

**Consolidated Resources & Holdings, Inc.**

No. 28 N. Domingo St., near corner Gilmore St., New Manila, Quezon City

Tel. Nos. 724-3759 / 725-7875 / 724-5055; Fax No. 724-3290

03 November 2010

**THE DISCLOSURE DEPARTMENT**

The Philippine Stock Exchange, Inc.

3<sup>rd</sup> Floor Philippine Stock Exchange Plaza

Ayala Triangle, Ayala Avenue, Makati City

**ATTENTION: JANET A. ENCARNACION**  
Head, Disclosure Department

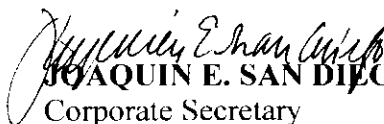
**Dear Ms. Encarnacion:**

Please be informed that our company has just executed a Revised Heads of Agreement with Lodestar Investment Holdings Corporation concerning our company's interests in Abacus Coal Exploration and Development Corporation.

We enclose herewith a copy of the Revised Heads of Agreement.

For the information of the Exchange, the Trading Participants and the general public.

Very truly yours,

  
**JOAQUIN E. SAN DIEGO**  
Corporate Secretary

## REVISED HEADS OF AGREEMENT

KNOW ALL MEN BY THESE PRESENTS:

This Revised Heads of Agreement entered into by and between the following PARTIES at QUEZON CITY, NOV 03 2010 this 03 day of November 2010:

**ABACUS CONSOLIDATED RESOURCES HOLDINGS, INC.** a corporation duly organized and existing under the laws of Republic of the Philippines with address at Number 28 N. Domingo Street corner Gilmore Street, New Manila, Quezon City duly represented by its President and Chief Executive Officer, Leonardo S. Gayao, hereinafter referred to as **ABACOAL / FIRST PARTY**;

-and-

**LODESTAR INVESTMENT HOLDINGS CORPORATION**, a corporation duly organized and existing under Philippine laws with address at 12 Jaime St., Carmel 1, Bahay Toro, Quezon City, herein represented by its President, Richard William N. Palou, hereinafter referred to as the **LODESTAR / SECOND PARTY**;

**FIRST** and **SECOND PARTY** are jointly referred to herein as the **PARTIES**.

WITNESSETH, That:

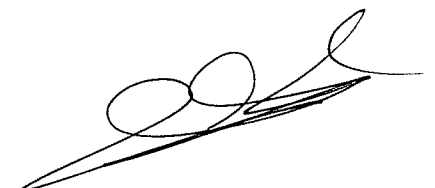
WHEREAS, **FIRST PARTY** owns all or one hundred percent (100%) of the outstanding and issued shares of Abacus Coal Exploration and Development Corporation, hereinafter referred to as **ABACOAL**;

WHEREAS, **ABACOAL** is the Assignee of Coal Operating Contract No. 148 covering seven thousand (7,000) hectare property located at Mimi Tandag, Surigao del Sur (**COAL PROPERTY**) under a Deed of Assignment executed by **FIRST PARTY** in favor of **ABACOAL**. Photocopies of the Coal Operating Contract, Deed of Assignment and DOE approval are hereto attached as Annexes "A", "B" and "C" respectively;

WHEREAS, **LODESTAR** is a duly organized and existing publicly-listed corporation under Philippine laws with an authorized capital stock of One Hundred Million Pesos (₱ 100,000,000.00) divided into One Billion (1,000,000,000) common shares with a par value of Ten Centavos (₱ 0.10), of which seven hundred forty million (740,000,000) shares have been subscribed;

WHEREAS, **LODESTAR** desires to acquire and own all the issued and outstanding shares of stock of **ABACOAL** and operate the **COAL PROPERTY**, exploit and maximize the potential thereof, which per the appraisal conducted by Cuervo Appraisers, Inc. is valued at approximately Two Billion Seven Hundred Million Pesos (₱ 2,700,000,000.00), Philippine currency. A photocopy of the Appraisal Report prepared by Cuervo Appraisers, Inc. is hereto attached as Annex "D" and made an integral part hereof;

NOW THEREFORE, for and in consideration of the foregoing premises and the mutual covenants of the **PARTIES** herein, **PARTIES** have agreed to enter into this Heads of Agreement under the following terms and conditions:



### 1. Merger and Acquisition

**SECOND PARTY** shall acquire the **COAL PROPERTY** and all the other assets and liabilities of **ABACOAL** by and through a merger of the **SECOND PARTY** and **ABACOAL**, with the **SECOND PARTY** as the surviving corporation. By virtue of said merger, the **SECOND PARTY** shall issue two hundred fifty million (250,000,000) new common shares at a par value of Ten Centavos (P 0.10) and an agreed issue value of Ninety Centavos (P 0.90) to the **FIRST PARTY**. **SECOND PARTY** undertakes to list the said 250,000,000 new common shares with the Philippine Stock Exchange at the soonest possible time. These terms and conditions shall be incorporated in a Merger Agreement and Plan of Merger which the **PARTIES** hereby agree to execute at the proper time.

