds of the Loan shall be used by CCC solely and exclusively for the following purposes: (1) procurement of equipment to dewater the Company's mine, (2) conduct of additional metallurgy tests, and (3) other uses key to the development of the Company's mine. The payment of the Loan and all obligations of CCC at any time shall be secured at all times by a first mortgage constituted over all the rights, title and interests in and to certain properties pursuant to the mortgage, a pledge of the shares of stock of CCC owned by the Company, and assignment by way of security over the assigned collateral.

b. a Debt Restructuring Agreement with CASOP and an officer of the Company wherein CASOP agreed to restructure and convert the US$11.67 million loan into a two (2) year convertible loan, at the option of CASOP, into equity of the Company. The loan shall be secured at all times by a first mortgage constituted over all of the rights, titles and interests in and to certain properties of the Company and assignment by way of security over the Assigned Collateral. CASOP is also given the option to subscribe to a total of 50 million common shares at any time during the subscription period (see item c below).

c. a Subscription Agreement with CCC and CASOP wherein CASOP shall subscribe to and purchase approximately 35% of the authorized capital stock of CCC for a total consideration of the peso equivalent of US$28 million.

d. an Operating Agreement with CCC wherein the Company conveyed to CCC its exploration, development and utilization rights under certain mining rights and claims referred to as the Toledo Mine Rights and the right to rehabilitate, operate and/or maintain certain property and equipment and surface rights as defined in the agreement. The parties also agreed that the production and marketing of the marketable product from the Toledo Mining project as well as all the proceeds thereof, shall pertain solely to and under the full control of CCC. The Company will receive royalty fees in consideration for the conveyance to CCC of the mining rights, property and equipment and surface right. The agreement granted CCC the exclusive right and option at any time during the life of the agreement to acquire all or part of the rights, title and interest of the mining rights in exchange for shares of CCC, and of property and equipment and surface rights.

In relation to item b above, Euronote, as the Seller, and CASOP entered into an Assignment of Debt Agreement wherein the Seller as the beneficial owner of a portion of the Company's liability of US$11.67 million, assigned and transferred to CASOP the rights, title, interests and participations of the Seller in and to said liability. As provided for in the agreement, the Seller will directly or indirectly infuse the purchase price received from CASOP into the Company in the form of deposit for future stock subscriptions and convert said amount into the Company's shares of stock within 7 months from closing date or such longer period of time as may be agreed upon by the parties. The Company shall use the purchase price infused by the Seller to settle the liabilities of the Company and its subsidiaries on a best efforts basis to not more than US$2 million (see Note 9).

24. **Other Matters**

a. Contingencies

The Company is a defendant in various lawsuits and claims involving civil, labor, mining, tax and other cases, the outcome of which is presently undeterminable. In the opinion of management and legal counsels, these lawsuits and claims if decided adversely will not have a material effect on the consolidated financial position or operating results.

b. Notes to Consolidated Statements of Cash Flows

Noncash investing and financing activities:

	2005	2004
Conversion (reversal) of advances from stockholders to/from deposits for future stock subscriptions (see Note 11)	**(₱1,014,725)**	₱4,030,871
Conversion of tax liabilities to deposits for future stock subscriptions (see Note 11)	**–**	10,000

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Atlas Consolidated Mining and Development Corporation
7th Floor, Quad Alpha Centrum
125 Pioneer St., Mandaluyong City

We have audited the accompanying parent company balance sheets of Atlas Consolidated Mining and Development Corporation as of December 31, 2005 and 2004, and the related parent company statements of income, changes in capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Atlas Consolidated Mining and Development Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

Without qualifying our opinion, we draw attention to Note 1 to the parent company financial statements which indicate that the Company incurred cumulative losses of ₱10,699.8 million and ₱10,324.2 million as of December 31, 2005 and 2004, respectively, which resulted in capital deficiency of ₱2,996.2 million and ₱1,660.3 million, respectively. In addition, the Company's operations have not yet resumed since it shut down mining and milling operations in 1994. These conditions, along with other matters as set forth in Note 1 to the parent company financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The parent company financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern. As discussed in Note 19, the Company was able to obtain funding for the rehabilitation of the Toledo Copper Mine in 2006. Management's plans, with regard to these matters, are also discussed in Note 1 to the parent company financial statements.

SYCIP GORRES VELAYO & CO.

Jaime F. Del Rosario

Jaime F. Del Rosario
Partner
CPA Certification No. 56915
SEC Accreditation No. 0076-A
Tax Identification No. 102-096-009
PTR No. 4180830, January 2, 2006, Makati City

May 8, 2006

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION

PARENT COMPANY BALANCE SHEETS

(Amount in Thousands, Except Par Value)

	December 31	
	2005	2004 (As restated, Note 3)
ASSETS		
Current Assets		
Cash	**₱17,928**	₱5,990
Trade and other receivables - net (Note 4)	**667**	3,668
Inventories - net of allowance for probable losses of ₱386,820	**–**	–
Other current assets (Note 3)	**667**	–
Total Current Assets	**19,262**	9,658
Noncurrent Assets		
Investments in subsidiaries - net (Note 5)	**26,348**	4,050
Investments in shares of stock (Note 6)	**–**	75
Available-for-sale (AFS) investments (Note 6)	**3,672**	–
Amounts owed by related parties (Note 13)	**–**	4,073
Property, plant and equipment - net (Notes 7 and 12)	**1,576,744**	1,573,948
Other noncurrent assets - net (Note 8)	**4,269**	1,796
Total Noncurrent Assets	**1,611,033**	1,583,942
TOTAL ASSETS	**₱1,630,295**	₱1,593,600
LIABILITIES AND CAPITAL DEFICIENCY		
Current Liabilities		
Loans and acceptances payable (Note 9)	**₱405,141**	₱281,204
Trade and other payables (Note 10)	**2,247,366**	2,578,453
Amounts owed to related parties (Notes 1 and 13)	**1,824,121**	266,779
Total Current Liabilities	**4,476,628**	3,126,436
Noncurrent Liabilities		
Deferred income tax liabilities (Note 15)	**107,779**	88,142
Pension liability (Note 14)	**35,276**	30,584
Liability for mine rehabilitation	**4,336**	3,787
Other noncurrent liability (Note 1)	**2,499**	5,000
Total Noncurrent Liabilities	**149,890**	127,513
Total Liabilities	**4,626,518**	3,253,949
Capital Deficiency (Note 1)		
Capital stock - ₱10 par value (Note 11)	**3,559,149**	3,559,149
Additional paid-in capital	**12,241**	12,241
Deposits for future stock subscriptions (Note 11)	**3,910,000**	4,924,725
Revaluation increment on land (Notes 7 and 12)	**218,559**	167,724
Net unrealized gains on AFS investment (Note 6)	**3,597**	–
Deficit (Note 1)	**(10,699,769)**	(10,324,188)
Total Capital Deficiency	**(2,996,223)**	(1,660,349)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	**₱1,630,295**	₱1,593,600

See accompanying Notes to Parent Company Financial Statements.

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION

PARENT COMPANY STATEMENTS OF INCOME

(Amount in Thousands)

	Years Ended December 31	
	2005	2004 (As restated, Note 3)
REVENUE		
Gain on sale of property, plant and equipment	**₱23,506**	₱20,618
Unrealized foreign exchange gains - net	**14,255**	–
Gain on condonation of liability (Note 1)	–	86,732
Others	**50**	6,285
	37,811	113,635
EXPENSES		
Interest and financing charges	**168,261**	58,622
Depreciation (Note 7)	**79,532**	30,520
Feasibility study costs (Note 1)	**54,778**	99,265
Salaries, wages and benefits	**51,133**	34,169
Professional fees	**17,944**	1,742
Provision for doubtful accounts	**13,217**	–
Utilities	**6,889**	6,863
Retirement benefit costs (Note 14)	**4,692**	4,661
Transportation and travel	**3,219**	900
Taxes and licenses	**2,273**	710
Supplies	**1,673**	3,462
Service department costs	**1,165**	777
Donation to Toledo City Government (Note 1)	–	81,330
Unrealized foreign exchange losses - net	–	53,412
Impairment loss	–	42,359
Others	**6,544**	1,106
	411,320	419,898
LOSS BEFORE INCOME TAX	**373,509**	306,263
PROVISION FOR (BENEFIT FROM) DEFERRED INCOME TAX (Note 15)	**3,993**	(39,712)
NET LOSS	**₱377,502**	₱266,551

See accompanying Notes to Parent Company Financial Statements.

