

Registered number  
04236974

Monterrico Metals Plc

Report and Accounts

31 December 2009

**Monterrico Metals Plc**  
**Registered number: 04236974**  
**Directors' Report**

The directors present their report and the audited financial statements for the Group for the year ended 31 December 2009.

**Principal activities and review of the business**

The Company's principal activity is that of a holding company and, together with its principal subsidiaries, is exploring for and evaluating base and precious metal mining projects in Peru and Ecuador.

**Future developments**

Monterrico's principal asset is the Rio Blanco copper/molybdenum deposit in northern Peru. This is one of the largest undeveloped copper resources in the world and is wholly owned by the Group. New management of Rio Blanco Copper S.A. have strengthened the communication with the local community, publicised the Group's development concept, studied possibilities of mutual development of mining and agricultural technology advancement opportunities and environmental protection measures. These aim to enable the community to understand and accept the mining industry. Zijin Consortium supports social projects surrounding the mining area in a responsible manner. Zijin Consortium's expert group has physically visited the area, and performed in-depth research, comparison and evaluation work and proposed improvement to the original technical design, and has invited international and domestic leading mining experts for evaluation.

Monterrico is dedicated to creating long term wealth for stakeholders through responsible development of the Rio Blanco Project ("Rio Blanco" or the "Project"). In its work, the Group is also committed to its responsibilities to the local communities and to sustainable development of the area of influence of the Project for the benefit of the local inhabitants and the economy of Peru as a whole.

**Financial instrument risk**

The Directors' financial risk management objective is to maximise financial assets and minimise financial liabilities whilst not engaging in speculation. The financial risks faced by the Group include:

- Floating interest rates on the Group's and the Company's debt obligation;
  
- Liquidity risks associated with refinancing intercompanies borrowings as they mature and the risk that current intercompanies borrowing facilities are not available to meet the cash requirement; and
  
- Foreign currency fluctuations arising from financial assets and liabilities. Fluctuations in exchange rates can have significant effects on the Group's and the Company's reported profit. The Group's and Company's financial assets and liabilities give rise to transactional currency exposures. Such exposures arise from transactions in a currency other than the Company's and its subsidiaries' functional currency.

The Directors manage each of the above mentioned financial risks as follows:

- The Group's and the Company's interest rate management policy is to generally borrow and invest at floating rates of interest;
- The Group has obtained shareholder support from the Zijin Consortium and continues to monitor its working capital requirements and the planned expenditures to ensure that existing cash balance and loan facilities are sufficient to meet these requirements; and
- Hold cash and short-term investments in the currencies of anticipated expenditure.

The Group's and the Company's objectives and policies on financial risk management, and information on the Group's and the Company's exposures to interest rate, foreign currency and liquidity and interest rate risks can be found in note 19.

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**Directors' Report**

**Results and dividends**

There was a profit for the year after taxation amounting to US\$ 1,151,000 (2008: loss of US\$ 10,911,000). The results for the financial year are set out on page 8 in the consolidated statement of comprehensive income.

The directors do not recommend a dividend.

**Going concern**

At 31 December 2009 the Company, and its subsidiaries, have net current liabilities totalling US\$22,563,000, which includes amounts owing to Xiamen Zijin Tongguan Investment Development Co., Ltd. ("Zijin Consortium") totalling US\$26,617,000. These loans are all due to be repaid to the Zijin Consortium before February 2011. The Directors have a reasonable expectation that the existing cash balance at 31 December 2009 of US\$1,697,000, coupled with the cash inflow from the sale of a subsidiary and any further financial support which the Group may obtain from the Zijin Consortium, will provide sufficient cash to enable the Group to fund its working capital requirements, and the planned expenditures, over the next 12 months from the date of this report.

As the loans with the Zijin Consortium are due for repayment within the next twelve months, and given the Company has no other source of funding, the ability for the Company to continue as a going concern is dependent upon the ongoing support from the Zijin Consortium, and from the Zijin Consortium's three shareholders. A letter of support to this effect has been received by the Company from the Zijin Consortium, and from the Zijin Consortium's three shareholders, which confirms financial support for a period of twelve months from the date of this report. As a result the Directors have a reasonable expectation that the Company will continue to receive support from the Zijin Consortium, and the Zijin Consortium has the ability to continue to provide this support. The financial statements have therefore been prepared on a going concern basis.

**Events since the balance sheet date**

Details of post balance sheet events are provided on note 22 of the financial statements.

**Directors and their interests**

The following persons served as directors during the year:

Xiaodong Huang  
Guobin Hu  
Peter Harry Cooper  
Wenzhou Huang  
Fusheng Lan  
Shan Shan Li (Resigned 3rd June 2009)

**Monterrico Metals Plc**  
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**Directors and their interests (cont)**

The Directors who held office at the end of the financial year 31 December 2009, had the following indirect interests in the ordinary shares of the Company according to the register of Directors' interests.

	<b>Stock options held at 31/12/09</b>	<b>Stock options held at 31/12/08</b>	<b>option price (p)</b>	<b>Exercise period</b>
Xiaodong Huang	120,000	120,000	350p	26/11/10 to 25/11/17
Guobin Hu	50,000	50,000	350p	26/11/10 to 25/11/17
Peter Harry Cooper	30,000	30,000	350p	26/11/10 to 25/11/17
Wenzhou Huang	30,000	30,000	350p	26/11/10 to 25/11/17
Fusheng Lan	50,000	50,000	350p	26/06/11 to 26/06/18

No changes in Directors' interest occurred in the period between 1 January 2010 and 4 June 2010.

**Key performance indicators**

At this stage of the Group's business activities, the Directors do not consider many key performance indicators to monitor progress in the delivery of the Group's strategic objectives, to assess actual performance against targets and to aid management of the business, other than the monitoring of compliance with licences conditions and monitoring the level of cash expenditure against the approved budget. The Group is currently in compliance with all license terms.

**Principal risks and uncertainties**

As a mining company in the exploration and evaluation stage, the Group faces risks including the followings:

*Environmental regulations*

The Group's operations are subject to extensive health, safety, mining and environmental regulations and legislation and community expectation in Peru and Ecuador. New and amended health, safety, mining and environmental regulations and legislation may result in increased operating costs or the possibility of fines or other actions. The Group's management monitor legislative requirements and engage with government and regulators regularly, to ensure full compliance of the relevant regulations.

*Project development*

Ineffective project development, including cost overruns and unexpected delays may constrain the Group's ability to generate future income. The Group submits detailed progress reports to the Board of Directors and liaises with government bodies during the development of the project.

*Social-political and Regulatory*

The Group needs to submit an Environmental and Social Impact Assessment for approval by the Peruvian Government in order to continue into the construction and production stages of the Project. The Group regularly reviews political, regulatory and social risk to ensure that risks have been properly identified and managed to within acceptable levels. The Group works in partnership with its employees and the local communities to ensure mutual benefits.

**Monterrico Metals Plc**  
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**Directors' Report**

**Directors indemnity insurance**

During the year, Directors' and Officers' liability insurance was maintained for the Directors and officers of the Group and will continue in force for the benefits of Directors on an ongoing basis.

**Substantial shareholdings**

As at 4 June 2010, the Company was aware of the following holdings of 3% or more in the Company's issued share capital:

	<b>Number of shares in Company</b>	<b>Approximate percentage of issued shares</b>
Xiamen Zijin Tongguan Investment Development Co., Ltd.	21,043,903	79.99%
LS Nikko Copper Inc.	2,630,606	10.00%

Information based on 26,306,068 shares issued and outstanding as at 4 June 2010.

**Political and charitable donations**

No political or charitable donations were paid during the year.

**Annual general meeting ("AGM")**

The notice of the Company's AGM, to be held on 30 June 2010, is set out in a separate circular. Full details of the resolutions proposed at that meeting may be found in the notice.

**Creditor payment policy**

It is the Company's policy to settle the terms of payment with suppliers when agreeing the terms of a transaction, to ensure that suppliers are aware of these terms and to abide by them. The Group and the Company had other payable and accrued liabilities at 31 December 2009 amounted to US\$826,000 (2008: US\$881,000) and US\$352,000 (2008: US\$317,000) respectively.

