

## Industry Updates

Week ended 28 March 2008

### KPMG Philippines Bi-monthly Mining News Summary

*This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG.*

#### Geograce seeks South American partner

Mining firm Geograce Resources Philippines, Inc. is in talks with a South American mining company to explore copper in Masbate City. The exploration cost could go as high as \$26 million or a little over P1 billion, potentially boosting the local mining firm's bottom line. Angping-owned Geograce is also bringing in multinational companies for its local exploration works as it takes advantage of soaring global metal prices, a high-ranking official privy to the matter told reporters last week. "We're in the early stages [of the deal], but the prospects are very good so we're finalizing the agreement," the source said.

The South American mining company, touted as the second largest in the world, will help Geograce explore a 60,000-hectare mine site that has a life-span of 30 years. "Mining companies worldwide spent \$7 billion for exploration and we did not even get 1% of that This South American company is prioritizing us and Peru," the official said.

Geograce was the former Global Equities, Inc., a listed company whose business portfolio consisted of manufacturing, distribution and real estate until mid-2006, when these assets were spun off after the entry of a new controlling shareholder group. The new owners changed the company's primary business into mineral exploration and development. Geograce swung to profit as soon as it ventured into mining, with a net income of P256.69 million in 2006.

Aside from the usual minerals — copper, nickel and gold — it mines, Geograce is also considering exploration of iron ore and chromite in other areas like Palawan and Iligan, the source said. The company may also put up a nickel processing plant in Zambales within the year. "We have three prospective Chinese companies [that] will provide the ore. This plant is aimed at producing 10,000 tons [of nickel] a year," the official said. The processing plant, he said, would have a pilot investment of between P50 million and P100 million.

NiHao Mineral Resources International, Inc., a sister company and fellow listed company of Geograce, will also sell additional shares to stockholders so it could also invest in the processing plant. "There are no capital-raising activities for Geograce but for NiHao we have [one]. Whatever proceeds we will raise from it would be included in the processing plant investment," the source said. The source added that NiHao expects to sell P500 million to P700 million worth of shares, or five more shares for every share held by existing shareholders.

Geograce recently partnered with BHP Billiton, the world's largest mining company, to mine for nickel deposits in Zambales, Misamis Oriental and Bukidnon. Geograce has mining tenements covering 143,000 hectares of land nationwide, including nickel-chromite claims in Zambales and Bukidnon, gold-

## MINING INDUSTRY



### In the news

Geograce Resources Philippines, Inc.

DMCI Holdings, Inc.

Philsaga Mining Corporation

SR Metals Inc.

Trans-Asia Gold and Minerals Development Corp.

Platinum Group Metals Corp. (PGMC)

Leighton Holdings Ltd.

copper on Negros island and nickel-gold-copper in Masbate.

The country's mining industry was revived after the Supreme Court allowed full foreign ownership of mining firms in late 2004. The government is targeting \$10 billion in mining investments in the next three years as companies respond to increasing demand for metals, especially from China.

*SOURCE: BusinessWorld by Lovely Nica P. Lee. 03.24.08*

#### **DMCI expands coal exports to China**

DMCI Holdings Inc. will be increasing its coal export volumes to China, India and Hong Kong this year to 1.5 million metric tons from the 800,000 MT it logged in 2007. DMCI president and chief executive officer Isidro A. Consunji said they want to take advantage of the significant demand in the export markets, thus, they are eyeing to hike production at their Semirara coal mine to 4.5 million MT this 2008 from 3.8 million MT the previous year. "We will be focusing growth prospects on the strengthening of local demand and the significant development in the export markets," he said.

The company's foray into the export markets required it to re-evaluate its operations to successfully support the logistical requirements of its overseas venture. "Our export clients are mostly power plants and some cement companies," Consunji added. The first shipment it made to China starting February 2007 was at 28,836 MT; and that figure was reported to have been continuously increasing since then.

After China, orders from India and Hong Kong came. From that time on, the company noted that many more export buyers are knocking at DMCI's doors offering to buy Semirara coal.