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION

PARENT COMPANY STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(Amount in Thousands)

	Capital Stock (Note 11)	Additional Paid-in Capital	Deposits for Future Stock Subscriptions (Note 11)	Revaluation Increment on Land (Notes 7 and 12)	Net Unrealized Gains on AFS Investments	Deficit	Total
Balances at January 1, 2004, as previously reported	₱3,559,149	₱12,241	₱883,854	₱414,854	₱–	(₱10,593,457)	(₱5,723,359)
Effect of adoption of PFRS (Note 3)	–	–	–	(163,069)	–	451,759	288,690
Balances at January 1, 2004, as restated	3,559,149	12,241	883,854	251,785	–	(10,141,698)	(5,434,669)
Impairment of land (Note 1)	–	–	–	(28,805)	–	28,805	–
Donation of land (Note 1)	–	–	–	(55,256)	–	55,256	–
Conversion of liabilities to deposits for future stock subscriptions (Note 11)	–	–	4,040,871	–	–	–	4,040,871
Net loss, as restated (Note 3)	–	–	–	–	–	(266,551)	(266,551)
Balances at December 31, 2004, as restated	₱3,559,149	₱12,241	₱4,924,725	₱167,724	₱–	(₱10,324,188)	(₱1,660,349)
Balances at December 31, 2004, as previously reported	₱3,559,149	₱12,241	₱4,924,725	₱330,793	₱–	(₱10,834,526)	(₱2,007,618)
Effect of adoption of PFRS (Note 3)	–	–	–	(163,069)	–	510,338	347,269
Balances at December 31, 2004, as restated	3,559,149	12,241	4,924,725	167,724	–	(10,324,188)	(1,660,349)
Effect of adoption of PAS 39, net of tax effect (Note 3)	–	–	–	–	–	1,921	1,921
Balances at January 1, 2005	3,559,149	12,241	4,924,725	167,724	–	(10,322,267)	(1,658,428)
Reversal of deposits for future stock subscriptions (Note 3)	–	–	(1,014,725)	–	–	–	(1,014,725)
Increase in revaluation increment	–	–	–	45,902	–	–	45,902
Effect of change in tax rate				4,933			4,933
Net loss	–	–	–	–	–	(377,502)	(377,502)
Net unrealized gains on AFS investments (Notes 3 and 6)	–	–	–	–	3,597	–	3,597
Total income (loss) recognized for the year	–	–	–	–	3,597	(377,502)	(373,905)
Balances at December 31, 2005	₱3,559,149	₱12,241	₱3,910,000	₱218,559	₱3,597	(₱10,699,769)	(₱2,996,223)

See accompanying Notes to Parent Company Financial Statements.

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

(Amount in Thousands)

	Years Ended December 31	
	2005	2004 (As restated, Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱373,509)**	(₱306,263)
Adjustments for:		
Interest and financing charges	**168,261**	58,622
Depreciation (Note 7)	**79,532**	30,520
Gain on sale of property, plant and equipment	**(23,506)**	(20,618)
Unrealized foreign exchange (gains) losses	**(14,255)**	53,412
Interest income	**(50)**	(766)
Donation to Toledo City Government (Note 1)	–	81,330
Gain on condonation of liability (Note 1)	–	(86,732)
Impairment loss	–	42,359
Operating loss before working capital changes	**(163,527)**	(148,136)
Decrease (increase) in trade and other receivables	**3,001**	(3,304)
Decrease in trade and other payables	**(295,756)**	(98,390)
Net cash used in operations	**(456,282)**	(249,830)
Interest received	**50**	766
Net cash used in operating activities	**(456,232)**	(249,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment and other noncurrent assets	**23,506**	20,618
Additional investments	**(22,298)**	(4,050)
Additions to property, plant and equipment	**(16,754)**	(685)
Increase in other noncurrent assets	**(3,140)**	–
Net cash from (used in) investing activities	**(18,686)**	15,883
CASH FLOWS FROM FINANCING ACTIVITIES		
Net changes in:		
Amounts owed by/to related parties	**348,664**	237,722
Loans and acceptance payable	**138,192**	–
Cash from financing activities	**486,856**	237,722
NET INCREASE IN CASH	**11,938**	4,541
CASH AT BEGINNING OF YEAR	**5,990**	1,449
CASH AT END OF YEAR	**₱17,928**	₱5,990

See accompanying Notes to Parent Company Financial Statements.

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS
(Amount in Thousands, Except as Indicated)

1. **Corporate Information, Status of Operations and Management Plans**

Corporate Information

Atlas Consolidated Mining and Development Corporation (the Company; or ACMDC) was incorporated in the Philippines on March 9, 1935. Its corporate life was extended up to March 2035. The Company is primarily engaged in mineral and metallic mining and exploration that primarily produces copper concentrates and gold with silver and pyrites as major by-products. Its registered office address is 7th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City.

The parent company financial statements as of December 31, 2005 and 2004 and for the years then ended were authorized for issue by the Board of Directors (BOD) on May 8, 2006.

Status of Operations

As shown in the accompanying parent company financial statements, the Company incurred significant cumulative losses amounting to ₱10,699,769 in 2005 and ₱10,324,188 in 2004. As of December 31, 2005 and 2004, the total current liabilities exceeded the total current assets by ₱4,458,033 and ₱3,116,778, respectively. In addition, the total liabilities exceeded the total assets, resulting to a capital deficiency of ₱2,996,223 and ₱1,660,349 as of December 31, 2005 and 2004, respectively.

The Company's copper mining operations which started in 1955 are centered in Toledo City, Cebu where three open pit mines, three underground mines and milling complexes are located. A typhoon hit the province of Cebu in December 1993, necessitating a suspension of the Company's Toledo mine operations due to the flooding and subsequent muck rush of the underground facilities. Operations in the mines have not yet resumed to date.

These conditions, among others, indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The parent company financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts, or the amounts and classification of liabilities that might result should the Company be unable to continue as a going concern.

In 2004, the Company actively supported and funded the intended activities of the recently activated Mine Rehabilitation Fund Committee and its component body, the Multipartite Monitoring Team. During the year, the Company continued the implementation of its care and maintenance program designed for environmental management and protection within its areas of activities while mining operations remain suspended. The program was carried out in coordination with the Mines and Geosciences Bureau (MGB) and embraces measures on reforestation, ground stabilization, utilities and infrastructure maintenance, drainage facility upkeep, derelict structure disposal, camp security assurance acid mine drainage control and monitoring, and post-shutdown administrative services. A total of ₱5.4 million and ₱17.3 million was expended by the Company for this program in 2005 and 2004. The Department of Environment and Natural Resources (DENR) approved, on January 24, 2005, the issuance in favor of the Company of a Certificate of Non-Coverage on the Toledo mining operations in lieu of the Environmental Compliance Certificate.

Mining Claims and Properties

The Company owns several mining claims and is a holder of rights of mining claims by virtue of Operating Agreements with private claim owners. These mining claims are covered by lease contracts granted by the government, Declaration of Location (DOL) and Mining Lease Applications (MLA).

As of December 31, 2005, the Company has two existing mining lease contracts covering 54.0 hectares of the Toledo mine site which will expire in 2006 and 2007. Mining claims with leased contracts issued or renewed after the 1987 constitution and those under DOL and MLA are now covered with applications for Mineral Production and Sharing Agreement (MPSA). On April 30, 2005, the DENR-MGB issued to the Company the MPSA covering the Carmen properties in Cebu.

Mining properties under approved MPSA and with MPSA and Exploration Permit (EP) applications are as follows:

Location	Total Area In Hectares	Number of Applications
Palawan	27,759.68	7
Cebu	8,251.78	9
Benguet	7,339.18	3
Camarines Norte	2,987.11	1
Agusan and Surigao Del Sur	5,155.22	1
Total	51,492.97	21

The above mentioned MPSA and EP applications are pending with the DENR-MGB for review and evaluation. The Company believes that a favorable response will be obtained from the DENR-MGB on all of its applications.

Management Plans

On October 3, 2000, the Company entered into a Memorandum of Agreement (MOA) with Alakor Corporation (Alakor), the new investor. The MOA provides for, among others, a weekly funding to meet the Company's general and administrative expenses, maintenance costs of property, plant and equipment, payment of obligations to employees and creditors and rehabilitation of the Toledo copper mine. In consideration, the Company will:

a) Issue to Alakor new fully paid shares at par value prevailing at the date of issue, or at market price on the day prior to the issue, whichever is higher, equivalent to the face value of the debts assumed or agreed to be discharged including interest and penalties, if any; and

b) Subject to relevant shareholders approval at the appropriate time, after the settlement of certain creditors and the issuance of shares, undertake a reconstruction of the Company's capital to write off irrevocable losses and reduce the number of issued shares and/or their par value on terms to be mutually agreed.