### 2. Participation in Operating Revenues

As an indispensable component of this agreement, **SECOND PARTY** shall make staggered cash payments to the **FIRST PARTY** which shall be deemed as constituting a participation in operating revenues from the **COAL PROPERTY** in the total amount of Seventy Five Million Pesos (P 75,000,000.00), in accordance with the following schedule:

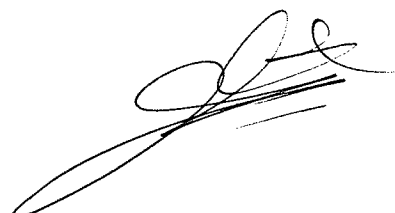
| Date or Period of Payment   | Amount   |
|---|--|
| <ul style="list-style-type: none"><li>September 24, 2008, June 1, 2009 and June 8, 2009 - Advance Deposit on First Party's Participation</li></ul>                              | Thirty Million Pesos<br>(P 30,000,000.00)      |
| <ul style="list-style-type: none"><li>Amounts to be paid upon and to be taken from the sale of the first production of Coal Products from the Coal property</li></ul>           |  |
| <ul style="list-style-type: none"><li><ul style="list-style-type: none"><li>Upon consummation of said first (1<sup>st</sup>) sale of Coal Products</li></ul></li></ul>          | Twenty Million Pesos<br>(P 20,000,000.00)      |
| <ul style="list-style-type: none"><li><ul style="list-style-type: none"><li>Thirty (30) days from consummation of said 1<sup>st</sup> sale of Coal Products</li></ul></li></ul> | Twenty Five Million Pesos<br>(P 25,000,000.00) |

**SECOND PARTY** shall be entitled to a period of grace of ten (10) days from the dates the payments fall due.

### 3. Warranties

**FIRST PARTY** warrants as follows:

- That the transfer of the Coal Operating Contract from **FIRST PARTY** to **ABACOAL** has been approved by the Department of Energy.
- That **ABACOAL** has no outstanding loans, obligations and other indebtedness to third parties.
- That **FIRST PARTY** shall execute all the necessary authorizations and perform any and all acts necessary to obtain the Coal Operating Contract for Development and Production (COC-DP), Environmental Compliance Certificate (ECC), and other permits and licenses required to operate the **COAL PROPERTY** and produce Coal Products.



#### 4. Closing

**PARTIES** shall, immediately after signing hereof and after obtaining their respective corporate approvals, proceed with the execution of the corresponding documents to implement their agreements herein and comply with the pertinent requirements of the Securities and Exchange Commission, Bureau of Internal Revenue and the Philippine Stock Exchange.

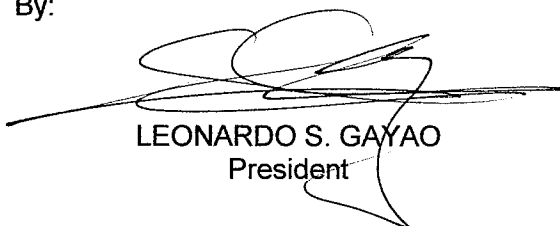
#### 5. Shareholders' Approval

The **PARTIES** shall, whenever necessary and applicable, obtain the necessary shareholders' approval and / or ratification to effect their respective covenants under this Revised Heads of Agreement and its implementing contracts.

**IN WITNESS WHEREOF**, we have hereunto set our hand at the place and on the date first above-written.

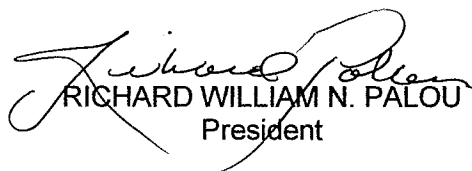
**ABACUS CONSOLIDATED  
RESOURCES HOLDINGS, INC.**  
(FIRST PARTY)

By:

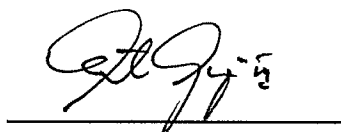
  
LEONARDO S. GAYAO  
President

**LODESTAR INVESTMENT HOLDINGS  
CORPORATION**  
(SECOND PARTY)

By:

  
RICHARD WILLIAM N. PALOU  
President

Signed In The Presence Of:





#### **ACKNOWLEDGEMENT**

REPUBLIC OF THE PHILIPPINES )  
QUEZON CITY )

S.S.

**QUEZON CITY**

**NOV 03 2010**

**BEFORE ME**, a Notary Public, for and in \_\_\_\_\_, this \_\_\_\_ day of November 2010, personally appeared the following:

| NAME                     | ID NO.           | PARTICULARS                  |
|--------------------------|------------------|------------------------------|
| LEONARDO S. GAYAO        | PP No. XX0449982 | Valid until January 30, 2013 |
| RICHARD WILLIAM N. PALOU | N10-66-003241    | Expiring 2-24-2012           |

known to me and known to be the same persons who executed the foregoing Revised Heads of Agreement, consisting of four (4) pages including this acknowledgement, and they acknowledged to me that the same is their own free and voluntary act and deed, as well as the voluntary act and deed of the corporations that they represent.

IN WITNESS HEREOF, I have hereunto set my hand on the date and at the place first above written.

Doc. No. 281  
Page No. 113  
Book No. XI-A  
Series of 2010

*Wladimir M. ...*  
ATTY. ENCLICIA M. G. ...  
Notary Public  
**NOTARY PUBLIC**  
Until Dec 31, 2010  
Adm. Matter No. NP 098  
PTR No. 5176000 - 1-4-2010 QC  
TIN No. 125-582-859  
Atty's Roll No. 27386

*G. F. ...*

*[Signature]*

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF ENERGY  
Taguig City  
Metro Manila

**Annex A**

**COAL OPERATING CONTRACT**

This COAL OPERATING CONTRACT - is made and entered into this 10<sup>th</sup> day of January, 2007 in Port Bonifacio, Taguig City, Metro Manila by and between:

The GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES,  
hereinafter referred to as "Government" represented in this act by the  
DEPARTMENT OF ENERGY, hereinafter referred to as the  
"DEPARTMENT".

and

ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC., a  
corporation organized and existing under the laws of the Republic of the  
Philippines hereinafter referred to as the "OPERATOR".

The DEPARTMENT and the OPERATOR are hereinafter referred to  
individually as "Party" and collectively as the "Parties."