**Auditors**

Laverick Walton & Co has confirmed its willingness to continue in office and a resolution concerning its reappointment will be proposed at the forthcoming Annual General Meeting.

**Directors' responsibilities**

The directors are responsible for preparing the report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS's). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and Company and of the income statement of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS's have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

**Monterrico Metals Plc**

**Registered number: 04236974**

**Directors' Report**

**Directors' responsibilities (Cont)**

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to auditors**

Each person who was a director at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the board on 4 June 2010 and signed on its behalf.

Fusheng Lan  
*Chairman*

**Monterrico Metals Plc**  
**Independent auditors' report**  
**to the members of Monterrico Metals Plc**

We have audited the financial statements of Monterrico Metals plc (the "Company" ) and its subsidiaries (collectively referred to as the "Group" ) set out on pages 8 to 51, which comprise the consolidated and the Company statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity and the consolidated and Company statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

This report is made solely to the company's members, as a body, in accordance with Section 495 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

**Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS's) adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Emphasis of matter - possible outcome of litigation**

In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in note 22 to the financial statements concerning the possible outcome of a litigation, alleging personal injuries sustained during a protest march at the Rio Blanco site in Peru. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements. Our opinion is not qualified in respect of this matter.

**Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Monterrico Metals Plc**  
**Independent auditors' report**  
**to the members of Monterrico Metals Plc**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

J R Mills (Senior Statutory Auditor)  
for and on behalf of Laverick Walton & Co  
Chartered Accountants and Statutory Auditors  
4 June 2010

A1 Marquis Court  
Team Valley  
Gateshead, Tyne & Wear  
NE11 0RU  
England

**Monterrico Metals Plc**  
**Consolidated Statement of Comprehensive Income**  
**for the year ended 31 December 2009**

	Notes	2009 US\$000	2008 US\$000
Administrative expenses		(4,905)	(6,178)
<b>Operating loss</b>	<b>3</b>	<u>(4,905)</u>	<u>(6,178)</u>
Exceptional items:			
profit on the disposal of subsidiaries	<b>4</b>	7,042	-
		<u>7,042</u>	<u>-</u>
		2,137	(6,178)
Finance revenue	<b>7</b>	349	207
Finance costs	<b>7</b>	(1,335)	(4,940)
<b>Profit/(loss) before taxation</b>		<u>1,151</u>	<u>(10,911)</u>
Income tax	<b>8</b>	-	-
<b>Profit/(loss) for the financial year and total comprehensive profit for the year</b>		<u>1,151</u>	<u>(10,911)</u>
Weighted average number of ordinary shares (number)	<b>16</b>	26,306,068	26,306,068
Basic and diluted profit/(loss) per ordinary share (US\$)	<b>9</b>	0.04	(0.41)

**Monterrico Metals Plc**  
**Consolidated Statement of Financial Position**  
**as at 31 December 2009**

	Notes	2009 US\$000	2008 US\$000
<b>Non current assets</b>			
Exploration and evaluation assets	10	51,916	47,894
Property, plant and equipment	12	685	655
Other receivables	14	3,657	3,398
Other long term receivable	14	2,882	-
<b>Total non current assets</b>		<u>59,140</u>	<u>51,947</u>
<b>Current assets</b>			
Cash and cash equivalents		1,697	2,787
Other receivables and prepayments	14	3,183	356
<b>Total current assets</b>		<u>4,880</u>	<u>3,143</u>
<b>Total assets</b>		64,020	55,090
<b>Equities and liabilities</b>			
<b>Shareholders equity</b>			
Share capital	16	4,546	4,546
Share premium		50,178	50,178
Share option reserve		4,825	3,056
Foreign currency translation reserve		6,654	6,654
Accumulated losses		(29,626)	(30,777)
<b>Total shareholders' equity</b>		<u>36,577</u>	<u>33,657</u>
<b>Current liabilities</b>			
Other payable and accrued liabilities		826	881
Interest bearing loans and borrowings	15	26,617	20,552
		<u>27,443</u>	<u>21,433</u>
<b>Total liabilities and shareholders' equity</b>		64,020	55,090

These financial statements were approved by the board of Directors on 4 June 2010

Signed on behalf of the Board of Directors

Fusheng Lan  
*Chairman*

**Monterrico Metals Plc**  
**Company Statement of Financial Position**  
**as at 31 December 2009**

	Notes	2009 US\$000	2008 US\$000
<b>Non current assets</b>			
Property, plant and equipment	12	4	12
Investment in subsidiaries	13	51,545	47,140
<b>Total non current assets</b>		<u>51,549</u>	<u>47,152</u>
<b>Current assets</b>			
Cash and cash equivalents		1,494	2,344
Other receivables and prepayments	14	796	91
<b>Total current assets</b>		<u>2,290</u>	<u>2,435</u>
<b>Total assets</b>		53,839	49,587
<b>Equities and liabilities</b>			
<b>Shareholders equity</b>			
Share capital	16	4,546	4,546
Share premium		50,178	50,178
Share option reserve		4,825	3,056
Foreign currency translation reserve		(4,246)	(4,246)
Accumulated losses		(28,433)	(24,816)
<b>Total shareholders' equity</b>		<u>26,870</u>	<u>28,718</u>
<b>Current liabilities</b>			
Other payable and accrued liabilities		352	317
Interest bearing loans and borrowings	15	26,617	20,552
		<u>26,969</u>	<u>20,869</u>
<b>Total liabilities and shareholders' equity</b>		53,839	49,587

These financial statements were approved by the board of Directors on 4 June 2010

Signed on behalf of the Board of Directors

Fusheng Lan  
*Chairman*

**Monterrico Metals Plc**  
**Consolidated Statement of Changes in Equity**  
**for the year ended 31 December 2009**

	Notes	Share capital US\$000	Share premium US\$000	Share option reserve US\$000	Foreign currency translation reserve US\$000	Accumulated losses US\$000	Total equity US\$000
<b>Balance at 1 January 2008</b>		4,546	50,178	38	1,593	(20,065)	36,290
Foreign currency translation		-	-	-	5,061	-	5,061
Total income recognised directly in equity		-	-	-	5,061	-	5,061
Loss for the financial year and total comprehensive loss for the year		-	-	-	-	(10,911)	(10,911)
Total recognised loss of the year		-	-	-	-	(10,911)	(10,911)
Credit arising on share options		-	-	3,217	-	-	3,217
Transfer to accumulated loss on expired share options		-	-	(199)	-	199	-
<b>Balance at 31 December 2008</b>	<b>16</b>	<b>4,546</b>	<b>50,178</b>	<b>3,056</b>	<b>6,654</b>	<b>(30,777)</b>	<b>33,657</b>
<b>Balance at 1 January 2009</b>		4,546	50,178	3,056	6,654	(30,777)	33,657
Profit for the financial year and total comprehensive profit for the year		-	-	-	-	1,151	1,151
Total recognised profit of the year		-	-	-	-	1,151	1,151
Credit arising on share options		-	-	1,769	-	-	1,769
<b>Balance at 31 December 2009</b>	<b>16</b>	<b>4,546</b>	<b>50,178</b>	<b>4,825</b>	<b>6,654</b>	<b>(29,626)</b>	<b>36,577</b>