On the basis of the MOA, Alakor, on April 6, 2001, entered into an assignment and settlement agreements with local and foreign banks representing the restructured obligations and certain bank loans, whereby Alakor fully assumed and completely settled the debts of the Company from the said banks. In addition to these obligations, Alakor also settled the payables to A. Soriano Corporation and its subsidiary, Anscor Insurance Brokerage, Inc., claims of Itochu Corporation, and liabilities to Orica Explosives Philippines, Inc. Total bank loans, restructured obligations and payable to creditors and related companies (including interest and penalty) assumed by Alakor in 2002 amounted to ₱736,009. The amount due to Alakor was included as part of "Amounts owed to related parties" account and was subsequently transferred to the "Deposits for future stock subscriptions" account. A portion of this balance amounting to ₱810,019 was converted into shares of stock in 2003.

On March 25, 2004, Alakor settled the Company's obligations to Mitsubishi Metals Corporation (MMC) amounting to US$71,385 as of December 31, 2003.

In 2005 and 2004, Minoro Mining and Exploration Corporation (MMEC) assigned the intellectual and property rights on a feasibility study over the Toledo copper project and cash advances amounting to ₱54,778 and ₱99,265, respectively to Alakor. The incorporeal rights are property rights previously held in trust by MMEC for the benefit and to the credit of Alakor.

On June 15, 2004, the BOD approved the transfer of certain parcels of land and applications for and approved MPSA of the Company in favor of Berong Nickel Corporation (BNC), a subsidiary.

On September 29, 2004, the Company, MMEC, Investika, Ltd (Investika) and Toledo Mining Corporation Plc (TMC), entered into an agreement to develop "the Palawan Nickel project."

On November 3, 2004, the Company entered into Heads of Agreement (the Agreement) with Multicrest Mining Corporation (Multicrest) to acquire a 100% interest in the rights and interests in EP Application known as Tagkawayan project (the Project). Under the Agreement, the Company is to pay Multicrest ₱500 for the right to exercise the option to acquire a 100% interest in the Project. In consideration for the payment, the Company will also be granted the exclusive right to explore or work in the Project for 2 years from the issuance of the EP by the MGB, subject to extension under certain terms. Within 10 days from the grant of EP, the Company will pay Multicrest ₱900.

On December 11, 2004, the Company and the Toledo City government (City Government) signed a compromise agreement that settles the Company's real property tax obligations incurred in the past decade. Under the compromise agreement, the Company settles with the City Government a delinquent real property tax liability of ₱106,732, net of the Company's receivables from the City Government of ₱9,415, under the following payment terms: ₱5,000 in cash upon signing, another ₱5,000 upon resumption of operations, ₱10,000 worth of company shares and parcels of land of ₱123,689 (at appraised value; ₱71, at cost). A gain on condonation of liability to Toledo City government and a donation to the Toledo City government were recognized amounting to ₱86,732 and ₱81,330, respectively.

On January 19, 2005, the Company, MMEC, Investika and TMC entered into a venture agreement (the Venture Agreement) covering all mining tenements and applications for mining tenements, MPSA and EP covering the areas known as the Berong Mineral Properties and the Ulugan Mineral Properties (Mineral Properties) and held by the Company and/or MMEC and/or Anscor Property Holdings, Inc. and/or Multicrest. The Venture Agreement provides that the Company and/or MMEC grant to Investika and/or TMC the right to earn a percentage equity in BNC and TMM Management, Inc. (TMM), a subsidiary, upon fulfillment of certain conditions, including the granting of advances to BNC and TMM.

Also on January 19, 2005, TMM entered into a management agreement with BNC, wherein TMM will manage the operations of the latter with respect to the Mineral Properties and to any and all of the MPSA which shall be executed by BNC and the Government of the Philippines. In consideration of such services, TMM will receive a monthly fee of ₱200.

As of May 8, 2006, the Company and Alakor are negotiating the settlement of liabilities with Toledo Power Company (TPC)/Toledo Holdings Corporation (THC; see Note 18) and all other major creditors. The Company and Alakor strongly believe that the outcome of the negotiations will eventually be beneficial to the Company and accelerate the planned rehabilitation process.

2. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation

The accompanying separate financial statements of the Company, which are prepared for submission to the Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue, are presented in conformity with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). These are the Company's first financial statements prepared in conformity with PFRS.

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in compliance with PFRS. These may be obtained at 7th Floor, Quad Alpha Centrum, 125 Pioneer St., Mandaluyong City.

The Parent Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the parent company financial statements, with January 1, 2004 as date of transition. The Company applied the accounting policies set forth below to all the years presented except those relating to financial instruments.

The adoption of PFRS resulted in certain changes to the Company's previous accounting policies. The comparative figures for 2004 parent company financial statements were restated to reflect the changes in policies except those relating to financial instruments. An explanation of how the adoption of PFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 3.

Significant Accounting Judgments and Estimates

The preparation of the parent company financial statements in conformity with PFRS requires management to make judgments and estimates that affect the amounts reported in the parent company financial statements and accompanying notes. The judgments and estimates used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the parent company financial statements, giving due consideration to materiality. Actual results could differ from such judgments and estimates. The Company believes that the following represent a summary o f these significant judgments and estimates, and related impact and associated risks in the parent company financial statements.

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

Recoverability of Mine Development 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 in the period incurred 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 Company 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 development costs amounted to ₱926,729 and ₱925,751 as of December 31, 2005 and 2004, respectively. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds its fair value (see Note 7).

Deferred Income Tax Assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. No deferred income tax assets were recognized in 2005 and 2004. The Company has temporary differences for which deferred income tax assets have not been recognized amounting to ₱1,752,473 as of December 31, 2005 and ₱1,516,248 as of December 31, 2004 (see Note 15).

Determining the Appraised Value of Land

The appraised value of land is based on a valuation by 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.

Estimating Allowances for Doubtful accounts
The Company's allowance for doubtful accounts relates substantially to trade receivables and other receivables. The Company evaluates specific accounts where the Company has information that certain customers are unable to meet their financial obligations. Factors such as the Company's length of relationship with the customers and the customers' current credit status are considered to determine the amount of reserves that will be recorded in the trade and other receivables account. These reserves are re-evaluated and adjusted as additional information becomes available. Allowance for doubtful accounts as of December 31, 2005 and 2004 amounted to ₱60,646 and ₱47,429, respectively. Trade and other receivables, net of valuation allowance, amounted to ₱667 and ₱3,668 as of December 31, 2005 and 2004, respectively (see Note 4).

Estimating Allowance for Possible Losses of Investments
Investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amounts of the investments amounted to ₱26,348 and ₱4,050 as of December 31, 2005 and 2004, respectively (see Note 5).

Estimating Allowance for Probable Losses
The Company estimates the allowance for probable losses based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for probable losses would increase recorded expenses and decrease current assets. As of December 31, 2005 and 2004, allowance for probable losses amounted to ₱386,820. The carrying amount of the inventories, net of allowance probable losses, is nil as of December 31, 2005 and 2004 respectively.

Pension and Other Retirement Benefits
The determination of the Company's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include, among others, discount rates, expected rates of return on plan assets and rates of future salary increase. In accordance with PAS 19, *Employee Benefits*, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expenses and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the Company's pension and other post-employment obligations. Retirement benefit expense amounted to ₱4,692 and ₱4,661 in 2005 and 2004, respectively. The Company's pension liability amounted to ₱35,276 and ₱30,584 as of December 31, 2005 and 2004, respectively (see Note 14).

Estimating Useful Lives of Property, Plant and Equipment
The Company 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 the factors and circumstances mentioned above. As of December 31, 2005 and 2004, the aggregate net book values of property, plant and equipment amounted to ₱1,576,744 and ₱1,573,948, respectively (see Note 7).

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 orebody, 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 execution 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.

Estimating Costs of Mine Rehabilitation
The Company estimates the costs of mine rehabilitation based on previous experience in rehabilitating fully mined areas in sections of the mine site. These costs are adjusted for inflation factor based on the average annual inflation rate as of adoption date or date of re-evaluation of the asset dismantlement, removal or restoration costs, and are measured at present value using the market interest rate for a comparable instrument adjusted for the Company's credit standing. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Company's depletion and obligations for mine rehabilitation. Depletion of these cost were discontinued as there were no production of ore. Liability for mine rehabilitation amounted to ₱4,336 and ₱3,787 as of December 31, 2005 and 2004, respectively.

Impairment of AFS financial assets
The determination of impairment loss for AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the Company evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Company expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Company's investments.