WITNESSETH: That;

WHEREAS, all Coal resources of the Philippines belong to the State and their  
exploration, development, exploitation, disposition and utilization are governed by  
Presidential Decree No. 972 (as amended), otherwise known as the Coal Development  
Act of 1976, hereinafter referred to as the "Act";

*MA*

*AK*

WHEREAS, the Act declared the policy of the State to immediately accelerate the exploration, development, exploitation, production and utilization of the country's Coal resources in accordance with a Coal development program promulgated and established by the Act;

WHEREAS, under the provision of the Act, the Government, through the DEPARTMENT and its successors or assigns shall undertake by itself the active exploration, development and production of Coal resources and may also execute Coal Operating Contract as provided for in the Act;

WHEREAS, in pursuance of the above-stated policy, the Government through the DEPARTMENT, wishes to avail itself of the resources of the OPERATOR through a Coal Operating Contract under which the OPERATOR will furnish the necessary services, technology and financing for the Coal Operation hereinafter defined;

WHEREAS, the OPERATOR wishes to enter into such a Coal Operating Contract covering the Coal Contract Area as hereinafter defined; and

WHEREAS, the OPERATOR has the financial resources, technical competence and professional skills necessary to carry out the Coal Operation;

NOW, THEREFORE, in consideration of the foregoing, the OPERATOR shall remit to the DEPARTMENT signature bonus in the amount of Four Hundred Thousand Pesos (P400,000.00) in cash within thirty (30) days from signing herein, the Parties herein have stipulated as follows:

## SECTION I - SCOPE

- 1.1 This Contract is a Coal Operating Contract entered into pursuant to Section 8 of the Act with all necessary services, technology and financing to be furnished by the OPERATOR in accordance with the provisions herein contained. The OPERATOR shall undertake and execute the Coal Operation contemplated hereunder.
- 1.2 The OPERATOR shall be responsible to the DEPARTMENT for the execution of such operations in accordance with the provisions of this Contract and is hereby appointed and constituted the exclusive Party to conduct the Coal Operation over the specific areas herein defined.
- 1.3 During the term of this Contract, the total Coal production achieved in the conduct of the Coal Operation shall be accounted for between the Parties in accordance with Section VI hereof.

## SECTION II - DEFINITIONS

In this Contract, the words and terms defined elsewhere in the Act shall, unless otherwise specified herein, have meaning in accordance with the following definitions:

- 2.1 Accounting Procedures - refers to the set of procedures, guidelines and arrangement between the Parties to govern the recording and proper entry of expenses, costs and income, attached as Annex "B" to this Contract.
- 2.2 Accounting Period - means a Calendar Year or a fraction thereof wherein the OPERATOR is obliged to spend a certain sum of money and/or perform certain work obligations in accordance with the work program approved by the



DEPARTMENT. In no case should the total number of years of the Accounting Period be more than one (1) year and six (6) months for the Exploration Phase and five (5) years for the Development and Production Phase of this Contract.

- 2.3 **Affiliate** - means (a) a company in which an OPERATOR holds directly or indirectly at least fifty percent (50%) of its outstanding shares entitled to vote or (b) a company which holds directly and indirectly at least fifty percent (50%) of the OPERATOR's outstanding shares entitled to vote or (c) a company in which at least fifty percent (50%) of its shares outstanding and entitled to vote are owned by a company which owns directly and indirectly at least fifty percent (50%) of the shares outstanding and entitled to vote of the OPERATOR.
- 2.4 **Calendar Quarter** - means a period of three (3) consecutive Gregorian months under the Gregorian calendar beginning on the first (1<sup>st</sup>) day of January, the first (1<sup>st</sup>) day of April, the first (1<sup>st</sup>) day of July, or the first (1<sup>st</sup>) day of October.
- 2.5 **Calendar Year** - means a period of twelve (12) consecutive months beginning with January 1 and ending on the following December 31.
- 2.6 **Certificate of Non-Coverage** - refers to the certification issued by the DENR in accordance with Presidential Decree No. 1586 and DAO 03-30, stating that the activity is not covered by the Environment Impact System.
- 2.7 **Coal** - means a black or brownish-black solid combustible rock containing less than 40% non-combustible inorganic components, formed by the accumulation, decomposition and compaction of plant material under long-acting geological process.

2.8 **Coal Contract Area** - means at any time the area subject of this Contract and defined in conformity with the Coal blocking system (CBS) established in the Act. Unless modified by mutual written consent of both Parties, this Contract covers CBS 38-L-84, -85, -86, -87, -88, -89 and 38-L-249, as determined by the DEPARTMENT to be available for this Contract. The Coal Contract Area is outlined and more particularly described in Annex "A" attached hereto.

2.9 **Coal Operation** shall include:

1. The examination, investigation and/or exploration of lands supposed to contain Coal by detailed surface geologic mapping, core drilling, trenching, test pitting and other appropriate means for the purpose of probing the presence of Coal deposits and extent thereof;
2. Steps necessary to reach the Coal deposits so that they can be mined, including but not limited to shaft sinking and tunneling; and
3. The extraction, beneficiation and transportation up to the Delivery Point.

2.10 **Coal Reserves in Commercial Quantity** - means Coal in such quantities which will allow economic development and production of Coal in the Coal Contract Area as determined jointly by the OPERATOR and the DEPARTMENT after taking into account factors such as measured reserves, quality of Coal, mining method, location and accessibility to market.

2.11 **Contract** - means this Coal Operating Contract.

- 2.12 **Contract Year** - means a period of twelve (12) consecutive months counted from the Effective Date of this Contract and, thereafter, from each anniversary of such Effective Date.
- 2.13 **Delivery Point** - means the point at which Coal reaches the delivery facility as agreed upon by the OPERATOR and the buyer in the sales contract and/or purchase order.
- 2.14 **DENR or Department of Environment and Natural Resources** - refers to the agency of the Government tasked to implement environmental and natural resources laws and policies and to supervise related projects in accordance with Executive Order No. 192, s. 1987.
- 2.15 **Development and Production Area** - refers to the specific geographical area over which the OPERATOR is given the exclusive right to develop and from which to produce Coal in accordance with this Contract.
- 2.16 **Development and Production Phase** - means the stage of this Contract during which the OPERATOR conducts activities necessary to reach and extract the Coal deposits, including but not limited to shaft sinking, tunneling and open-pit mining, as well as the beneficiation and transportation of the Coal up to the Delivery Point.
- 2.17 **ECC or Environmental Clearance Certificate** - refers to the certification issued by the DENR in accordance with Presidential Decree No. 1586 stating that the activity is covered by the Environment Impact System and has complied with all the requirements and standards therein.