**Monterrico Metals Plc**  
**Company Statement of Changes in Equity**  
**for the year ended 31 December 2009**

	Notes	Share capital US\$000	Share premium US\$000	Share option reserve US\$000	Foreign currency translation reserve US\$000	Accumulated losses US\$000	Total equity US\$000
<b>Balance at 1 January 2008</b>		4,546	50,178	38	6,601	(17,911)	43,452
Foreign currency translation		-	-	-	(10,847)	-	(10,847)
Total income recognised directly in equity		-	-	-	(10,847)	-	(10,847)
Loss for the financial year and total comprehensive loss for the year		-	-	-	-	(7,104)	(7,104)
Total recognised loss of the year		-	-	-	-	(7,104)	(7,104)
Credit arising on share options		-	-	3,217	-	-	3,217
Transfer to accumulated loss on expired share options		-	-	(199)	-	199	-
<b>Balance at 31 December 2008</b>	<b>16</b>	<b>4,546</b>	<b>50,178</b>	<b>3,056</b>	<b>(4,246)</b>	<b>(24,816)</b>	<b>28,718</b>
<b>Balance at 1 January 2009</b>		4,546	50,178	3,056	(4,246)	(24,816)	28,718
Loss for the financial year and total comprehensive loss for the year		-	-	-	-	(3,617)	(3,617)
Total recognised loss of the year		-	-	-	-	(3,617)	(3,617)
Credit arising on share options		-	-	1,769	-	-	1,769
<b>Balance at 31 December 2009</b>	<b>16</b>	<b>4,546</b>	<b>50,178</b>	<b>4,825</b>	<b>(4,246)</b>	<b>(28,433)</b>	<b>26,870</b>

**Monterrico Metals Plc**  
**Consolidated Statement of Cash Flows**  
**for the year ended 31 December 2009**

	Notes	2009 US\$000	2008 US\$000
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxation		1,151	(10,911)
Adjustments for:			
Depreciation	12	95	103
Gain on disposal of subsidiaries	4	(7,042)	-
Unwinding of discount on IGV receivables	7	(199)	(179)
Interest income	7	(1)	(28)
Discount on initial recognition of IGV receivables	7	552	42
Loan interest expenses	7	318	561
Loss on disposal of property, plant and equipment	3	36	6
Share based payment	3	1,769	3,217
Impairment provision for exploration and evaluation assets	10	607	293
Foreign exchange loss		616	3,870
Working capital adjustments			
Increase in other receivables and prepayments		(501)	(41)
Increase in long term receivables		(830)	(292)
Increase in payables relating to operating activities		58	212
<b>Net cash outflow for operating activities</b>		<u>(3,371)</u>	<u>(3,147)</u>
<b>Cash flows from investing activities</b>			
Interest received		1	28
Purchase of property, plant and equipment	12	(161)	(486)
Investment in exploration and evaluation assets	10	(4,629)	(7,407)
Proceeds from sale of subsidiaries	4	1,940	-
<b>Net cash outflow for investing activities</b>		<u>(2,849)</u>	<u>(7,865)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		5,000	9,282
<b>Net cash outflow for financing activities</b>		<u>5,000</u>	<u>9,282</u>
Decrease in cash		(1,220)	(1,730)
Effect of exchange rate fluctuations		130	(527)
Cash and cash equivalents, beginning of year		2,787	5,044
<b>Cash and cash equivalents, end of year</b>		<u>1,697</u>	<u>2,787</u>

**Monterrico Metals Plc**  
**Company Statement of Cash Flows**  
**for the year ended 31 December 2009**

	Notes	2009 US\$000	2008 US\$000
<b>Cash flows from operating activities</b>			
Loss before taxation		(3,617)	(7,104)
Adjustments for:			
Depreciation	12	8	8
Interest income		(1)	(28)
Loan interest expenses	7	318	561
Loss on disposal of property, plant and equipment		-	6
Share based payment	3	1,769	3,217
Impairment provision for investment in subsidiaries	13	430	205
Foreign exchange loss		835	3,130
Working capital adjustments			
Decrease/(increase) in other receivables and prepayments		(705)	10
Increase in payables relating to operating activities		35	48
<b>Net cash outflow for operating activities</b>		<u>(928)</u>	<u>53</u>
<b>Cash flows from investing activities</b>			
Interest received		1	28
Purchase of property, plant and equipment	12	-	(10)
Investment in subsidiaries	13	(4,835)	(11,209)
<b>Net cash outflow for investing activities</b>		<u>(4,834)</u>	<u>(11,191)</u>
<b>Cash flows from financing activities</b>			
Proceeds from loans and borrowings		5,000	9,282
<b>Net cash outflow for financing activities</b>		<u>5,000</u>	<u>9,282</u>
Decrease in cash		(762)	(1,856)
Effect of exchange rate fluctuations		(88)	(519)
Cash and cash equivalents, beginning of year		2,344	4,719
<b>Cash and cash equivalents, end of year</b>		<u>1,494</u>	<u>2,344</u>

**Monterrico Metals Plc**  
**Notes to the Accounts**  
**for the year ended 31 December 2009**

**1 Accounting policies**

***The company***

Monterrico Metals plc (the 'Company') is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended December 31, 2009 comprise the Company and its subsidiaries (together referred to as the 'Group'). The financial statements were authorised for issue by the directors on 4th June, 2010.

***Basis of preparation***

The Company has taken the exemption under Section 408 of the Companies Act 2006 and has not published the Company's statement of comprehensive income and related notes.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. They have been prepared under the historical cost convention. These financial statements are presented in United States Dollars ("US\$") and all values are rounded to the nearest thousand except when otherwise indicated.

***Going concern***

At 31 December 2009 the Company, and its subsidiaries, have net current liabilities totalling US\$22,563,000, which includes amounts owing to Xiamen Zijin Tongguan Investment Development Co., Ltd. ("Zijin Consortium") totalling US\$26,617,000. These loans are all due to be repaid to the Zijin Consortium before February 2011. The Directors have a reasonable expectation that the existing cash balance at 31 December 2009 of US\$1,697,000, coupled with the cash inflow from the sale of subsidiaries and any further financial support which the Group may obtain from the Zijin Consortium, will provide sufficient cash to enable the Group to fund its working capital requirements, and the planned expenditures, over the next 12 months from the date of this report

As the loans with the Zijin Consortium are due for repayment within the next twelve months, and given the Company has no other source of funding, the ability for the Company to continue as a going concern is dependent upon the ongoing support from the Zijin Consortium, and from the Zijin Consortium's three shareholders. A letter of support to this effect has been received by the Company from the Zijin Consortium, and from the Zijin Consortium's three shareholders, which confirms financial support for a period of twelve months from the date of this report. As a result the Directors have a reasonable expectation that the Company will continue to receive support from the Zijin Consortium, and the Zijin Consortium has the ability to continue to provide this support. The financial statements have therefore been prepared on a going concern basis.

***Basis of consolidation***

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are 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.

All intercompany transactions and balances within the Group are eliminated on consolidation.

**Monterrico Metals Plc**  
**Notes to the Accounts**  
**for the year ended 31 December 2009**

***Changes in accounting policy and disclosures***

For the year ended 31 December 2009, the Group adopted, for the first time, the following new and revised IFRSs which became effective in 2009 and are applicable to its operations:

**IFRS 1 and IAS 27 Amendments** - Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

**IFRS 2 Amendments** - Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations

**IFRS 7 Amendments** - Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments

**IFRS 8** - Operating segments

**IAS 1 (Revised)** - Presentation of Financial Statements

**IAS 23 (Revised)** - Borrowing costs

**IAS 18 Amendment\*** - Amendment to Appendix to IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent

**IAS 32 and IAS 1 Amendments** - Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

**Improvements to IFRSs (October 2008) \*\*** - Amendments to a number of IFRSs

\* Included in Improvements to IFRSs 2009 (as issued in May 2009).

\*\* The Company adopted all the improvements to IFRSs issued in October 2008.

Other than as further explained below regarding the impact of IAS 1 (Revised), the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

**IAS 1 (Revised) - Presentation of Financial Statements**

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Company has elected to present one single statements.

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**Changes in accounting policy and disclosures cont.**

**Issued but not yet effective international financial reporting standards**

The Company has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in these financial statements.