Impairment of Property, Plant and Equipment
Philippine GAAP requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property, plant and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its parent company financial statements. Future events could cause the Company to conclude that the property, plant and equipment is impaired. Any resulting impairment loss could have a material adverse impact on the parent company financial condition and results of operations. As of December 31, 2005 and 2004, the aggregate net book values of property, plant and equipment amounted to ₱1,576,744 and ₱1,573,948, respectively (see Note 7).

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 net income or loss and equity. Fair value of financial assets and liabilities as of December 31, 2005 amount to ₱22,267 and ₱4,479,127 (see Note 17).

Financial Assets and Financial Liabilities (Effective January 1, 2005)
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss.

The Company recognizes a financial asset or a financial liability in the parent company balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

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 expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to stockholders' 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.

Financial assets and financial liabilities are further classified as either financial asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity investments, and AFS financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Financial Assets at Fair Value through Profit or Loss
Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term or if upon initial recognition, it is designated by the management at fair value through profit or loss. Derivatives are also classified as held for trading unless they are designated and considered effective hedging instruments. Assets or liabilities classified under this category are carried at fair value in the parent company balance sheets. Gains or losses on investments held for trading are recognized in the parent company statements of income.

The Company does not have financial assets at fair value through profit or loss as of December 31, 2005.

Held-to-Maturity Investments
Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost.

The Company does not have held-to-maturity investments as of December 31, 2005.

Loans and Receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2005, the Company's loans and receivables include trade and other receivables and amounts owed by related parties.

AFS Financial Assets
AFS financial assets are those nonderivative financial assets that are designated AFS or are not classified in any of the three preceding categories. AFS assets are carried at fair value in the parent company balance sheets. Changes in the fair value of such asset are accounted for in capital deficiency.

As of December 31, 2005, the Company's AFS financial asset includes investments in proprietary membership shares.

Interest-bearing Loans and Borrowings
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the parent company statement of income when the liabilities are derecognized as well as through the amortization process.

Derecognition of Financial Assets and Liabilities (Effective January 1, 2005)

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company 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 substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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 profit or loss.

Impairment of Assets

The Company assesses at each parent company balance sheet date whether an asset or group of assets is impaired.

Impairment of Financial Assets (Effective January 1, 2005)

Assets Carried at Amortized Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets
If an AFS financial assets is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

<u>Cash</u>
Cash includes cash on hand and with banks.

Trade and Other Receivables
Prior to 2005, trade and other receivables, generally with a 30-day term, are recognized and carried at original invoice amount less an allowance for doubtful accounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

Inventories
Inventories are valued at the lower of cost and net realizable value after allowance for probable losses. Cost is determined using the average method. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of selling and distribution.

Input Value-Added Tax (VAT)
Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

The input VAT is recognized as an asset and will be used to offset against the Company's current output VAT liabilities and any excess will be claimed as tax credits. Input VAT is stated at its estimated net realizable value.

Investments
Investments in subsidiaries are carried at cost.

Subsidiaries	Nature of Business	Place of incorporation	Status of Operation	% of Ownership 2005	2004
Carmen Copper Corporation (CCC)	Exploration and mining	Philippines	Preoperating	100	100
TMM	Professional services	Philippines	Preoperating	60	60
BNC	Exploration and mining	Philippines	Preoperating	50	50
Atlas Exploration, Inc (AEI)	Exploration and mining	Philippines	Preoperating	100	–
AquAtlas, Inc. (AAI)	Bulk water supply	Philippines	Preoperating	100	–
Ulugan Nickel Corporation (UNC)	Exploration and mining	Philippines	Preoperating	100	–
Ulugan Resources Holding, Inc. (URHI)	Holding company	Philippines	Preoperating	100	–
Nickeline Resources Holdings, Inc. (NRHI)	Holding company	Philippines	Preoperating	60	–
The ACMDC Ventures, Inc. (AVI)	Construction and engineering works	Philippines	Operating	–	100

AVI was sold in 2005 (see Note 5).

Property, Plant and Equipment

Property, plant and equipment, except land which is stated at appraised values, is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. 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.

Depreciation are computed on the straight-line basis over the following estimated useful lives of the assets:

Category	Number of Years
Buildings and improvements	4 to 25
Machinery and equipment	4 to 25
Transportation equipment	10
Office furniture and fixtures	5

The useful lives and depreciation methods are reviewed periodically to ensure that the periods and methods of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant, and equipment as a replacement if the recognition criteria are satisfied.

Land is carried at revalued amounts as determined by independent firms of appraisers as of December 31, 2005.

The net appraisal increment resulting from the revaluation of land was credited to the "Revaluation increment on land" account shown under the Capital Deficiency section of the parent company balance sheets. Any appraisal decrease is first offset against revaluation increment on earlier revaluation. The revaluation increment pertaining to disposed land is transferred to the "Deficit" account.

Mine Development 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 Development Projects 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. Depletion of mine development costs is calculated using the unit-of-production method.

Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash-generating unit to which the asset belongs. Reversal 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 reversal, if any, is recorded in the parent company statements of income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and depletion) had no impairment loss been recognized for that asset in prior years.

Deposits for Future Stock Subscriptions

Deposits for future stock subscriptions for which there is no confirmed subscription agreements and that exhibit characteristics of a liability is recognized as a financial liability in the parent company balance sheet, net of transaction costs.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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 discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

Liability for Mine Rehabilitation

Rehabilitation of the mined-out areas is performed progressively and charged to costs as part of normal operating activity. In addition, an assessment is made at each operation of the discounted cost at balance sheet date of any future rehabilitation work that will be incurred as a result of currently existing circumstances and regulations, and a provision is accumulated for this operation. This provision is charged on a proportionate basis to production over the shorter of the life of the operation or the term of the mining rights. The estimated cost of rehabilitation is assessed on a regular basis. Rehabilitation costs include reforestation of areas affected by operations, clean-up of polluted materials, dismantling of temporary facilities and monitoring of sites for a period of 10 years after completion of operations. Any changes in estimates are dealt with on a prospective basis.

Revenue and Cost Recognition
Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Scrap Sales
Revenue is recognized upon delivery of goods.

Interest
Interest income is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

Borrowing Costs
Borrowing costs are charged to expense as incurred.

Pension Benefits
The Company has a defined benefit pension plan, which require contributions to be made to fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Foreign Currency Translation
The parent company financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Leases

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

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet 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, carryforward 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 carryforward 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 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 balance sheet 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 balance sheet 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 rates that are expected to apply to the year 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 balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the parent company statement of income.

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

Contingencies
Contingent liabilities are not recognized in the parent company 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 parent company financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

3. Explanation of Transition to PFRS

As stated in Note 2, these are the Company's first parent company financial statements prepared in conformity with PFRS. The Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing these parent company financial statements, with January 1, 2004 as the date of transition.

The adoption of PFRS resulted in certain changes to the Company's previous accounting policies. The comparative figures for the 2004 parent company financial statements were restated to reflect the changes in policies except those relating to financial instruments. The Company availed of the exemption under PFRS 1 and applied PAS 32 and PAS 39, the standards on financial instruments, from January 1, 2005.

An explanation of the effects of the adoption of PFRS is set forth in the following notes (in thousands).

Reconciliation of equity as of January 1, 2004 (date of transition)

	Notes	Previous GAAP	Effect of Adoption of PFRS	PFRS
Assets				
Current Assets				
Cash and cash equivalents		₱1,449	₱–	₱1,449
Trade and other receivables - net		364	–	364
Total Current Assets		1,813	–	1,813
Investments	c	1,900	(1,825)	75
Amounts owed by a related party		7,421	–	7,421
Property, plant and equipment - net	a	1,726,496	978	1,727,474
Other noncurrent assets - net		502	–	502
Total Noncurrent Assets		1,736,319	(847)	1,735,472
Total Assets		₱1,738,132	(₱847)	₱1,737,285
Liabilities and Capital Deficiency				
Current Liabilities				
Loans and acceptances payable		₱2,148,260	–	₱2,148,260
Trade and other payables		4,717,373	–	4,717,373
Total Current Liabilities		6,865,633	–	6,865,633
Noncurrent Liabilities				
Amounts owed to related parties		149,237	–	149,237
Pension liability	b	41,643	(15,720)	25,923
Deferred tax liability	a	118,488	9,367	127,855
Liability for mine rehabilitation	a	–	3,306	3,306
Total Noncurrent Liabilities		309,368	(3,047)	306,321
Total Liabilities		7,175,001	(3,047)	7,171,954
Accumulated losses of a subsidiary in excess of investment and share in revaluation increment	c	286,490	(286,490)	–
Capital Deficiency				
Capital stock		3,559,149	–	3,559,149
Additional paid-in capital		12,241	–	12,241
Deposits on subscriptions		883,854	–	883,854
Revaluation increment on land	c	414,854	(163,069)	251,785
Deficit	a, b and c	(10,593,457)	451,759	(10,141,698)
Total Capital Deficiency		(5,723,359)	288,690	(5,434,669)
Total Liabilities and Capital Deficiency		₱1,738,132	(₱847)	₱1,737,285