- 2.18 **Effective Date** - means the date of execution of this Contract by the Parties.
- 2.19 **Exploration Phase** - means the stage of this Contract during which the OPERATOR conducts examination, investigation and/or exploration of lands supposed to contain Coal by detailed surface geologic mapping, core drilling, trenching, test pitting and other appropriate means for the purpose of probing the presence of Coal deposits and extent thereof.
- 2.20 **Force Majeure** - refers to events or circumstances that cannot be foreseen or which, though foreseen, are inevitable, as provided in Section 12.4 herein.
- 2.21 **Foreign Exchange** means currency other than Philippines currency which is freely convertible into gold or currencies eligible to form part of the country's international reserves, acceptable to both the DEPARTMENT and the OPERATOR.
- 2.22 **Government** - means the Government of the Republic of the Philippines.
- 2.23 **Gross Income** - means the gross proceeds from the sale of Coal produced under the Contract and sold during the taxable year at posted or market price, as the case may be, all as determined pursuant to Section VI, and Coal Operation such other income which are incidental to and arising from any one or more of the OPERATOR.
- 2.24 **Market Price** - means the price which is realized for Coal produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market.

- 2.25 **NCIP or National Commission on Indigenous Peoples** - refers to the office created by Republic Act No. 8371 responsible for developing and implementing the policies of the Government concerning indigenous peoples.
- 2.26 **Operating Expenses** - mean the total expenditures for Coal Operation and expenses related to securing Environmental Compliance Certificate (ECC), incurred by the OPERATOR as provided for in the Coal Operating Contract and determined in accordance with the Accounting Procedures attached hereto and made part hereof as Annex "B". These expenses include but are not limited to the cost of detailed surface geologic mapping, core drilling, trenching, test pitting and other appropriate means for the probing of the presence and extent of Coal deposits, mining of Coal which will include sinking, tunneling and extraction and utilization of Coal.
- 2.27 **Philippine Corporation** - means a corporation organized under Philippine laws at least sixty percent (60%) of the capital of which is owned and held by citizens of the Philippines.
- 2.28 **Posted Price** - means the FOB price established by the OPERATOR and the DEPARTMENT for each grade, specific gravity and quality of Coal offered for sale to buyers for export at the particular point of export, which price shall be based upon geographic location and the fair market export values for Coal of comparable grade, gravity and quality.
- 2.29 **Pre-condition Certificate** - refers to the certification issued by the NCIP in accordance with Republic Act No. 8371 as a pre-condition to the grant of permit, lease, grant, or any other similar authority for the disposition, utilization, management and appropriation by any private individual, corporate entity or any

government agency, corporation or subdivision thereof on any part or portion of the ancestral domain taking into consideration the consensus approval of the ICCs/IPs concerned.

2.30 Sub-contractor - means any person or corporation under contract with the OPERATOR to work in the Coal Contract Area, subject to the provisions of BED Circular No. 82-09-09, as amended by OEA Circular No. 89-08-09.

2.31 Taxable Net Income - means the Gross Income less the deductions provided in Section VI hereof.

### SECTION III - TERM

3.1 The Exploration Phase under this Contract shall be for two (2) years from the Effective Date, after which time this Contract shall automatically terminate, unless:

- (a) Coal Reserves in Commercial Quantity is delineated by the both Parties; and
- (b) the Exploration Phase is extended by or with the approval of the DEPARTMENT for a maximum period of two (2) years, provided that the OPERATOR:

- i. Has not been in default in its exploration work and other obligations;
- ii. Has complied with the work program and budget submitted to the DEPARTMENT; and

- iii. Has provided a work obligation for the extension period that is acceptable to the DEPARTMENT.

This Contract shall automatically terminate at the end of such extension period unless, at such time, Coal Reserves in Commercial Quantity is measured in any area covered by this Contract.

- 3.2 If the Parties have measured and agreed on the existence of Coal reserves in Commercial Quantity, this Contract shall proceed to the Development and Production Phase immediately after the approval by the DEPARTMENT of the Coal development and production work program and feasibility study submitted by the OPERATOR, and shall remain in force during the balance of the Exploration Phase or any extension thereof and an additional period of up to ten (10) years. Thereafter, upon the request of the OPERATOR, the DEPARTMENT may extend the term of this Contract for a maximum of another ten (10) years, provided that the OPERATOR is not in default of its obligations. Thereafter, the OPERATOR may request for the extension of the Contract term for a series of three-year periods, the total of which shall not exceed twelve (12) years. For the avoidance of doubt, the term may be reduced if a shorter period of time is required to continue and maintain economic Coal development and production as jointly determined by the OPERATOR and the DEPARTMENT.

- 3.3 At the end of the Exploration Phase, the OPERATOR shall retain only the Coal blocks where it has a Coal development and production work program approved by the DEPARTMENT. All other Coal blocks covered by this Contract must be relinquished prior to the start of the Development and Production Phase, unless an annual exploration work program is approved by the DEPARTMENT for the Coal blocks where no Development and Production Area is established but which

the OPERATOR opts to retain after the Exploration Phase. If the OPERATOR fails to submit an annual exploration work program prior to the start of any Contract Year or fails to implement the approved exploration work program for these retained Coal blocks, then these Coal blocks shall automatically be deemed relinquished and taken out of the Contract Area after written notification by the DEPARTMENT to the OPERATOR.