*SOURCE: Manila Bulletin by Myrna M. Velasco. 03.24.08*

#### **DENR approves deals with Philsaga Mining, SR Metals**

Environment and Natural Resources Secretary Jose L. Atienza has approved the mineral production sharing agreement (MPSA) of Philsaga Mining Corp. and SR Metals Inc. (SRMI). Philsaga president Samuel G. Afdal said the MPSA would now allow the Agusan del Sur-based gold mining firm to ramp up its existing production from 200 tons a day to 500 tons a day with a projected gold output of 13.251 grams per ton, much higher than the industry average of six to seven grams per ton. Philsaga is one of the priority mining projects of the Arroyo government and is expected to be the largest gold producer in the country once fully operational.

According to Afdal, a total of \$18 million has so far been invested in the underground mining operations of Philsaga in Bunawan and Rosario in Agusan del Sur covering almost 2,539 hectares. Philsaga's foreign investor is the Australian-listed Medusa Mining Co. which is conducting further exploratory work on other areas.

The grant of Philsaga's MPSA was finally cleared after the Supreme Court ruled with finality last year against the petition of PICOP (Paper Industries Corp. of the Philippines) questioning the grant of mining rights to Philsaga even as PICOP holds the timber/logging rights to a portion of the mining area. In a landmark decision, the SC ruled in favor of the National Government in retaining its mineral rights over the disputed timber land. SRMI, on the other hand, is a primary nickel producer in Agusan del Norte. It is owned by the Gutierrez family, which is investing P420 million for a surface mining, nickel-cobalt project in Tubay, Agusan del Norte.

SRMI is targeting a production rate of 800,000 to 1.5 million metric tons of nickel-cobalt per year within its mining area of 573 hectares located at La Fraternidad, Binuangan and Sta. Ana, Tubay, Agusan del Norte estimated to have mineable deposits amounting to 12 million tons of nickel ore. However, the DENR's grant of an MPSA to SRMI is conditional on the eventual decision of the courts to a legal petition by Basiana Mining Exploration Corp. regarding the transfer of Basiana's original mining claim to SRMI.

Basiana had transferred its original mining claim to Manila Mining Corp. (MMC) through a deed of assignment. MMC subsequently transferred the claim to SRMI through another deed of assignment which the DENR recognized. However, unknown to the DENR, Basiana and MMC supposedly had a separate side agreement, the terms of which MMC allegedly violated when it assigned in mining rights to SRMI.

*SOURCE: Philippine Star by Marianne V. Go. 03.24.08*

#### **Trans-Asia inks agreement with driller for Bicol project**

Trans-Asia Gold and Minerals Development Corp. yesterday said it had contracted a local driller for its Bicol mining project, a move that will jump-start the production of iron, copper, and gold in the area. In a disclosure to the Philippine Stock Exchange, the firm identified the driller as Alden Well Drilling Services, which will bore within the 333-hectare block in Jose Panganiban, Camarines Norte. Financial details were not disclosed. The area is expected to yield iron, copper, gold, molybdenum and uranium deposits.

Under a provisional permit, Trans-Asia has had few field operations since 2004, but poured in some P2.8 million for overhead

costs. To offset some expenses, it allowed some small-scale miners to recover clay and pyrite, and earned an average of P170,000 over three years.

Last year, the company secured a formal permit, called a mineral production sharing agreement. It does not cover 252 hectares of swamps and beaches within the territory.

*SOURCE: BusinessWorld by MKCC. 03.25.08*

### **Ferronickel plant starts operations**

The Platinum Group Metals Corp. (PGMC) is projected to earn a revenue of .6 million from its Iligan ferronickel plant over the next five years even as it has started operation of the Deutsche Bank-funded project. The Iligan plant will be the first ferronickel plant to be put up in the country and will be part of PGMC's three ferronickel smelting plants, according to a PGMC official. The two other PGMC plants will be located in Danao, Cebu and Manticao, Misamis Oriental.