Reconciliation of equity as of December 31, 2004 (end of last period presented under previous GAAP)

	Notes	Previous GAAP	Effect of Adoption of PFRS	PFRS
Assets				
Current Assets				
Cash and cash equivalents		₱5,990	₱–	₱5,990
Trade and other receivables - net		3,668	–	3,668
Total Current Assets		9,658	–	9,658
Investments in subsidiaries	c	4,365	(315)	4,050
Investments in shares of stock - net		75	–	75
Amounts owed by a related party		4,073		4,073
Property, plant and equipment - net	a	1,572,970	978	1,573,948
Other noncurrent assets - net		1,796		1,796
Total Noncurrent Assets		1,583,279	663	1,583,942
Total Assets		₱1,592,937	₱663	₱1,593,600
Liabilities and Capital Deficiency				
Current Liabilities				
Loans and acceptances payable		₱281,204	₱–	₱281,204
Trade and other payables		2,578,453	–	2,578,453
Amounts owed to related parties		266,779	–	266,779
Total Current Liabilities		3,126,436	–	3,126,436
Noncurrent Liabilities				
Deferred tax liability	a	78,930	9,212	88,142
Pension liability	b	50,197	(19,613)	30,584
Liability for mine rehabilitation	a	–	3,787	3,787
Other noncurrent liability		5,000	–	5,000
Total Noncurrent Liabilities		134,127	(6,614)	127,513
Total Liabilities		3,260,563	(6,614)	3,253,949
Accumulated losses of a subsidiary in excess of investment and share in revaluation increment	c	339,992	(339,992)	–
Capital Deficiency				
Capital stock		3,559,149	–	3,559,149
Additional paid-in capital		12,241	–	12,241
Deposits on subscriptions		4,924,725	–	4,924,725
Revaluation increment on land	c	330,793	(163,069)	167,724
Deficit	a, b and c	(10,834,526)	510,338	(10,324,188)
Total Capital Deficiency		(2,007,618)	347,269	(1,660,349)
Total Liabilities and Capital Deficiency		₱1,592,937	₱663	₱1,593,600

Reconciliation of net loss for the year ended December 31, 2004

	Notes	Previous GAAP	Effect of Adoption of PFRS	PFRS
Revenue		₱113,635	₱–	₱113,635
Expenses	a, b, and c	478,323	(58,425)	419,898
Loss before income tax		364,688	(58,425)	306,263
Benefit from deferred tax	a	(39,560)	(152)	(39,712)
Net loss		₱325,128	(₱58,577)	₱266,551

a. PAS 16, *Property, Plant and Equipment*

Property, plant and equipment under PFRS include the estimated costs of dismantling or removing structures used in operation for which the Company is liable. Under previous GAAP, dismantling or removal costs were recognized when incurred. The change increased property, plant and equipment by ₱978 as of January 1, 2004 and December 31, 2004; increased liability for mine rehabilitation by ₱3,306 and ₱3,787 as of January 1, 2004 and December 31, 2004, respectively; and increase deficit by ₱11,696 and ₱12,022 as of January 1, 2004 and December 31, 2004, respectively.

In addition, PFRS require that depreciation reflect the useful life of the significant components of the asset. Under previous GAAP, depreciation was based on the useful life determined for each property, plant and equipment.

In 2005, as a result of the review of the remaining estimated useful lives of property, plant and equipment in connection with the adoption of PAS 16, the estimated useful lives of certain buildings and improvements and machinery and equipment were shortened to 5 years. The change was accounted for as a change in estimate and depreciation was adjusted prospectively. The effect of change in the estimated useful lives increased depreciation by ₱48,830 in 2005. As of December 31, 2005 and 2004, the aggregate net book values of property, plant and equipment amounted to ₱1,576,744 and ₱1,573,948, respectively (see Note 7).

b. PAS 19, *Employee Benefits*

Under previous GAAP, pension benefits were actuarially determined and past service cost and experience adjustments were amortized over the expected average remaining working lives of the covered employees. Under PFRS, pension benefits are determined using the projected unit credit method. Actuarial gains and losses that exceed a 10% “corridor” are amortized over the expected average remaining working lives of participating employees and vested past service cost, recognized immediately (see Note 2). The adoption of the standard decreased the deficit as of January 1, 2004 and December 31, 2004 by ₱15,720 and ₱19,613, representing the difference between pension costs accrued and the transition liability. Pension expense decreased by ₱3,893 in 2004.

c. PAS 27, *Consolidated and Separate Financial Statements*

Investments in subsidiaries are accounted for at cost as provided for under PAS 27. Previously, these investments were accounted for under the equity method of accounting in the parent company financial statements. The change, which is applied retroactively, resulted in the reduction in the carrying amount of investments in subsidiaries at January 1, 2004 and net loss for 2004 by ₱55,012. Deficit as of January 1, 2004 and December 31, 2004 decreased by ₱605,826 and ₱660,838, respectively.

In addition, upon application of the cost method, the Company reviewed the carrying value of investment in subsidiaries, which resulted to recognition of additional impairment loss of ₱158,091. The impairment loss was applied retroactively, and resulted to a reduction of deficit as of
January 1, 2004.

d. Financial Instruments

PAS 32, *Financial Instruments: Disclosure and Presentation*

PAS 32 covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the parent company financial statements. New disclosure requirements include terms and conditions of financial instruments used by the entity, types of risks associated with financial instruments (market risk, foreign exchange risk, price risk, credit risk, liquidity risk and cash flow risk), fair value information of financial assets and financial liabilities, and the entity's financial risk management policies and objectives. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.

The standard also requires presentation of financial assets and financial liabilities on a net basis when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognized amounts; and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The change in accounting policy resulted in the reclassification of deposits for stock subscriptions amounting to ₱1.0 billion from capital deficiency to liability.

PAS 39, *Financial Instruments: Recognition and Measurement*

PAS 39 establishes the accounting and reporting standards for the recognition and measurement of the entity's financial assets and financial liabilities. PAS 39 requires financial instruments at fair value through profit or loss to be recognized initially at fair value, including related transaction costs. Subsequent to initial recognition, an entity should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities classified under fair value through profit or loss and derivatives, which are subsequently measured at fair value.

PAS 39 also establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the parent company balance sheets as either an asset or liability measured at its fair value. PAS 39 requires that changes in the derivative's fair value be recognized currently in the parent company statements of income unless specific hedges allow a derivative's gains and losses to offset related results on the hedged item in the parent company statements of income, or deferred in the stockholders' equity as "Cumulative translation adjustments". PAS 39 requires that an entity must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

Derivatives that are not designated and do not qualify as hedges are adjusted to fair value through income.

As allowed by the Securities and Exchange Commission (SEC), the adoption of PAS 39 did not result in the restatement of prior year parent company financial statements. The cumulative effect of adopting this accounting standard was charged to the January 1, 2005 deficit. The adjustment pertains to implementation of the effective interest method for the other current liability and the bifurcation of embedded derivatives.

The adoption of PAS 39 on January 1, 2005 resulted to recognition of a Day 1 gain on outstanding financial assets and liabilities amounting to ₱1,921, net of tax. Net interest expense, representing accretion of the financial assets and liabilities, recognized in the 2005 parent company statement of income amounted to ₱324.

The adoption of PAS 39 on December 31, 2005 resulted to a net unrealized gains on AFS investments of ₱3,597 which is deducted from capital deficiency. Marked-to-market gains on third currency embedded derivatives amounting to ₱707 was included in other income in 2005. Outstanding embedded derivatives as of December 31, 2005 amounting to ₱667 are included under "Other current assets" account in the parent company balance sheets.

Effect on the Parent Company Statement of Cash Flow for 2004

There are no differences between the parent company statement of cash flow prepared under PFRS and the parent company statement of cash flow presented under previous GAAP except for the effect of the noncash adjustments as discussed above.

Other Adopted PFRS

The Company has also adopted the following revised and new standards and comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on capital deficiency as at January 1, 2004 and December 31, 2004.

- PAS 1, *Presentation of Financial Statements*;
- PAS 2, *Inventories*;
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- PAS 10, *Events after the Balance Sheet Date*;
- PAS 17, *Leases*;
- PAS 21, *Effects of Changes in Foreign Exchange Rates*; and
- PAS 24, *Related Party Disclosures*.