**IFRS 1(Revised)** - First-time Adoption of International Financial Reporting Standards (a)

**IFRS 1 Amendments** - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards Additional Exemptions for First time Adopters (b)

**IFRS 2 Amendments** - Amendments to IFRS 2 Share-based Payment Group: Cash-settled Share-based Payment Transactions (b)

**IFRS 1 Amendments** - Limited Exemption from Comparatives IFRS 7 Disclosures for First-time Adopters (d)

**IFRS 3 (Revised)** - Business Combinations (a)

**IFRS 9** - Financial instruments (f)

**IAS 24 (Revised)** - Related Party Disclosures (e)

**IAS 27 (Revised)** - Consolidated and Separate Financial Statements (a)

**IAS 32 Amendments** - Amendments to IAS 32 Financial Instruments: Presentation-Classification of Rights Issues (c)

**IAS 39 Amendment** - Amendment to IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items (a)

**IFRIC-Int 14 Amendments** - Amendments to IFRIC-Int 14 Prepayments of a Minimum Funding Requirement (e)

**IFRIC-Int 17** - Distribution of Non-cash Assets to Owners (a)

**IFRIC-Int 19** - Extinguishing Financial Liabilities with Equity Instruments (d)

**Amendments to IFRS 5 included in Improvements to IFRSs issued in October 2008** - Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Plan to Sell the Controlling Interest in a Subsidiary (a)

Apart from the above, the IASB has issued improvements to IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC-Int 9 and IFRIC-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

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**Changes in accounting policy and disclosures cont.**

- a) Effective for annual periods beginning on or after 1 July 2009
- b) Effective for annual periods beginning on or after 1 January 2010
- c) Effective for annual periods beginning on or after 1 February 2010
- d) Effective for annual periods beginning on or after 1 July 2010
- e) Effective for annual periods beginning on or after 1 January 2011
- f) Effective for annual periods beginning on or after 1 January 2013

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Company considers that these new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

**Significant accounting judgements, estimates and assumptions**

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

**Judgement**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

**Impairment of assets**

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset's impairment no longer exists, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event previously affecting the asset's value is no longer in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continue use of the asset or its disposal; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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**Impairment of exploration and evaluation costs**

The carrying value of exploration and evaluation costs is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Where there are indications of impairment, and there are no cash flows or budgets to support a value in use calculation and no reliable market evidence to support an estimate of fair value less costs to sell, then the recoverable amount of these assets is deemed to be zero even though that the actual market value may be significantly above zero.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**Mine reserves**

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. The Group follows the JORC methodology for estimating reserves and resources and there are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining impairment losses. The useful lives are reviewed annually in accordance with the production plans of the Group and the proven and probable reserves of the mines.

**Monterrico Metals Plc**  
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**Government approval and support of the local communities**

The ability of the Company to recover the amounts capitalised in relation to the exploration and evaluation costs of the Rio Blanco Project, and the associated IGV receivable, is dependent upon the successful development and commissioning of the project.

It is the Company's expectation that the relevant approvals on the development of the project will be secured in due course, coupled with the Company's intention to continue to evaluate the Rio Blanco Project during 2010, have resulted in the Company's decision to continue to carry forward the costs capitalised in relation to this project, and the related IGV receivable (same as to Input Value Added Tax), at 31 December 2009. In the event that any of these approvals are not ultimately secured, the carrying value of the exploration and evaluation asset, and the IGV receivable, will be written off.

**Subsidiaries**

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies. The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

**Related parties**

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate or a jointly-controlled entity;
- (c) the party is a member of the key management personnel of the Group or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d), or
- (f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

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**Impairment of non-financial assets**

The Group conducts annual internal assessments of the values of goodwill and indefinite life intangible assets and capitalised exploration and evaluation expenditure. Values of mine properties and property, plant and equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the assets recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This 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. If this is the case, the individual assets are grouped together into cash generating units (CGUs) for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the group evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the income statement so as to reduce the carrying amount to its recoverable amount (i.e., the higher of fair value less cost to sell and value in use). Impairment losses related to continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation. For assets excluding goodwill and indefinite life intangibles, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

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**Property, plant and equipment and depreciation**

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment asset comprises of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement. Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

- Buildings 33 years
- Leasehold improvements, office equipment, furniture and fixture 2-10 years
- Motor vehicles 5 years

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Exploration and evaluation assets**

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to the income statement as incurred, unless the directors conclude that a future economic benefit is more likely to be realised than not. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors. In evaluating if expenditures meet the criteria to be capitalised, several different sources of information are utilised. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

- Exploration and evaluation expenditure incurred on licences where a JORC compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a JORC compliant resource. Costs expensed during this phase are included in exploration expenditure in the income statement.
- Upon the establishment of a JORC compliant resource (at which point, the Group considers it probable that economic benefits will be realised), the Group capitalises any further evaluation costs incurred for the particular licence to Exploration and evaluation assets up to the point when a JORC compliant reserve is established.

Exploration and evaluation assets acquired in a business combination are initially recognised at fair value. They are subsequently stated at cost less accumulated impairment. Once JORC compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to mines under construction. No amortisation is charged during the exploration and evaluation phase.

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**Mines under construction**

Upon transfer of Exploration and evaluation costs into Mines under construction , all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within Mines under construction. Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After production starts, all assets included in Mines under construction are transferred to Producing mines .

**Investments and other financial assets**

**Initial recognition and measurement**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, and amounts due from and due to related parties.

**Subsequent measurement**

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

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any other expense discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

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**Derecognition of financial assets**

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group assesses at each end of reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

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**Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

**Impairment of financial assets**

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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. Impairment losses on these assets are not reversed.

**Financial liabilities**

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing loans and borrowings.

**Monterrico Metals Plc**  
**Notes to the Accounts**  
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**Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

**Loans and borrowings**

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including short-term deposits, which are not restricted as to use.

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**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in financial costs in the income statement.

**Income tax**

Income tax comprises current and deferred 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. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax is provided, using the balance sheet method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or 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 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 tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences 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 only recognised 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 utilised.

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**Income tax cont.**

The carrying amount of deferred tax assets is reviewed at each end of reporting period 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 tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at end of reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

Deferred tax assets and deferred 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.

**Revenue recognition**

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

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**Share-based payment**

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes valuation model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**Foreign currencies**

These financial statements are presented in US\$, which is the Company's functional and presentation currency, the currency the Directors believe investors prefer to review the results of the Group. 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. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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.

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**2 Segmental Analysis**

The Group's primary format for segment reporting is business segments and the secondary format is geographical segments.

**Business segments**

The Group is engaged in one operating segment which is the exploration for, and evaluation of copper and molybdenum products. Accordingly, no business segment information is presented.

**Geographical segments**

The Group also reports by geographical segment based on the geographical location of activity. In presenting information by geographical segment, assets and the cost of acquiring them are based on the geographical location of the assets. Capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

There was no turnover for the Group in the year (31 December 2008: US\$Nil)

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Total assets		
Peru and Ecuador	56,285	52,200
Hong Kong	800	103
Unallocated	6,935	2,787
	<u>64,020</u>	<u>55,090</u>
Capital expenditure on property, plant and equipment		
Peru and Ecuador	161	476
Hong Kong	-	10
	<u>161</u>	<u>486</u>
Capital expenditure on exploration and evaluation assets		
Peru and Ecuador	<u>4,629</u>	<u>7,407</u>

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<b>3 Operating profit/(Loss)</b>	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
This is stated after charging:		
Depreciation of property, plant and equipment	95	103
Loss on disposal of property, plant and equipment	36	6
Impairment provision for exploration and evaluation assets*	607	293
Equity-settled share-based payment expenses	1,769	3,217
Fees paid to the Company's auditor Laverick Walton & Co for auditing of the company's annual accounts	16	-
Fees paid to the Company's auditor Ernst & Young LLP for auditing of the company's annual accounts	-	40
Fees paid to the Group's auditor and its associate for auditing of accounts of subsidiaries pursuant to legislation	54	63
Fees paid to the Company's auditor and its associate for assurance related service**	-	43
	<u>-</u>	<u>43</u>

\* Impairment provision for exploration and evaluation assets is included in administrative and operating expenses in the consolidated statement of comprehensive income

\*\* The amount relates to agreed upon procedures service provided for the company by Ernst & Young LLP and its associates

**4 Exceptional items - disposal of subsidiaries**

On 2 October 2009, the Group disposed its 100% equity interest in Pico Machay Cayman Limited to Aquiline Resources Inc for a total consideration of US\$7,800,000. The amount is settled by a down payment of US\$1,200,000, followed by eight quarterly instalments of US\$825,000 each, with the first installment receivable at 2 January 2010. Gain realised on disposal of subsidiaries for the year ended 31 December 2009 is US\$7,042,000.