#### SECTION IV - WORK PROGRAM AND EXPENDITURES

- 4.1 The OPERATOR, within one (1) year from the award of the Contract shall secure a Certificate of Non-coverage from the Department of Environment and Natural Resources (DENR).
- 4.2 Before the commencement of Coal development and production activities, the OPERATOR shall secure an Environmental Compliance Certificate (ECC) from the DENR and Precondition Certificate from the National Commission on Indigenous People (NCIP).
- 4.3 The OPERATOR shall be obliged to spend no less than Seventeen Million Six Hundred Eighty-Seven Thousand Pesos (P= P17,687,000.00) for the direct implementation of the below indicated work program:

| Work Commitment Activity             | Year 1    | Year 2    | Total     |
|--------------------------------------|-----------|-----------|-----------|
| 1. Geological Investigation          |           |           |           |
| a. Semi-detailed (has)               | 3,500     | 3,500     | 7,000     |
| b. Detailed (has)                    | 700       | 700       | 1,400     |
| 2. Geological Survey                 |           |           |           |
| a. Boundary (kms)                    | 71.35     | -         | 71.35     |
| b. Topographic (has)                 | -         | 200       | 200       |
| 3. Exploration Workings              |           |           |           |
| a. Trenches (no./m-dhe)              | 105/2,625 | 105/2,625 | 210/5,250 |
| b. Test Pits (no./m-dhe)             | 105/525   | 105/525   | 210/1,050 |
| c. Auger Drilling (no./m-dhe)        | 126/1,890 | 126/1,890 | 252/3,780 |
| d. Diamond Drilling (no./m-dhe)      | 17/1,275  | 17/1,275  | 34/2,550  |
| e. Inclined Shaft/Adit (no./m-dhe)   | 2/300     | 2/300     | 4/600     |
| Total Work Commitment (m-dhe)        | 6,615     | 6,615     | 13,230    |
| Financial Commitment (Million Pesos) | 8.257     | 9.430     | 17.687    |



If Coal Reserves in Commercial Quantity have been determined jointly by the OPERATOR and the DEPARTMENT, and the OPERATOR opts to enter to the Development and Production Phase of this Contract, the OPERATOR shall submit a five-year development and production work program, as well as feasibility study, for the approval of the DEPARTMENT. After the approval by the DEPARTMENT of the five-year development and production work program and feasibility study, the OPERATOR shall undertake Coal development and production in the Contract Area within the period agreed by both Parties, and shall be obliged to spend in the development and production of the Coal Contract Area the minimum amount committed by the OPERATOR for the purpose. Provided, that if during any Contract Year, the OPERATOR shall spend more than the amount of money required to be spent, the excess may be credited against the amount of money required to be spent by the OPERATOR during the succeeding Contract Years except that excess expenditures for exploration cannot be credited against financial commitments for development and production; Provided, further, that should the OPERATOR fail to comply with the work obligations provided for in this Contract, it shall pay to the DEPARTMENT the amount it should have spent but did not in direct prosecution of the work obligations. For purposes of this Section, in addition to the remedies which the DEPARTMENT may apply under Section 12.6, failure on the part of the OPERATOR to meet the commitment as provided for herein shall be deemed a failure to spend the amount committed and the OPERATOR shall then pay the DEPARTMENT the amount which is left unspent during each Contract Year.

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The approved Coal development and production work program shall be executed by the OPERATOR. At least six (6) months prior to the expiration of the fifth year of the Development and Production Phase, the OPERATOR shall submit to the DEPARTMENT for its approval another Coal production work program with corresponding budget for the next five (5) Contract Years.

If during any Contract Year, the OPERATOR fails to produce the minimum amount of Coal that is prescribed to be produced in the work program, then the OPERATOR shall pay to the DEPARTMENT a penalty which is determined and computed hereunder.

1. In any Contract Year, the deficiency in Coal production is the difference in the sum of Coal produced and the sum of Coal required to be produced;
2. The DEPARTMENT shall determine the average selling price per metric ton of all Coal produced and sold by the OPERATOR in the Coal Contract Area during any Contract Year;
3. The amount of Coal determined in paragraph (1) above shall be multiplied with the average selling price determined in paragraph (2) herein. Thereafter, the DEPARTMENT, shall proceed to apply Section VI of the Contract on recovery of Operating Expenses and accounting for proceeds of production;
4. The share of the Government prescribed in Section 6.5 of the Contract shall be the amount of the penalty to be paid to the DEPARTMENT.

In connection with the above penalty, the DEPARTMENT may enforce on the performance bond posted by the OPERATOR in accordance with Section 5.1(f) to satisfy any penalty not paid to the DEPARTMENT.

The payment of the foregoing penalty is without prejudice to their actions and remedies which the DEPARTMENT may institute and avail of as provided in Section 12.5 of this Contract.

- 4.4 The OPERATOR shall undertake Coal development and production within the Coal Contract Area during the term of the Contract in accordance with the work program approved by the DEPARTMENT.

#### SECTION V RIGHTS AND OBLIGATIONS OF THE PARTIES

- 5.1 The OPERATOR shall have the following obligations:

- a. Perform all Coal Operation and provide all necessary services, technology and financing in connection therewith. A licensed mining engineer or geologist, as appropriate, shall be employed by the OPERATOR on a full time basis to oversee the Coal Operation.
- b. Conduct a boundary survey of the Coal blocks covered by this Coal operating contract within one (1) year from the Effective Date of this Contract, subject to the provisions of Chapter IV, Sections I & II of BED Circular No. 81-11-10.
- c. Operate the Coal Contract Area on behalf of the Government, subject to the provisions of all applicable laws relating to labor, health, safety, indigenous people's rights and ecology/environment, avoiding hazards to

life, health and property, avoiding pollution of air, land and water. A safety engineer duly accredited by the DEPARTMENT shall oversee the safety aspect of the Coal Operation on a full time basis.