Standards Not Yet Effective
The Company did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*. The revised disclosures from the amendments will be included in the parent company financial statements when the amendments are adopted in 2006.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources* - (Effective 2006). Adoption of PFRS 6 in 2006 will not have a significant impact on the Company's financial position and results of operations.

- PFRS 7, *Financial Instruments - Disclosures*. The revised disclosures on financial instruments provided by this standard will be included in the parent company financial statements when the standard is adopted in 2007.

4. Trade and Other Receivables

	2005	2004
Trade	**₱1,985**	₱1,985
Others (see Note 1)	**59,328**	49,112
	61,313	51,097
Less allowance for doubtful accounts	**60,646**	47,429
	₱667	₱3,668

5. Investments in Subsidiaries

	2005	2004 (As restated)
Acquisition cost:		
Balance at beginning of year	**₱162,816**	₱158,766
Additional investments during the year	**22,298**	4,050
Disposal of investment during the year	**(158,766)**	–
Balance at the end of year	**26,348**	162,816
Accumulated equity in net earnings:		
Balance at beginning of year, as previously stated	–	(601,115)
Effect of adoption of revised PAS 27	–	601,115
Balance at beginning of year, as restated	–	–
Equity in net earnings of subsidiaries, as previously stated	–	(55,012)
Effect of adoption of revised PAS 27	–	55,012

(Forward)

	2005	2004 (As restated)
Equity in net earnings of subsidiaries, as restated	₱–	₱–
Share in revaluation increment, as previously stated	–	163,069
Effect of adoption of revised PAS 27	–	(163,069)
Share in revaluation increment, as restated	–	–
Accumulated losses of subsidiaries in excess of investment and share in revaluation increment, as previously stated	–	339,992
Effect of adoption of revised PAS 27	–	(339,992)
Accumulated losses of subsidiaries in excess of investment and share in revaluation increment, as restated	–	–
Allowance for decline in value of investments, as previously stated	–	(675)
Effect of adoption of revised PAS 27	–	(158,091)
Allowance for decline in value of investments, as restated	–	(158,766)
	₱26,348	₱4,050

On December 29, 2005, the Company sold all its rights, title and interests to all its shares in the common stock of AVI, a wholly owned construction and engineering subsidiary.

6. AFS Investments/Investments in Shares of Stock

AFS investments represent various investments in proprietary membership shares with a fair value of ₱3,672 as of December 31, 2005. As of December 31, 2004, the marketable securities are carried at cost which is lower than the aggregate market values. On January 1, 2005, the investments in marketable securities were reclassified as AFS investments.

7. Property, Plant and Equipment

	Land	Mine Development Costs	Buildings and Improvements	Machinery and Equipment	Office Furniture and Fixtures	2005 Total	2004 (As restated, see Note 3) Total
At revalued amount:							
Balances at beginning of year	₱249,987	₱–	₱–	₱–	₱–	**₱249,987**	₱373,677
Increase in revaluation	65,574	–	–	–	–	**65,574**	–
Disposals	–	–	–	–	–	**–**	(123,690)
Balances at end of year	315,561	–	–	–	–	**315,561**	249,987

(Forward)

	Land	Mine Development Costs	Buildings and Improvements	Machinery and Equipment	Office Furniture and Fixtures	**2005 Total**	2004 (As restated, see Note 3) Total
At costs:							
Balances at beginning, of year, as previously stated	₱–	₱1,283,277	₱336,288	₱3,921,658	₱6,502	**₱5,547,725**	₱5,547,040
Effect of change in accounting for mine rehabilitation	–	978	–	–	–	**978**	978
Balances at beginning of year, as restated	–	1,284,255	336,288	3,921,658	6,502	**5,548,703**	5,548,018
Additions	–	–	15,556	869	329	**16,754**	685
Disposals and transfers	–	–	(360)	(21,237)	(1,969)	**(23,566)**	–
Balances at end of year	–	1,284,255	351,484	3,901,290	4,862	**5,541,891**	5,548,703
Accumulated depreciation, depletion and impairment loss:							
Balances at beginning of year, as previously stated	–	357,526	279,308	3,582,108	5,800	**4,224,742**	4,194,222
Depreciation (Note 2)	–	–	36,136	43,170	226	**79,532**	30,520
Disposals	–	–	(218)	(21,379)	(1,969)	**(23,566)**	–
Balances at end of year	–	357,526	315,226	3,603,899	4,057	**4,280,708**	4,224,742
Net book value	₱315,561	₱926,729	₱36,258	₱297,391	₱805	**₱1,576,744**	₱1,573,948

As discussed in Note 1, the full recovery of the Company's mine development costs is dependent upon the rehabilitation of the Toledo copper mine, approval of the MPSA applications and success of actual future operations.

The Company entered into a Mortgage Agreement with MMC covering certain buildings and machinery and equipment located in the Carmen Concentrator area in the Toledo mine site with a net book value of ₱154,627 as of December 31, 2003. The security interest of MMC under the Mortgage Agreement was subsequently transferred to Alakor pursuant to the Assignment and Settlement Agreement dated March 25, 2004 (see Notes 1 and 11).

Independent appraisal of the Company's land was obtained as of December 31, 2005.

8. Other Noncurrent Assets

	2005	2004
Input taxes	**₱609,808**	₱607,475
Development projects	**38,989**	38,989
Others	**28,946**	28,806
	677,743	675,270
Less allowance for probable losses	**673,474**	673,474
	₱4,269	₱1,796

9. Loans and Acceptances Payable

	2005	2004
Drafts and acceptances payable	**₱179,324**	₱185,229
Notes payable	**135,321**	–
Bank loans	**90,496**	95,975
	₱405,141	₱281,204

Notes Payable

Euronote Profits Ltd, a related party, approved the Company's request for a US$2 million loan on May 16, 2005 with repayment terms of lump sum payment of the principal amount plus interest thereon at 12% per annum on or before December 29, 2005. The loan was renewed for another 6 months. Another loan was extended on December 15, 2005 amounting to $0.550 million payable on or before June 30, 2006 including interest at 12% per annum. Both loans are secured by a pledge and delivery of acceptable securities and covered by a guarantee from Alakor.

Bank Loans

Bank loans consist of the Company's unsecured short-term borrowings and export packing credits obtained from local banks which bear annual interest ranging from 6.2% to 8.3% (for US dollar-denominated loans) and from 13.5% to 20.0% (for peso-denominated loans) in 2005 and 2004.

10. Trade and Other Payables

	2005	2004
Accounts payable:		
Trade	**₱219,174**	₱596,243
Nontrade	**447,750**	448,601
Termination pay to employees	**127,547**	182,388
TMC	**83,082**	47,740
Accrued expenses:		
Taxes (see Note 1)	**932,635**	929,359
Interest (see Note 9)	**223,099**	133,444
Other accrued expenses	**214,079**	240,678
	₱2,247,366	₱2,578,453

Nontrade payables consist mainly of the payable to TPC amounting to ₱440,359. As discussed in Note 1, negotiations regarding the settlement of the liability to TPC are ongoing as of May 8, 2006 (see Note 18).

11. Capital Stock and Deposits for Future Stock Subscriptions

	2005		2004	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized	**650,000,000**	**₱6,500,000**	650,000,000	₱6,500,000
Issued:				
Balances at beginning and end of year	**355,914,952**	**₱3,559,149**	355,914,952	₱3,559,149

An analysis of the deposits for future stock subscriptions follows:

	Alakor	Toledo City Government	Total
Balances at December 31, 2003	₱883,854	₱–	₱883,854
Movement during the year:			
Conversion of advances from a stockholder to deposits for future stock subscriptions	4,030,871	–	4,030,871
Conversion of tax liabilities to deposits on future stock subscriptions	–	10,000	10,000
Balances at December 31, 2004	4,914,725	10,000	4,924,725
Movement during the year:			
Reversal of deposits for future stock subscriptions	(1,014,725)	–	(1,014,725)
Balances at December 31, 2005	₱3,900,000	₱10,000	₱3,910,000

On February 17, 2003, the Company's BOD authorized the issuance of shares to MMEC and Alakor pursuant to the debt to equity swap agreements entered by the parties with the Company. Deposits for future stock subscriptions of MMEC and Alakor amounting to ₱68,297 and ₱810,019, respectively were converted to capital stock at par value.

On February 24, 2003, the Company's BOD approved the increase in authorized capital stock from ₱6,500,000, divided into 650,000,000 shares, to ₱12,000,000 divided into 1,200,000,000 shares, both with par value of ₱10 per share. This was duly ratified during the Special/Advance Meeting of Stockholders held on March 31, 2003. As of May 8, 2006, the Company has not yet submitted an application to the SEC for approval of the said increase.