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Net assets disposed of:		
Intangible assets	67	-
Other receivables	35	-
Other payables	(114)	-
	<u>(12)</u>	<u>-</u>
Profit on disposal of subsidiaries	7,042	-
	<u>7,030</u>	<u>-</u>
Satisfied by:		
Cash	1,940	-
Receivable	5,090	-
	<u>7,030</u>	<u>-</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiaries is as follows:

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Cash consideration	<u>1,940</u>	<u>-</u>
Net inflow of cash and cash equivalents	<u>1,940</u>	<u>-</u>

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<b>5 Directors' emoluments</b>	<b>2009</b>	<b>2008</b>
Key management comprises Executive and Non-Executive Directors only. Their emoluments are	<b>US\$000</b>	<b>US\$000</b>
Salaries and other emoluments	402	729
Equity-settled share-based payment expenses	126	409
Company contributions to retirement schemes	1	1
	<u>529</u>	<u>1,139</u>

Directors emoluments for the year ended 31 December 2009 are represented below

	<b>Annual salary (inc Housing allowance) US\$000</b>	<b>Fees US\$000</b>	<b>Retirement scheme contributions US\$000</b>	<b>Share- based payments US\$000</b>	<b>total US\$000</b>
F Lan	-	77	-	17	94
S Li *	57	-	1	(35)	23
G Hu	45	-	-	31	76
X Huang	146	-	-	75	221
W Huang	-	38	-	19	57
H Cooper	-	39	-	19	58
	<u>248</u>	<u>154</u>	<u>1</u>	<u>126</u>	<u>529</u>

\* S Li resigned from the board on 3rd June 2009

Directors emoluments for the year ended 31 December 2008 are represented below

	<b>Annual salary (inc Housing allowance) US\$000</b>	<b>Fees US\$000</b>	<b>Retirement scheme contributions US\$000</b>	<b>Share- based payments US\$000</b>	<b>total US\$000</b>
RP Ralph *	1	62	-	120	183
RJ Angus *	-	29	-	72	101
F Lan	-	50	-	10	60
S Li	167	-	1	37	205
G Hu	111	-	-	37	148
X Huang	221	-	-	89	310
W Huang	-	43	-	22	65
H Cooper	-	45	-	22	67
	<u>500</u>	<u>229</u>	<u>1</u>	<u>409</u>	<u>1,139</u>

\* Messrs Richard Ralph and Raymond Angus retired from the board on 2nd June 2008

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<b>6 Staff costs</b>	<b>2009</b>	<b>2008</b>
For the Group during the year were as follows:	<b>US\$000</b>	<b>US\$000</b>
Wages and salaries	1,815	3,111
Social security costs	88	328
Equity-settled share-based payment expenses	199	481
	<u>2,102</u>	<u>3,920</u>

	<b>2009</b>	<b>2008</b>
For the Company during the year were as follows:	<b>US\$000</b>	<b>US\$000</b>
Wages and salaries	614	726
Social security costs	3	36
Equity-settled share-based payment expenses	199	481
	<u>816</u>	<u>1,243</u>

Average number of employees of the Group during the year	<b>Number</b>	<b>Number</b>
Technical	32	133
Administration	61	33
	<u>93</u>	<u>166</u>

Average number of employees of the Company during the year	<b>Number</b>	<b>Number</b>
Technical	1	1
Administration	8	8
	<u>9</u>	<u>9</u>

<b>7 Finance and revenue costs</b>	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Finance revenue		
Unwinding of discount on IGV receivables (See Note 14)	199	179
Interest receivable on short term deposits	1	28
Interest receivable on other receivables	149	-
	<u>349</u>	<u>207</u>
Finance costs		
Exchange loss on foreign currency denominated bank and loan accounts	(465)	(4,337)
Discount on initial recognition of IGV receivables (See Note 14)	(552)	(42)
Loan interest expenses	(318)	(561)
	<u>(1,335)</u>	<u>(4,940)</u>

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<b>8 Taxation</b>	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Analysis of charge in period</b>		
Current tax	-	-
Deferred tax	-	-
Income tax	-	-
	<u>-</u>	<u>-</u>

The following table provides a reconciliation between the income tax and the product of the accounting profit/(loss) of each group's company multiplied by the statutory corporate income tax rates applicable in the jurisdiction of each company concerned for the years ended 31 December 2009 and 2008 is as follows:

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Loss on ordinary activities before tax (Excludes exceptional profit on sale of subsidiaries)	<u>(5,891)</u>	<u>(10,911)</u>
Standard rate of corporation tax in the UK	28.0%	28.5%
	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax	(1,649)	(3,167)
Effects of:		
Expenses not deductible for tax purposes	60	1,122
Unrecognised deferred tax assets	1,589	2,045
Taxation reported in the consolidated income statement	<u>-</u>	<u>-</u>

The applicable corporation tax rate in the United Kingdom is 28.0% (2008: 28.5%). The corporate income tax rates applicable to the overseas subsidiaries are the current corporate income tax rates currently in force in the respective countries in which the subsidiaries are tax resident.

In accordance with the accounting policy note, the Group has not recognised deferred tax assets in respect of temporary differences where it is not considered probable that the temporary differences will reverse in the future or, in the case of tax losses, that future taxable profits will arise against which the tax losses can be utilised in the relevant tax jurisdiction and entity. No deferred tax assets have been recognised in respect of total tax losses of US\$27,523,000 (2008: US\$22,532,000).

The unrecognised tax losses are currently able to be carried forward indefinitely to offset future taxable profits of the Group's companies in which the losses have arisen. There are no temporary differences arising in respect of investments in subsidiaries which were required to be recognised as deferred tax liabilities.

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**9 Profit/(Loss) per share**

Basic profit/(loss) per share amounts are calculated by dividing the net profit/(loss) for the year by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted profit/(loss) per share is the same as there are no dilutive effects on earnings as the effect on the exercise of share options would be to decrease the profit/(loss) per share. Details of share options that could potentially dilute earnings per share in the future years are set out in note 16.

	<b>2009</b>	<b>2008</b>
Net profits/(losses) attributable to ordinary shareholders (US\$'000)	1,151	(10,911)
Weighted average number of ordinary shares (in thousands)	26,306	26,306
Basic and diluted profit/(loss) per ordinary share (US\$)	0.04	(0.41)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

**10 Exploration and evaluation assets**

**US\$000**

The Group

**Cost**

At 1 January 2009	49,329
Additions	4,629
Disposals	-
At 31 December 2009	<u>53,958</u>

**Impairment**

At 1 January 2009	1,435
Provided during the year	607
On disposals	-
At 31 December 2009	<u>2,042</u>

**Net book value**

At 31 December 2009	<u>51,916</u>
At 31 December 2008	<u>47,894</u>

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**11 Impairment losses**

Impairment provision for exploration and evaluation assets

The Group has a portfolio of exploration properties in Mamaniña, Antaymarca, Conaviri and Carisla in Peru and several concessions in Ecuador. Although the Group has done preliminary work on these exploration properties, management has yet to complete a long-term plan in developing these properties and there is limited expenditure budgeted for these projects in the short term as management focus on the development of the Rio Blanco Project. However, the Group will continue to look for alternatives to involve third party operations for advancing these developments. Given that it is not possible to determine the value in use of these projects in the current exploration stage and a reliable estimate of fair value less cost to sell has not been readily available in the market, the recoverable value of these assets has been deemed to be zero and according to IFRS 6, expenses incurred on these mines are immediately impaired in the period in which they are incurred. During the year Pico Machay in Peru was disposed of.