- d. Before the start of Coal development and production operations, acquire gas detectors and other safety devices and provide each mine worker with personal protective equipment such as, but not limited to: self-rescuer, skull guard, safety shoes, cap lamp and respirator/dust mask in accordance with applicable provisions under the DEPARTMENT's "Coal Mine Safety Rules and Regulations" and other DEPARTMENT circulars and directives.
- e. Furnish the DEPARTMENT promptly with all information, data and reports as required under Circular No. 81-11-10 as amended by subsequent circulars.
- f. Maintain detailed technical records and accounts of its Coal Operation.
- g. Conform to regulations regarding, among others, safety, demarcation of the Coal Contract Area, and non-interference with the rights of other petroleum, mineral and natural resources operations.
- h. Remit to the DEPARTMENT the government share from its reported sale of Coal within sixty (60) days following the end of each Calendar Quarter. Failure to remit the same on time without justifiable cause would render the OPERATOR liable for both civil and criminal prosecution, including the cancellation of the Contract.

- i. Maintain all necessary equipment in good order and allow access to these as well as to the exploration, development and production sites and all other sites of Coal Operation to the inspectors authorized by the DEPARTMENT.
- j. Allow representatives authorized by the DEPARTMENT at all reasonable times full access to accounts, books and records to Coal Operation hereunder for tax and other fiscal purposes. For this purpose, actual inspection or examination of such accounts, books and records of the OPERATOR are reimbursable to the OPERATOR as Operating Expenses as defined in this Contract and its Accounting Procedures.
- k. Give priority in employment to qualified personnel in the municipality or municipalities or province where the exploration, development and production are located;
- l. Within thirty (30) days after the Effective Date of this Contract or upon the implementation of the succeeding Contract Year, the OPERATOR shall post a performance bond or other guarantee of sufficient amount in favor of the DEPARTMENT with surety or sureties satisfactory to the DEPARTMENT, conditioned upon the faithful performance by the OPERATOR of any or all the obligations under and pursuant to this Contract. The amount of the guarantee for each Contract Year shall be adjusted in accordance with the obligations as approved in the work program for the respective Contract Year. Otherwise the DEPARTMENT shall impose penalties and/or initiate cancellation proceedings as provided for under DOE Circular No. 93-12-10.

- [REDACTED]
- m. Properly abandon and rehabilitate all sites affected by the Coal Operation, at the OPERATOR's expense, immediately after the termination of any Coal Operation. It is the OPERATOR's responsibility to decommission and dispose of all facilities erected and to restore all sites affected by tunneling and drilling during the Coal Operation.
  - n. The OPERATOR shall regularly present, within the duration of the contract, a tax clearance from the Bureau of Internal Revenue (BIR) as well as copy of its income and business tax returns duly stamped and received by the BIR and duly validated with the tax payments made thereon.

5.2 The OPERATOR shall have the following rights:

- a. Exemption from all national taxes except income tax;
- b. Exemption from payment of tariff duties, compensating tax and value-added tax on importations of machinery and equipment, spare parts and materials required for the Coal Operation subject to the following conditions:
  - 1. That said machinery, equipment, spare parts and materials of comparable price and quality:
    - a) are not manufactured in the Philippines;
    - b) are directly and actually needed and will be used exclusively by the OPERATOR in its operations or in the operations conducted by a Sub-contractor on behalf of the OPERATOR;

c) are covered by shipping documents in the name of the OPERATOR to whom the shipment will be delivered direct by customs authorities; and

2. The prior approval of the DEPARTMENT was obtained by the OPERATOR before the importation of such machinery, equipment, spare parts and materials which approval shall not be unreasonably withheld; Provided, however, that the OPERATOR or its Sub-contractor may not sell, transfer or dispose of such machinery, equipment, spare parts and materials within the Philippines without the prior approval of the DEPARTMENT and payment of taxes due the Government; Provided, further, that should the OPERATOR sell, transfer, or dispose of these machinery, equipment, spare parts or materials without the prior consent of the DEPARTMENT, it shall pay twice the amount of the tax exemption granted; Provided, finally, that the DEPARTMENT shall allow and approve the sale, transfer or disposition of the said items within the Philippines without tax if made (1) to another OPERATOR under a Coal Operating Contract; (2) for reason of technical obsolescence; or (3) for purposes of replacement to improve and/or expand operations under the Coal Operating Contract.

c. The entry upon the sole approval of the DEPARTMENT which shall not be unreasonably withheld, of alien technical and specialized personnel (including the immediate members of their families) who may exercise their professions solely for the operation of the OPERATOR as prescribed in this Contract; Provided, that if the employment or connection of any

such alien with the OPERATOR ceases, the applicable laws and regulations on immigration shall apply to him and his immediate family.

- d. Have at all times the right of ingress to and egress from the Coal Contract Area and to and from facilities wherever located.

**SECTION VI**  
**RECOVERY OF OPERATING EXPENSES AND ACCOUNTING**  
**FOR PROCEEDS OF PRODUCTION**

- 6.1 In each Calendar Year, the OPERATOR can recover from the Gross Income under this Contract an amount equal to all Operating Expenses; Provided, that the amount so recovered shall not exceed ninety percent (90%) of the total Gross Income in any Calendar Year, Provided, further, that if in any Calendar Year the Operating Expenses exceeds ninety percent (90%) of the Gross Income, or there is no Gross Income, then the unrecovered Operating Expenses shall be recovered from the Gross Income in succeeding Calendar Years.
- 6.2 The OPERATOR shall be entitled to a fee, the net amount of which shall not exceed forty percent (40%) of the net operating income.
- 6.3 In addition to the fee provided in paragraph 6.2, the OPERATOR shall be granted a special allowance the amount of which shall not exceed thirty percent (30%) of the net operating income.
- 6.4 For purposes of determining gross proceeds from the sale of Coal, it shall be valued as follows:



- a. All Coal sold for consumption in the Philippines shall be valued at Market Price for such Coal.
- b. All Coal exported shall be valued at the Posted Price.
- c. Reasonable commissions or brokerage fees incurred in connection with sales to third parties, if any, shall be deducted from gross proceeds but shall not exceed the customary and prevailing rates.
- d. Delivery expenses to end-users shall be deducted from the gross proceeds provided that, the selling price of Coal is inclusive of freight cost pursuant to the sales contract and/or purchase agreement. Provided, further, that the freight cost to be allowed shall be limited to actual delivery expenses paid to the trucking/shipping companies or freight cost included in the sales invoice whichever is lower.