On June 15, 2004, the Company's BOD approved the conversion of "Liabilities settled by Alakor" into Deposits for Future Stock Subscriptions.

The Company's BOD approved on January 27, 2005 a proposal to grant stock options to directors and qualified officers and employees of the Company under such terms and conditions as management shall subsequently formulate and submit for approval by the Board of Directors, the Stockholders and the SEC.

On December 16, 2005, Alakor entered into an irrevocable subscription agreement for ₱3.9 billion of capital stock of the Company. The remaining unsubscribed portion of the deposits on future stock subscription was reclassified as liabilities under the amounts owed to related parties, representing the portion of the debt covered by the Assignment and Settlement Agreement between MMC, Alakor and the Company.

12. Revaluation Increment on Land

The balance of this account represents the Company's revaluation increment on land amounting to ₱218,559 and ₱167,724 as of December 31, 2005 and 2004, respectively.

13. Related Party Disclosures

The Company's transactions with its subsidiaries consist mainly of advances for administrative and operating expenses which are payable on demand.

The parent company balance sheets include the following amounts resulting from transactions with related parties:

	Relationships with Related Parties	**2005**	2004
Amounts owed by related parties:			
AVI	Subsidiary	**₱–**	₱3,779
BNC	Subsidiary	**–**	294
		₱–	₱4,073

	Relationships with Related Parties	**2005**	2004
Amounts owed to related parties:			
Alakor	Stockholder	**₱1,811,369**	₱259,352
Anglo Philippine Corporation (APC)	Related Party	**10,000**	5,000
BNC	Subsidiary	**2,752**	–
CCC	Subsidiary	**–**	2,427
		₱1,824,121	₱266,779

As mentioned in Note 19, about ₱604.5 million ($11.67 million) of the amounts owed to Alakor were purchased by the Euronote. The Company and the Euronote agreed to restructure these payables.

As discussed in Note 1, the amounts due to Alakor represent mainly liabilities assumed from the Company's creditors. The increase in the balance represents additional advances made to the Company for day-to-day operations and the unsubscribed portion of the deposits for future stock subscriptions classified to this account. (see Notes 1 and 11).

The Company entered into an Assignment and Settlement Agreement with Alakor and Anscor in September 2001 to settle the Company's outstanding obligations with Anscor. The agreement provided for the assignment of the Anscor obligations amounting to ₱476,171 to Alakor in consideration for a cash payment equivalent to 3% of the principal obligations. These liabilities were settled in 2002 and were included among those liabilities transferred from amounts payable to related parties to deposits for future stock subscriptions in 2002 as discussed in Note 1.

On March 25, 2004, an Assignment and Settlement Agreement was entered into by the Company, Alakor, MMEC and MMC. The agreement provided for the transfer to Alakor of the outstanding liabilities owed by the Company to MMC totaling US$71,385 (loan principal of US$33,680 and interest and penalties of US$31,277; and advances against export of US$4,590 and interest and penalties of US$1,838) as of December 31, 2003. The Company recognized additional liabilities for interest and penalty charges on the loans and advances in 2003 totaling ₱180,722 based on the statement of account submitted by MMC. On June 7, 2004, MMC confirmed the receipt of full and final payment of consideration for the assignment of these loans in favor of Alakor.

Compensation of Key Management Personnel of the Company

The Company considered all seniors officers as key management personnel.

	2005	2004
Short-term benefits	**₱3,500**	₱3,700
Retirement benefits	**1,249**	1,178
	₱4,749	₱4,878

14. Retirement Benefit Costs

The Company has an unfunded defined benefit pension plan covering substantially all of its employees.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and the amounts recognized in the parent company balance sheets.

Net benefit expense

	2005	2004
Current service cost	**₱1,641**	₱1,594
Interest cost on benefit obligation	**3,374**	3,067
Net actuarial gain recognized in the year	**(323)**	–
Net benefit expense	**₱4,692**	₱4,661

Pension liability

	2005	2004
Defined benefit obligation	**₱31,241**	₱24,280
Unrecognized actuarial losses	**4,035**	6,304
	₱35,276	₱30,584

Changes in the present value of the defined benefit obligation are as follows:

	2005	2004
Opening defined benefit obligation	**₱24,280**	₱25,923
Interest cost	**3,373**	3,067
Current service cost	**1,641**	1,594
Actuarial losses (gains)	**1,947**	(6,304)
Closing defined benefit obligation	**₱31,241**	₱24,280

The overall expected rate of return on 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 principal assumptions used in determining pension benefit obligations for the Company's plan are shown below:

	2005	2004
Discount rate	**10.5%**	13.9%
Future salary increase	**10.0%**	10.0%

15. Income Taxes

For the years ended December 31, 2005 and 2004, the Company has no MCIT or regular income tax due because of its gross loss and net tax loss position.

A reconciliation of pretax income computed at the statutory tax rate to provision for income tax follows:

	2005	2004
Tax at statutory tax rate of 32.5% in 2005 and 32% in 2004	**(₱121,390)**	(₱98,004)
Additions to (reductions from) income taxes resulting from:		
Change in unrecognized deferred tax assets	**76,773**	(136,510)
Expired NOLCO	**47,436**	205,183
Net unrealized foreign exchange losses on liabilities subjected to equity conversion	**–**	17,093
Nondeductible representation expense	**1,190**	388
Nondeductible interest expense	**–**	116
Nondeductible cost of donated land	**–**	22
Nontaxable gain on condonation of liability	**–**	(27,754)
Interest income subjected to final tax	**(16)**	(246)
	₱3,993	(₱39,712)

Details of deferred income tax liabilities follow:

	2005	2004
Revaluation increment on land	**₱93,668**	₱78,929
Mining rehabilitation costs	**9,035**	9,213
Unrealized foreign exchange gains	**4,277**	–
Imputed interest on financial instruments	**799**	–
	₱107,779	₱88,142

The Company has temporary differences for which no deferred income tax assets were recognized as it is not probable that sufficient taxable profits will be available against which the benefit can be utilized. The temporary differences follows:

	2005	2004
NOLCO	**₱782,411**	₱564,095
Allowance for probable losses on:		
Inventory	**386,820**	386,820
Mine development costs	**249,206**	249,206
Other nonoperating properties	**66,434**	66,434
Provision for impairment loss on buildings and machinery and equipment	**171,680**	171,680
Unfunded retirement benefit costs	**35,276**	30,584
Allowance for doubtful accounts	**60,646**	47,429
	₱1,752,473	₱1,516,248

The carryforward benefits of NOLCO and the years in which these benefits can be availed of are as follows:

Date incurred	NOLCO	Expiry Date
December 31, 2003	₱197,320	December 31, 2006
December 31, 2004	220,819	December 31, 2007
December 31, 2005	364,272	December 31, 2008
	₱782,411	

The movements in NOLCO follow:

	2005	2004
Balances at beginning of year	**₱564,095**	₱984,472
Additions	**364,272**	220,819
Expiration	**(145,956)**	(641,196)
Balances at end of year	**₱782,411**	₱564,095

Republic Act (RA) No. 9337 was recently enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA are as follows:

- Increase in the corporate income tax rate from 32% to 35%, with a reduction thereof to 30% beginning January 1, 2009;
- Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;
- Revised invoicing and reporting requirement for VAT;
- Expanded scope of transaction subject to VAT; and
- Provided thresholds and limitation on the amount of VAT credits that can be claimed.

On January 31, 2006, the Bureau of Internal Revenue issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12%, effective February 1, 2006.

Due to the enactment of the RA, the deferred income tax liabilities as of December 31, 2005 were measured at 35% and also the current provision for income tax in 2005 was measured at 32.5% except for the revaluation of increment which has been measured at 30%.

16. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash, trade and other receivables, AFS investments, trade and other payables, amounts owed to related parties, and loans and acceptances payable. The main purpose of these financial instruments is to raise finances for the Company's operations and its investments in existing and in new projects.

The main risks arising from the Company's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding loans; credit risk involving possible exposure to counter-party default on its cash, trade and other receivables; and liquidity risk in terms of the proper matching of the type of financing required for specific investments.

Interest rate risk
The Company's exposure to market risk for changes in interest rates relates primarily to its short-term debt obligations. To manage this risk, the Company determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities.

Credit risk
For its cash investments, the Company's credit risk is generally concentrated on possible default of the counter-party, with a maximum exposure equal to the carrying amount of these investments. The risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing.

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk.