The costs carried forward in the balance sheet relate to the Rio Blanco Project in Peru. The basis for carrying these costs forward, and the related uncertainties regarding their recovery are outlined in note 1 above.

**12 Property, plant and equipment**

The Group

	<b>Buildings</b>	<b>Leasehold improvements, office equipment, furniture &amp; fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Cost</b>				
At 1 January 2009	455	510	31	996
Additions	131	30	-	161
Disposals	-	(36)	-	(36)
At 31 December 2009	<u>586</u>	<u>504</u>	<u>31</u>	<u>1,121</u>
<b>Depreciation</b>				
At 1 January 2009	57	254	30	341
Charge for the year	14	80	1	95
At 31 December 2009	<u>71</u>	<u>334</u>	<u>31</u>	<u>436</u>
<b>Net book value</b>				
At 31 December 2009	<u>515</u>	<u>170</u>	<u>-</u>	<u>685</u>
At 31 December 2008	<u>398</u>	<u>256</u>	<u>1</u>	<u>655</u>

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**12 Property, plant and equipment**  
The Company

	Leasehold improvements, office equipment, furniture & fixtures US\$000	Total US\$000
<b>Cost</b>		
At 1 January 2009	20	20
Additions	-	-
Disposals	-	-
Exchange differences	-	-
At 31 December 2009	<u>20</u>	<u>20</u>
<b>Depreciation</b>		
At 1 January 2009	8	8
Charge for the year	8	8
On disposals	-	-
Exchange differences	-	-
At 31 December 2009	<u>16</u>	<u>16</u>
<b>Net book value</b>		
At 31 December 2009	<u>4</u>	<u>4</u>
At 31 December 2008	<u>12</u>	<u>12</u>

As at 31 December 2009, there were no temporarily idle and fully depreciated but still in use property, plant and equipment. There were also no property, plant and equipment retired from active use and held for disposal as at year end.

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**13 Investments in subsidiaries**

The Company

	<b>Shares</b>	<b>Capital</b>	<b>Total</b>
	<b>US\$000</b>	<b>contributions</b>	<b>US\$000</b>
		<b>US\$000</b>	<b>US\$000</b>
<b>Cost</b>			
At 1 January 2009	561	48,396	48,957
Additions	-	4,835	4,835
Disposals	-	-	-
Exchange differences	-	-	-
At 31 December 2009	<u>561</u>	<u>53,231</u>	<u>53,792</u>
<b>Impairment provision</b>			
At 1 January 2009	485	1,332	1,817
Provision	-	430	430
Exchange differences	-	-	-
At 31 December 2009	<u>485</u>	<u>1,762</u>	<u>2,247</u>
<b>Net book value</b>			
At 31 December 2009	<u>76</u>	<u>51,469</u>	<u>51,545</u>
At 31 December 2008	<u>76</u>	<u>47,064</u>	<u>47,140</u>

The Company made capital contributions to its subsidiary undertakings to the value of US\$4,835,000 (2008: US\$11,209,000). The Company has furthermore made provisions on some of its capital contributions to the value of US\$430,000 (2008: US\$205,000), giving rise to a total capital contribution of US\$51,469,000 (2008: US\$47,064,000).

At 31 December 2009, the principal subsidiaries are as follows:

<b>Company</b>	<b>Country of registration or incorporation</b>	<b>Class of shares</b>	<b>Shares held %</b>	<b>Nature of Business</b>
Copper Corp Limited *	Cayman Islands	Common	100	Investment
Rio Blanco Copper Limited	Cayman Islands	Common	100	Investment
Rio Blanco Copper S.A.	Peru	Common	100	Mining
Minera Rio Blanco Ecuador	Ecuador	Ordinary	100	Mining
Intercontinental Resources Inc *	Cayman Islands	Common	100	Investment

All the principal subsidiaries have a 31 December year end

\* Subsidiary owned directly by Monterrico Metals Plc

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**14 Other receivables and prepayments**

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Current</b>				
VAT	-	4	-	4
Prepayments and accrued income	23	26	-	20
Other receivables	804	326	796	67
Receivable from sale of subsidiaries	2,356	-	-	-
	<b>3,183</b>	<b>356</b>	<b>796</b>	<b>91</b>
<b>Non-current</b>				
IGV receivable	3,657	3,398	-	-
Receivable from sale of subsidiaries	2,882	-	-	-
	<b>6,539</b>	<b>3,398</b>	<b>-</b>	<b>-</b>

The IGV receivable (similar to VAT in the UK) is based on cash flows discounted using a rate based on the borrowing rate of 6% (2008: 6%). The discount rate equals to LIBOR plus appropriate credit rating. The IGV receivable has been discounted over the expected period until the commencement of production, currently estimated to be 2012. As disclosed in note 1, the recovery of the IGV receivable is dependent upon the successful development and commissioning of the Rio Blanco Project, and the subsequent ability to offset this receivable against future taxes payable on the project.

The movements in the discounts of the IGV receivable is as follows:

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
At 1 January	873	1,010
Unwinding of discount (See note 7)	(199)	(179)
Discount on initial recognition (See note 7)	552	42
At 31 December	<b>1,226</b>	<b>873</b>

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15 Interest bearing loans	Maturity	2009 US\$000	2008 US\$000
Parent company loan			
£2,000,000 loan (2008: £2,000,000)	30-Apr-10	3,631	3,228
US\$ 8,000,000 loan (2008: US\$8,000,000)	3-Jul-10	8,601	8,496
US\$ 5,000,000 loan (2008: US\$8,000,000)	2-Feb-10	5,254	5,076
£2,550,000 loan (2008: £2,550,000)	2-Feb-10	4,105	3,752
US\$ 5,000,000 loan	9-Feb-10	5,026	-
		26,617	20,552

The Company has entered into five loan facility agreements with the Zijin Consortium, the majority shareholder of the Company. For the loans denominated in £, interest rate is not greater than 1 percent above the base rate from time to time of Barclays Bank plc. For loans denominated in US\$, interest rate is not greater than 1 percent above the LIBOR rate from time to time as published by the British Bankers Association. The amounts shown in the table above include interest accrued on the loans that have not been repaid. There is no undrawn facility at year end.

The loan facility entered on 2 February 2008 for an aggregate amount of up to US\$5,000,000 and £2,550,000 is repayable on 2 February 2010. At the option of the Company the whole or part of the loan may be converted into ordinary shares in the Company ("Ordinary Shares") at a conversion price of the lower of (i) 350 pence per Ordinary Share and (ii) the average mid-market price of Ordinary Share over the three business days preceding the date of conversion.

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<b>16 Share capital</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
(a) Share capital of the Company	<b>Number</b>	<b>£</b>	<b>Number</b>	<b>£</b>
Authorised				
Ordinary shares on 10p each	<u>100,000,000</u>	<u>10,000,000</u>	<u>100,000,000</u>	<u>10,000,000</u>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Number</b>	<b>US\$000</b>	<b>Number</b>	<b>US\$000</b>
Allotted, called up and fully paid				
Ordinary shares on 10p each	<u>26,306,068</u>	<u>4,546</u>	<u>26,306,068</u>	<u>4,546</u>

(b) Share option scheme of the Company to directors, employees and consultants

*(i) The principal terms of the share option scheme of the Company are summarised as follows:*

On 12 June 2002, the Company adopted a share option scheme (the "Scheme") whereby the Remuneration Committee of the Company is authorized, at their discretion, to offer any eligible person options to subscribe for shares in the Company to recognize their contribution to the growth of the Company. Options are granted with an option price which is not less than the market value of Ordinary Share on the date of grant. No options may be granted after the tenth anniversary of the adoption of the Scheme.

An eligible person of the Group is any person who is either an employee of the Company and any subsidiaries designated by the Directors or is a director of the same who is required to devote at least 25 hours per week to his duties or is a consultant to the Company or any member of the Group who shall have rendered significant services to the Company or any member of the Group for not less than 12 months, is eligible to participate in the Scheme.