6.5 The balance of the Gross Income after deducting all Operating Expenses, OPERATOR's fee and special allowance shall be paid to the DEPARTMENT as share of the Government.

#### SECTION VII - PAYMENTS

- 7.1 All payments which this Contract obligates the OPERATOR to make to the DEPARTMENT shall be in Philippine currency realized as a result of the domestic and export sale of Coal. All such payments shall be translated at the applicable exchange rate as defined in the Accounting Procedures attached hereto as Annex "B."

#### SECTION VIII - ASSETS AND EQUIPMENT

- 8.1 The OPERATOR shall acquire for the Coal Operation only such assets as are reasonably estimated to be required in carrying out the Coal Operation.
- 8.2 The DEPARTMENT shall have the ownership of any cost recovered assets and materials, equipment and facilities which it elects to retain after the termination of this Contract. However, all other materials, equipment and facilities which the DEPARTMENT does not elect to retain shall be removed and disposed of by the OPERATOR within one (1) year after the termination of this Contract, or within the period agreed by the Parties.
- 8.3 The OPERATOR may also utilize in the Coal Operation, equipment owned and made available by OPERATOR, and charges to the Coal Operation account for use of such equipment shall be considered as provided for in the Accounting Procedures.

#### SECTION IX

##### EMPLOYMENT AND TRAINING OF FILIPINO PERSONNEL

- 9.1 The OPERATOR agrees to employ qualified Filipino personnel in the Coal Operation and, after development and production commence, to undertake upon approval of the DEPARTMENT, the schooling and training of Filipino personnel for labor and staff position, including administrative, technical and executive management positions.
- 9.2 The OPERATOR shall provide assistance for training, conferences and other related programs and activities for the DEPARTMENT personnel, consisting of Seventy-Five Thousand Pesos (PhP75,000.00) per year cumulative during the Exploration Phase and Two Hundred Thousand Pesos (PhP200,000.00) per year

cumulative during the Development and Production Phase. The cost and expenses incurred thereto by the OPERATOR shall form part of the Operating Expenses.

A training and institutional development assistance in the amount of Twenty-Five Thousand Pesos (PhP25,000.00) per year during the Exploration Phase and One Hundred Thousand Pesos (PhP100,000.00) during the Development and Production Phase to residents of the host province related to the manpower development program of the DOE.

#### SECTION X - TERMINATION

- 10.1 This Contract shall terminate or shall be cancelled as provided for in Sections III and 12.7 hereof. In such event, the OPERATOR shall be relieved of its obligations under the terms of this Contract, except for those obligations that have to be fulfilled after the termination of this Contract.

#### SECTION XI - BOOKS OF ACCOUNTS AND AUDIT

- 11.1 The OPERATOR shall be responsible for keeping complete books of accounts, reflecting all transactions in connection with Coal Operation in accordance with the Accounting Procedures attached hereto as Annex "B".
- 11.2 The DEPARTMENT shall have the right to inspect and audit the OPERATOR's books of accounts relating to this Contract for any Calendar Year within the twenty-four (24) months period following the end of each Calendar Year. Any such audit will be completed within twelve (12) months from the commencement of audit. Any exception must be made in writing within ninety (90) days following the completion of such an audit. If the DEPARTMENT fails to give

such written exceptions within such time, or fails or declines to conduct an audit of the OPERATOR's books of accounts within the time period stated above, then the OPERATOR's books of accounts and statements of Operating Expenses for such Calendar Year shall be established as correct and final for all purposes including the recovery of Operating Expenses.

- 11.3 The DEPARTMENT is entitled upon prior notice to all relevant records, files and other information and may inspect such sites and facilities as necessary.
- 11.4 If the DEPARTMENT notifies the OPERATOR of an exception to the OPERATOR's books of accounts within the time period specified in Section 11.2 above, the OPERATOR shall within ninety (90) days after receipt of such notice confer with the DEPARTMENT regarding the exception and the Parties shall attempt to reach a mutually acceptable resolution of such exception within a period not to exceed three (3) months. If any cost or expense included in the OPERATOR's statement of Operating Expenses is the subject of an exception which cannot be resolved during such three (3) months period, then such cost or expense shall be excluded as Operating Expenses and shall not be recoverable from Gross Income pending the resolution of such exception through mutual agreement or arbitration. If such cost or expense is subsequently determined to be properly included in the OPERATOR's statement of Operating Expenses, either by mutual agreement or arbitration, then the OPERATOR's current statement of Operating Expenses shall be increased by the amount of such cost or expense.

#### SECTION XII - OTHER PROVISIONS

- 12.1 Any notice required or given by either Party to the other Party shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's

duly designated representative or the person in charge of the office or place of business; or when sent by telex with written confirmation subsequently received within fifteen (15) days, notice shall be effective on date of telex receipt; or when sent by facsimile, notice shall be effective upon the issuance of a transmission report confirming that the notice was successfully transmitted to the addressee's number; or when sent by registered mail, notice shall be effective upon actual receipt by the addressee, but if the addressee fails to claim its mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time. All such notices shall be addressed:

To the GOVERNMENT -

**THE DIRECTOR**  
Energy Resource Development Bureau  
Department of Energy  
Energy Center, Morrist Road  
Fort Bonifacio, Taguig City, Metro Manila

To the OPERATOR -

**THE PRESIDENT**  
Abacus Consolidated Resources and Holdings, Inc.  
No. 28 N. Domingo St., near corner Gilmore St.  
New Manila, Quezon City - Fax No. 7243290

Any Party may substitute or change its address on written notice thereof to the other.