Liquidity risk
The Company's exposure to liquidity risk refers to the lack of funding needed to finance its capital expenditures, service its maturing loans obligations in a timely fashion, meets its working capital requirements. To manage this exposure, the Company maintains its internally generated funds and prudently manages the proceeds obtained from advances from related parties.

17. Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the 2005 parent company financial statements.

	Carrying Amount	**Fair Value**
Financial assets		
Cash	₱17,928	₱17,928
Trade and other receivables	667	667
Available-for-sale financial assets	3,672	3,672
Financial liabilities		
Loans and acceptance payable	₱405,141	₱405,141
Trade and other payables	2,247,366	2,247,366
Amounts owed to related parties	1,824,121	1,824,121
Other noncurrent liability	2,499	2,499

Fair Value of Financial Instruments
Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and other financial assets
The carrying amount of cash and other financial assets approximates fair value due to the relatively short-term maturity of these financial instruments.

Short-term borrowings
The fair value of fixed rate interest bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans.

Interest bearing liabilities
Interest rate risk
The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk as of December 31, 2005:

	< year	1-5years	>5 years	Total
Fixed rate:				
Bank loans	₱90,496	₱–	₱–	₱90,496
Notes payable	135,321	–	–	135,321
	₱225,817	₱–	₱–	₱225,817

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

18. Significant Agreements

TPC and THC
In February 2002, TPC and its wholly owned subsidiary, THC, signed the following agreements with the Company:

a) Release and Quitclaim, wherein the Company assigns to THC a portion of an area covered by two foreshore leases, three deep wells and portions of cadastral lots located in Toledo City, Cebu in settlement of its obligations to TPC for financial assistance extended and assumption of the Company's liability to National Power Corporation;

b) Deed of Absolute Sale, wherein the Company sells to THC parcels of land under the name of a trustee located in Don Andres Soriano, Toledo, Cebu in consideration of ₱62;

c) Easement of Road Right-of-Way, wherein the Company grants TPC perpetual easement of road right-of-way within the Company's minesite area in Toledo, Cebu;

d) Right to Use Facilities, wherein TPC grants the Company the perpetual right to use the former's port facilities located in Toledo, Cebu as additional consideration to the latter for the rights granted under the Easement of Road Right-of-Way Agreement;

e) Deed of Assignment of Rights, wherein the Company assigns to THC all its rights, interest, participation and obligations over the portions of the areas located in Sangi, Toledo, which are covered by two foreshore leases in consideration of ₱19,904; and

f) Deed of Absolute Sale, wherein the Company's sells to THC three deepwells located in a lot under the name of a trustee in Calumpao, Toledo in consideration of ₱2,067. This agreement likewise grants a perpetual right-of-way over the above described lot.

The Company's BOD, however, withheld ratification of the foregoing agreements due to several reasons namely: (a) the Company believes that a more satisfactory and balanced settlement can be reached with TPC to the advantage of all parties concerned; (b) the agreements only dealt with a portion of the Company's liability to TPC; and (c) part of the land areas ceded in the agreements are essential to future copper concentrate transport plans and are not necessarily needed by TPC. Accordingly, the Company did not reflect the transactions resulting from the said agreements in the Company's records as of December 31, 2005 and 2004.

As of May 8, 2006, the Company is renegotiating with TPC and THC the terms of the agreements. The Company believes that a satisfactory settlement with TPC and THC can be reached.

19. Events After the Balance Sheet Date

On May 5, 2006, the Company entered into the following agreements:

a. a Convertible Loan (the Loan) and Security Agreement with CCC and CASOP Atlas II, Ltd (CASOP) wherein CASOP will extend the Loan to CCC in the principal amount up to but not in excess of the Commitment amount of US$5 million. Unless the Loan has been previously converted, CCC shall repay the Loan two (2) years from the date of the Loan or such other date as may be separately agreed upon in writing by CASOP and CCC. The Loan is convertible at any time prior to maturity date or to the date of early repayment into not less than 5.17% up to not more than 5.7% of the total issued and outstanding shares of CCC. The proceeds of the Loan shall be used by CCC solely and exclusively for the following purposes: (1) procurement of equipment to dewater the Company's mine, (2) conduct of additional metallurgy tests, and (3) other uses key to the development of the Company's mine. The payment of the Loan and all obligations of CCC at any time shall be secured at all time by a first mortgage constituted over all the rights, title and interests in and to certain properties pursuant to the mortgage, a pledge of the shares of stock of CCC owned by the Company, and assignment by way of security over the assigned collateral.

b. a Debt Restructuring Agreement with CASOP and an officer of the Company wherein CASOP agreed to restructure and convert the US$11.67 million loan into a two (2) year convertible loan, at the option of CASOP, into equity of the Company. The loan shall be secured at all times by a first mortgage constituted over all of the rights, titles and interests in and to certain properties of the Company and assignment by way of security over the Assigned Collateral. CASOP is also given the option to subscribe to a total of 50 million common shares at any time during the subscription period (see item c below).

c. a Subscription Agreement with CCC and CASOP wherein CASOP shall subscribe to and purchase approximately 35% of the authorized capital stock of CCC for a total consideration of the peso equivalent of US$28 million.

d. an Operating Agreement with CCC wherein the Company conveyed to CCC its exploration, development and utilization rights under certain mining rights and claims referred to as the Toledo Mine Rights and the right to rehabilitate, operate and/or maintain certain property and equipment and surface rights as defined in the agreement. The parties also agreed that the production and marketing of the marketable product from the Toledo Mining project as well as all the proceeds thereof, shall pertain solely to and under the full control of CCC. The Company will receive royalty fees in consideration for the conveyance to CCC of the mining rights, property and equipment and surface right. The agreement granted CCC the exclusive right and option at any time during the life of the agreement to acquire all or part of the rights, title and interest of the mining rights in exchange for shares of CCC, and of property and equipment and surface rights.

In relation to item b above, Euronote, as the Seller, and CASOP entered into an Assignment of Debt Agreement wherein the Seller as the beneficial owner of a portion of the Company's liability of US$11.67 million, assigned and transferred to CASOP the rights, title, interests and participations of the Seller in and to the said liability. As provided for in the agreement, the Seller will directly or indirectly infuse the purchase price received from CASOP into the Company in the form of deposit for future stock subscriptions and convert said amount into the Company's shares of stock within 7 months from closing date or such longer period of time as may be agreed upon by the parties. The Company shall use the purchase price infused by the Seller to settle the liabilities of the Company and its subsidiaries on a best efforts basis to not more than US$2 million (Note 9).

20. **Other Matters**

a. Contingencies

The Company is a defendant in various lawsuits and claims involving civil, labor, mining, tax and other cases the outcome of which are presently undeterminable. In the opinion of the Company's management and legal counsels, these lawsuits and claims if decided adversely will not have a material effect on the Company's financial position or operating results.

b. Notes to Statement of Cash Flows

Noncash investing and financing activities:

	2005	2004
Conversion (reversal) of advances from stockholders to/from deposits for future stock subscriptions (see Note 11)	**(₱1,014,725)**	₱4,030,871
Conversion of tax liabilities to deposits for future stock subscriptions (see Note 11)	–	10,000

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors
On Supplementary Schedules

The Stockholders and the Board of Directors
Atlas Consolidated Mining and Development Corporation
7th Floor, Quad Alpha Centrum
125 Pioneer St., Mandaluyong City

We have audited in accordance with auditing standards generally accepted in the Philippines, the consolidated financial statements of Atlas Consolidated Mining and Development Corporation and Subsidiaries included in this form 17-A and have issued our report thereon dated May 8, 2006. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario

Jaime F. Del Rosario
Partner
CPA Certification No. 56915
SEC Accreditation No. 0076-A
Tax Identification No. 102-096-009
PTR No. 4180830, January 2, 2006, Makati City

May 8, 2006

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION AND SUBSIDIARY

Schedule B.

Amounts Receivable from Directors, Officers, Employees, Related Parties
and Principal Stockholders (Other than Affiliates)
For the Year Ended December 31, 2005
(Pesos in Thousands)

Name and Designation	Beginning Balance	Additions	Deductions		Current	Non-Current	Ending Balance
			Amount Collected	Amount Written-Off			
Conrado M. Sanchez - Exec. Vice President	P 4.00	P -	P (4)	P -	P -	P -	P 0
	P 4.00	**P -**	**P (4)**	**P -**	**P -**	**P -**	**P 0**

* See accompanying Notes to Consolidated Financial Statements

ATLAS CONSOLIDATED MINING AND DEVELOPMENT CORPORATION AND SUBSIDIARY

Schedule K.

Capital Stock
December 31, 2005
(Shares in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
Common shares	650,000	355,915	-	199,760	13	156,142

* See accompanying Notes to Consolidated Financial Statements