The number of new Ordinary Shares which may be issued under the Scheme is subject to the following limits:

- in any 10 year period, not more than 10% of the issued ordinary share capital of the Company for the time being may, in aggregate, be issued or issuable under the Scheme and any other employees' share option scheme operated by the Company;

- in any 10 year period, not more than 5%, of the issued ordinary share capital of the Company for the time being may, in aggregate, be issued or issuable under the Scheme and any other executive share option scheme operated by the Company.

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**16 Share capital cont.**

An employee's participation is limited so that the aggregate price payable on the exercise of all options granted to him under the Scheme operated by the Company in any 10 year period will not exceed four times his total remuneration.

The vesting period is for 3 years from the date of grant. If options remain unexercised these options expire. Furthermore if an employee or consultant leaves the Group before their options vest, the option holders, at the discretion of the Board of Directors are permitted to exercise all or any part of his/her options during the period of six months from the date he/she leaves the Group. If they are not permitted to keep the share options, the share options lapse immediately, which results in an immediate charge to the income statement.

No options were exercised during the year ended 31 December 2009. However, 50,000 options held by a director who resigned on 3 June 2009 were lapsed during the year.

The terms and conditions of the grants that existed as at 31 December 2009 is as follows, whereby all options are settled by physical delivery of shares:

<b>Options Granted Date</b>	<b>Exercise price</b>	<b>At 31/12/09 number</b>	<b>At 31/12/08 number</b>
On 26 November 2007	350p	335,000	385,000
On 26 June 2008	350p	50,000	50,000
		385,000	435,000

<b>Options Granted Date</b>	<b>Vesting Conditions</b>	<b>Exercise period</b>
On 26 November 2007	Immediately 3 years after the date of grant	26 November 2010 to 25 November 2017
On 26 June 2008	Immediately 3 years after the date of grant	26 June 2011 to 26 June 2018

The expenses recognised for employee services received during the year arising from equity-settled share-based payment transactions amounts to US\$199,000 (2008: US\$481,000).

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**16 Share capital cont.**

(ii) *The number and weighted average exercise prices of share options are as follows:*

	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	<b>weighted average exercise price</b>	<b>Number of options '000</b>	<b>weighted average exercise price</b>	<b>Number of options '000</b>
Outstanding at the beginning of the period	350p	435	350p	465
Lapsed during the year	350p	(50)	350p	(80)
Granted during the year	-	-	350p	50
<b>Outstanding at the year end</b>	<b>350p</b>	<b>385</b>	<b>350p</b>	<b>435</b>

The exercise price for options outstanding at the end of the year was £3.50 (2008: £3.50).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2009 is 7.98 years (2008: 8.97 years).

(iii) *Fair value of share options and assumptions*

The fair value of services received in return for share options granted measured by reference to the fair value of share options granted. The estimated fair value of the services received is measured based on the Black-Scholes pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes pricing model.

The following assumptions were made in the calculation of fair value for the share options granted for the years ended 31 December 2008:

	<b>26 June 2008 options</b>
Fair value at measurement date	£0.76
Risk free rate	5.20%
Excercise price	£3.50
Volatility	65.82%
Dividend yield	-
Share price at date of issue	£2.20
Expected life of option (average)	3 years

The expected volatility is based on the historic volatility. Expected dividend yields are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimates.

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**16 Share capital cont.**

(c) Warrant granted to Agropecuaria Las Huarinas S.A.

(i) The principal terms of the warrants granted are summarised as follows:

On 27 August 2008, the Company granted two conditional warrants to Agropecuaria Las Huarinas S.A. ("ALH"), a private company wholly owned by the Romero Group, a large Peruvian private business group. The Warrants were conditional upon, inter alia, the passing of the Resolutions to give the directors the authority to grant the Warrants and to disapply the statutory pre-emption rights under the Act in respect of such grant. The Resolutions were subsequently passed on the shareholder meeting on 22 September 2008. In addition, the second Warrant is conditional on the Company's Peruvian subsidiary, Rio Blanco Copper S.A. obtaining approval of the EIAS by the Peruvian Ministry of Energy and Mines for the Rio Blanco Project. The Warrants together grant ALH conditional rights to subscribe for up to 20 per cent of the Company's issued share capital in issue at the time of exercise as enlarged by the grant of such Warrants.

The first warrant ("Warrant A") is exercisable in respect of 2,922,896 Ordinary Shares provided however, that in the event Warrant B (as defined below) is exercised before Warrant A, then Warrant A shall be exercisable in respect of 3,653,621 Ordinary Shares. Warrant A may be exercised by ALH any time following the first anniversary of the Warrant Agreement but before the third anniversary of the Warrant Agreement ("Warrant A Exercise Period"). The purchase price of the warrant shares to be issued pursuant to Warrant A is 190 pence per share, which represents a premium of 68 per cent to the mid-market price as at the close of trading on 22 September 2008. To the extent that ALH does not serve a notice to exercise Warrant A on or before the date that is three years from the date of the Warrant Agreement, Warrant A shall automatically expire, and all rights and obligations of the parties thereunder shall automatically terminate, without any further liability with respect thereto.

The second warrant ("Warrant B") is exercisable in respect of 2,922,896 Ordinary Shares provided however, that in the event Warrant A is exercised before Warrant B, then Warrant B shall be exercisable in respect of 3,653,621 Ordinary Shares. Warrant B may be exercised by ALH any time before the date occurring three years and thirty days from the date of the Warrant Agreement subject to receipt by the Company's Peruvian subsidiary, Rio Blanco Copper S.A., of the approval of the Peruvian Ministry of Energy and Mines for the EIAS relating to the construction and exploitation of the Rio Blanco Project. The purchase price of the Warrant Shares to be issued pursuant to Warrant B shall be 190 pence per share, which represents a premium of 68 per cent to the midmarket price as at the close of trading on 22 September 2008. In the event the Company's Peruvian subsidiary does not receive EIAS approval from the Ministry of Energy and Mines on or before the date that is three years and thirty days from the date of the Warrant Agreement, the warrants granted under Warrant B shall not become exercisable, and all rights and obligations of the parties thereunder shall automatically terminate without any further liability with respect thereto.

Following the decision of the Company to delist from the AIM market operated by the London Stock Exchange in May 2009, the Company and ALH entered into a Supplemental Agreement on 24 April 2009, in order to obtain ALH's assent to the delisting and confirm certain of the terms and conditions of the Warrants. The conditions, amount of Ordinary Shares and purchase price for the exercise of each Warrant, as well as the exercise period, remain unchanged as of the date hereof.

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**16 Share capital cont.**

(ii) *The number and weighted average exercise prices of share options are as follows:*

	2009 weighted average exercise price	2009 Number of options '000	2008 weighted average exercise price	2008 Number of options '000
Outstanding at the beginning of the period	£1.90	6,577	-	-
Granted during the year	-	-	£1.90	6,577
Outstanding at the year end	£1.90	6,577	£1.90	6,577

The exercise price for options outstanding at the end of the year was £1.90.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2009 is 1.75 years (2008: 2.75 years).

The expenses recognised in relation to the warrants granted during the year amounts to US\$1,570,000 (2008: US\$2,736,000).

*(iii) Fair value of share options and assumptions*

The fair value of services received in return for share options granted measured by reference to the fair value of share options granted. The estimated fair value of the services received is measured based on the Black-Scholes pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes pricing model.

The following assumptions were made in the calculation of fair value for the share options granted for the years ended 31 December 2008:

	<b>22 September 2008 warrants</b>
Fair value at measurement date	£0.44
Risk free rate	4.49%
Excercise price	£1.90
Volatility	75.86%
Dividend yield	-
Share price at date of issue	£1.13
Expected life of option (average)	3 years

The expected volatility is based on the historic volatility. Expected dividend yields are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimates.

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**17 Capital commitments and other contingencies**

Operating lease commitments

The Group has entered into leases for buildings. Leases for the buildings are negotiated for terms ranging from two to three years. Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Within one year	135	220	135	220
After one year but no more than five years	-	132	-	132
	<u>135</u>	<u>352</u>	<u>135</u>	<u>352</u>

**18 Related party disclosures**

The Company entered into three loan agreements with the Zijin Consortium, the balance was as follows:

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Interest bearing loans and borrowings	<u>26,617</u>	<u>20,552</u>

The details of the loans from shareholders is disclosed in note 15.