After having completed its financing from Deutsche Bank, the company is now free to sell the ferronickel to any market. PGMC was earlier considering to commit selling up 80 percent of its ferronickel production from its Iligan plant to BHP Billiton, world's largest mining firm and third largest nickel producer. A company official said the plant will give tremendous value-adding opportunities in the local mining industry. "Nickel ore is sold at only \$ 14 per pound, but ferronickel is sold at \$ 340. You only have to add a cost of \$ 150," the official said.

Located at the Assumption Heights in Buru-un, Iligan City, the ferronickel plant will tap production facilities of MCCI Corp. which has been operating since 1954 until MCCI closed its calcium carbide manufacturing in October 2006.

In a feasibility study, the Iligan plant is projected to post ferronickel production of 18,590 metric tons (MT, with 8.196 million pounds of contained nickel at 20 percent) in 2008; 35,802 MT (8.196 million pounds) in 2009, 49,572 MT (21.857 million pounds) in 2010, and 49,572 MT (21.857 million MT) in 2009. At an average yearly nickel price of per pound, revenue is seen at .721 million in 2008, .334 million in 2009, .491 million in 2010, and .442 million in 2011. It will register an average annual income of 4 million out of which excise tax paid to the government is at P134 million while annual income tax is at P1 billion and annual real property tax, P2.2 million. The plant is estimated to generate employment to baranggays Bu-ruun and Maria Cristina for 125 persons initially, reaching to 541 at maximum operational capacity.

The plant has a programmed production cost of P2.27 billion in 2008 of which a large chunk of P989 million is for nickel ore costs, P400 million for smelter material charges, P455 million for power, and P242 million for operating cost contingency. Production cost is seen to increase to P4.04 billion in 2009, P5.57 billion in 2010, and down a little to P5.4 billion in 2011.

Nickel ore that will be fed on the smelter plant will be sourced from PGMC nickel mining operations from Dinapigue in Isabela, Toronto and Pulot properties in Palawan, and Cagdianao in Surigao del Norte, and other sources.

*SOURCE: Manila Bulletin by Melody M. Aguiba. 03.27.08*

### **Leighton Asia wins Philippine contracts worth \$230M**

Sydney - Australia's leading construction and contract mining group, Leighton Holdings Ltd., said Thursday its Leighton Asia unit has won two new mining-related deals worth \$270 million in the Philippines. The company was awarded a \$60-million contract by OceanaGold to build site accommodation and related earthworks, a tailings storage facility, and the open cut mining for the first phase for the Didipio gold and copper mine.

Leighton Asia also secured a six-year relationship-based contract valued at \$170 million to undertake mining operations at the Masbate Gold Mine in the Philippines. "In addition to mining services, Leighton, in partnership with Lycopodium Limited, is currently designing and constructing the gold processing plant for the project which is scheduled to be completed in early 2009," Leighton said. "Mining operations are due to commence in September 2008."

Earlier in Hong Kong, Leighton Asia's joint venture with China State Construction Engineering secured an \$80-million contract to build an aircraft maintenance hangar at the Hong Kong International Airport (HKIA). Construction started in March and is expected to be completed in May 2009.

*SOURCE: Inquirer.Net by Yuinmunn Szetoh / Thomson Financial. 03.27.08*

#### **Feedback**

Please contact Pachot Castañeda (+632 885 7000 ext: 247 or [pcastaneda@kpmg.com.ph](mailto:pcastaneda@kpmg.com.ph)) or Pol De Peralta (+632 885 7000 ext: 369 or [adeperalta@kpmg.com.ph](mailto:adeperalta@kpmg.com.ph)) to discuss your views/suggestions.

#### **Privacy & Disclaimer**

This publication is a summary of publicly reported information, the accuracy of which has not been verified by KPMG. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2008 KPMG Manabat Sanagustin & Co., certified public accountants, a professional partnership established under Philippine law, is a member of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the Philippines.