Amounts due from companies under common control  
(Disclosed under other receivables at note 14)

	<b>2009</b>	<b>2008</b>
	<b>US\$000</b>	<b>US\$000</b>
Gold Enhance International Limited	<u>753</u>	<u>-</u>

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**19 Financial risk management objectives and policies**

The Group's and the Company's principal financial liabilities, comprise other payables and loans. The main purpose of these financial instruments is to manage short term cash flow and raise finance for the Group's capital expenditure program. The Group and the Company have various financial assets such as other receivables and cash and short-term deposits, which arise directly from its operations and from its financing activities.

It is, and has been throughout the years ended 31 December 2009 and 2008, the Group's and the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks that could adversely affect the Group's and the Company's financial assets, liabilities or future cash flows are cash flow interest rate risk, foreign currency risk and liquidity risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's and the Company's financial instruments and show the impact on income statement and shareholders' equity, where applicable. Financial instruments affected by market risk include loans, other receivables, other payables and accrued liabilities.

The sensitivity has been prepared for years ended 31 December 2009 and 2008 using the amounts of debt and other financial assets and liabilities held as at those balance sheet dates.

*Interest rate risk*

The Group's and the Company's exposure to the risk of changes in market interest rates relates primarily to the Group's and the Company's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax through the impact on floating rate borrowings.

The Group and the Company

	<b>Effect on profit before tax for the year 2009 increase/ (decrease) US\$000</b>	<b>Effect on profit before tax for the year 2008 increase/ (decrease) US\$000</b>
Increase/decrease in interest rate		
+1%	(236)	(187)
-1%	236	185

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**19 Financial risk management objectives and policies cont.**

*Foreign currency risk*

The Company's financial assets and liabilities are not subject to foreign currency risk, except for cash and cash equivalents, other receivables and payables and certain shareholders' loan denominated in British Pounds and HK Dollars held by the Company whose functional currency is US Dollars. The Group's remaining financial assets and liabilities subject to foreign currency risk includes cash and cash equivalents, other receivables and payables denominated in Peruvian Soles held by its Peruvian subsidiaries whose functional currency is US Dollars. Therefore, the fluctuations in the exchange rate of functional currencies against foreign currencies could affect the Group's and the Company's results of operations.

To date, the Group have not entered into any hedging transactions in an effort to reduce the Group's and the Company's exposure to foreign currency exchange risks.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised monetary assets/(liabilities) denominated in a currency other than the functional currency of the entity to which they relate.

Foreign currency exposure by company profile	<b>British Pound US\$000</b>	<b>Peruvian Soles US\$000</b>	<b>US Dollar US\$000</b>	<b>HK Dollar US\$000</b>
<b>2009</b>				
Company	177	-	n/a	-
Peru and Ecuador subsidiaries	-	45	n/a	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>British Pound US\$000</b>	<b>Peruvian Soles US\$000</b>	<b>US Dollar US\$000</b>	<b>HK Dollar US\$000</b>
<b>2008</b>				
Company	n/a	-	(13,314)	24
Peru and Ecuador subsidiaries	-	161	n/a	-
	<hr/>	<hr/>	<hr/>	<hr/>

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2009. This sensitivity does not represent the income statement impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

If the US dollar had gained 5% against all currencies significant to the Group, with all other variables held constant, the impact would have been:

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**19 Financial risk management objectives and policies cont.**

	<b>Closing exchange rate 2009</b>	<b>Effect on net earnings of a 5% change 2009 US\$000</b>	<b>Effect on equity of a 5% change 2009 US\$000</b>
British Pound	1.617	9	-
Peruvian Soles	2.888	2	-
	<hr/>	<hr/>	<hr/>
	<b>Closing exchange rate 2008</b>	<b>Effect on net earnings of a 5% change 2008 US\$000</b>	<b>Effect on equity of a 5% change 2008 US\$000</b>
Hong Kong Dollar	7.7507	1	-
Peruvian Soles	3.1720	8	-
	<hr/>	<hr/>	<hr/>

*Liquidity risk*

To date, the Group and the Company has relied upon shareholder funding to finance its operations. As the Group and the Company have finite cash resources, the management of expenditure and continued shareholder support are required in order to mitigate liquidity risk. The maturity for the shareholders' loans are disclosed in note 15 while other payable is repayable on demand. Other receivables and repayments are receivable within one year.

The details of the shareholders' loan, outstanding at 31 December 2009 are disclosed in note 15. The management have a reasonable expectation that the Company will receive continued support from the Zijin Consortium and the shareholders' loan will be refinanced upon maturity. Based on a review of the Group's budget and cash flow plans, the Directors are satisfied that the Group has sufficient resources to continue its operations and to meet its commitments in the foreseeable future.

*Capital management policies and procedures*

The Group's primary objective on capital management is to safeguard the Group's ability to continue as a going concern, while at the same time continues to provide returns for shareholders.

The Group monitors capital on the basis of the carrying amount of equity plus its loans from shareholders, less cash and cash equivalents as presented on the face of the balance sheet. At 31 December 2009, total capital employed (comprised of shareholders' equity plus borrowings, less cash and cash equivalents) of the Group amounted to US\$61,497,000, compared to US\$51,422,000 at 31 December 2008.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, or sell assets to reduce debt.

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**20 Financial instruments**

The Group and the Company has not entered into any hedging instruments and derivatives during the year to reduce the Group's exposure in financial instruments risk.

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the financial instruments that are recognised in the financial statements:

The Group

	Financial instrument classification	Carrying amount		Fair value	
		2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
<b>Financial assets</b>					
Cash and cash equivalents		1,697	2,787	1,697	2,787
Other receivables	Loans & receivables	804	326	804	326
Receivable from sale of subsidiaries	Loans & receivables	5,238	-	5,238	-
<b>Financial liabilities</b>					
Interest-bearing loans & borrowings	Amortised cost	26,617	20,552	26,617	20,552
Other payable & accrued liabilities	Amortised cost	826	881	826	881

The Company

	Financial instrument classification	Carrying amount		Carrying amount	
		2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
<b>Financial assets</b>					
Cash and cash equivalents		1,494	2,344	1,494	2,344
Other receivables	Loans & receivables	796	67	796	67
<b>Financial liabilities</b>					
Interest-bearing loans & borrowings	Amortised cost	26,617	20,552	26,617	20,552
Other payable & accrued liabilities	Amortised cost	352	317	352	317

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

- Cash and short-term deposits, other receivables and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Interest-bearing loans and borrowings approximate their carrying value due to the floating nature of these instruments.

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**21 Immediate and ultimate controlling party**

At 31 December 2009, the Directors consider the immediate parent and ultimate controlling party of the Group to be Xiamen Zijin Tongguan Investment Development Co., Ltd., which is incorporated in the People's Republic of China. This entity does not produce financial statements available for public use.

**22 Post balance sheet events**

The loan facility agreement with the Zijin Consortium of US\$5,000,000 and £2,550,000 which expires on 2 February 2010 as disclosed in note 15, was extended to 9 February 2011. The other terms of the loan facility remains unchanged.

**Litigation**

The Company is currently defending an action brought in the High Court in London by 31 anti-mining protesters in respect of personal injuries they allege to have sustained during a protest march in July/August 2005 at the Rio Blanco site in Peru, owned by the Company's wholly owned subsidiary Rio Blanco Copper S.A. In relation to the litigation, the Company's assets are subject to a worldwide freezing order up to the value of £5,015,000 issued by the English courts, and a domestic freezing order in Hong Kong up to the value of £6,700,000.

The Company is contesting the action vigorously and has filed a robust and detailed defence with the English Court. The case is due to come to trial in June 2011.

Should the Company be unsuccessful in defending itself, the financial consequences and negative publicity could have a material adverse effect on the Company's results.