- 12.2 The laws of the Republic of the Philippines shall apply to this Contract. In addition, the provisions and requirements embodied in BED Circular No. 81-11-10, as amended and 83-08-09 as adopted and implemented by the DEPARTMENT as well as other implementing circulars, rules and regulations of Presidential Decree No. 972, as amended, which shall be issued by the

DEPARTMENT and its successors are incorporated in whole to form an integral part of this Contract.

12.3 The OPERATOR agrees to comply with the requirements of environmental laws, indigenous people's rights rules and regulations in all phases of this Contract.

12.4 Suspension of Obligations

- a. Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure.
- b. If Coal Operation are delayed, curtailed or prevented by such causes, then the time for enjoying the rights and carrying out the obligations thereby affected, and all rights and obligations hereunder shall be extended for a period equal to the period thus involved, except that the duration of this Contract as provided in Section III hereof shall remain.
- c. Force Majeure shall include acts of God, unavoidable accidents, acts of war or conditions arising out of or attributable to war (declared or undeclared), laws, rules and regulations and orders by any government or governmental agency, strikes, lockouts and other labor disturbances, floods, storms, and other natural disturbances, insurrections, riots and other civil disturbances and all others beyond the control of the party concerned. Provided, however, that as to the DEPARTMENT only laws, rules and regulations and orders by the Government or any governmental agency of the Republic of the Philippines shall not constitute Force Majeure.

- d. The Party whose ability to perform its obligations is so affected shall notify the other Party thereof in writing stating the cause and both Parties shall do all that is reasonable within their power to remove such causes.

- 12.5 The rights and obligations of the OPERATOR under this Contract shall not be assigned or transferred without the prior written approval of the DEPARTMENT; Provided, that, such a transfer or assignment may be made only to a qualified person or corporation possessing the resources and capability to continue the mining operation under this Contract and that the OPERATOR has complied with all the obligations of this Contract.
- 12.6 All Department circulars, rules and regulations issued or to be issued by the DEPARTMENT whether in the exercise of its regulatory powers or contractual rights shall form part of this Contract.
- 12.7 The DEPARTMENT shall have the power to cancel and annul this Contract after due notice for failure of the OPERATOR to (a) fulfill its work obligations in any Contract Year without justifiable cause (b) secure the ECC within one (1) year from the award of the Contract (c) remit the government share within sixty (60) days following the end of each Calendar Quarter (d) put up the required performance bond within thirty (30) days from award of the Contract without justifiable cause (e) meet safety standards as stipulated in the DEPARTMENT's Coal Mine Safety Rules and Regulations, and Section V of the Guidelines for Coal Operation in the Philippines (f) submit the reportorial requirements despite repeated notice/demands and (g) comply with the provisions of Presidential Decree No. 972, as amended and all other existing applicable implementing circulars, rules and regulations and such others as may be issued by the DEPARTMENT.

The cancellation of the Contract by the DEPARTMENT is without prejudice to its right to cancel/forfeit in its favor the performance bond posted under Section 5.1 (I) to satisfy any and all obligations due to the DEPARTMENT.

- 12.8 The OPERATOR warrants that it or any of its officials or representatives has not given or promised to give any money or gift to any employee/official of the DEPARTMENT to influence the decision regarding the awarding of this Contract, nor the OPERATOR has or its officials or representatives have exerted or utilized any unlawful influence on any employee/official of the DEPARTMENT to solicit or secure this Contract through an agreement to pay a commission, percentage, brokerage or contingent fee.

The OPERATOR hereby agrees that the breach of these warranties shall be sufficient ground for the DEPARTMENT at its discretion to terminate or cancel this Contract without prejudice to the OPERATOR's or any other person's civil or criminal liability under the Anti-Graft Law and other applicable laws.

#### SECTION XIII - EFFECTIVITY

- 13.1 This Contract shall come into effect as of the Effective Date hereof.

#### SECTION XIV - VENUE OF JUDICIAL ACTION

- 14.1 As much as possible, disputes pertaining to the Contract shall be settled amicably between the Parties. However, in the event either Party to the Contract shall take judicial action, the Parties agree that venues for purposes thereof shall be laid exclusively with the proper courts in Makati City, it having jurisdiction over the



same, and that writs of attachment, injunction, replevin, seizure, etc. issued thereby may be served and enforced anywhere in the Philippines.

In WITNESS WHEREOF, the Parties hereunto have signed this Contract as of the day and year first above written.


**ABACUS CONSOLIDATED RESOURCES  
AND HOLDINGS, INC.**

By:

  
**CLARITA T. ZARRAGA**  
President

**DEPARTMENT OF ENERGY**

By:

  
**GUILLERMO R. BALCE**  
Undersecretary



Republic of the Philippines  
**DEPARTMENT OF ENERGY**

ANNEX "A"

**ABACUS CONSOLIDATED RESOURCES & HOLDINGS, INC.**  
**Technical Description**

Two (2) parcels of coal-bearing land being described as follows:

**Parcel 1**

A parcel of coal-bearing land from 08 degrees - 54 minutes - 00 second to 08 degrees - 56 minutes - 00 second of latitude and from 126 degrees - 04 minutes - 30 seconds to 126 degrees - 13 minutes - 30 seconds of longitude.

Situated in the province of Surigao del Sur.

Bounded on all sides by free areas.

More particularly described as blocks 38-L-84, 38-L-85, 38-L-86, 38-L-87, 38-L-88 and 38-L-89 of the DOE coal blocking map.

Containing an area of **SIX THOUSAND (6,000) HECTARES**, more or less.

**Parcel 2**

A parcel of coal-bearing land from 08 degrees - 46 minutes - 00 second to 08 degrees - 48 minutes - 00 second of latitude and from 126 degrees - 12 minutes - 00 second to 126 degrees - 13 minutes - 30 seconds of longitude.

Situated in the province of Surigao del Sur.

Bounded on all sides by free areas.

More particularly described as block 38-L-249 of the DOE coal blocking map.

Containing an area of **ONE THOUSAND (1,000) HECTARES**, more or less.

Containing an aggregate area of SEVEN THOUSAND (7,000) HECTARES, more or less.

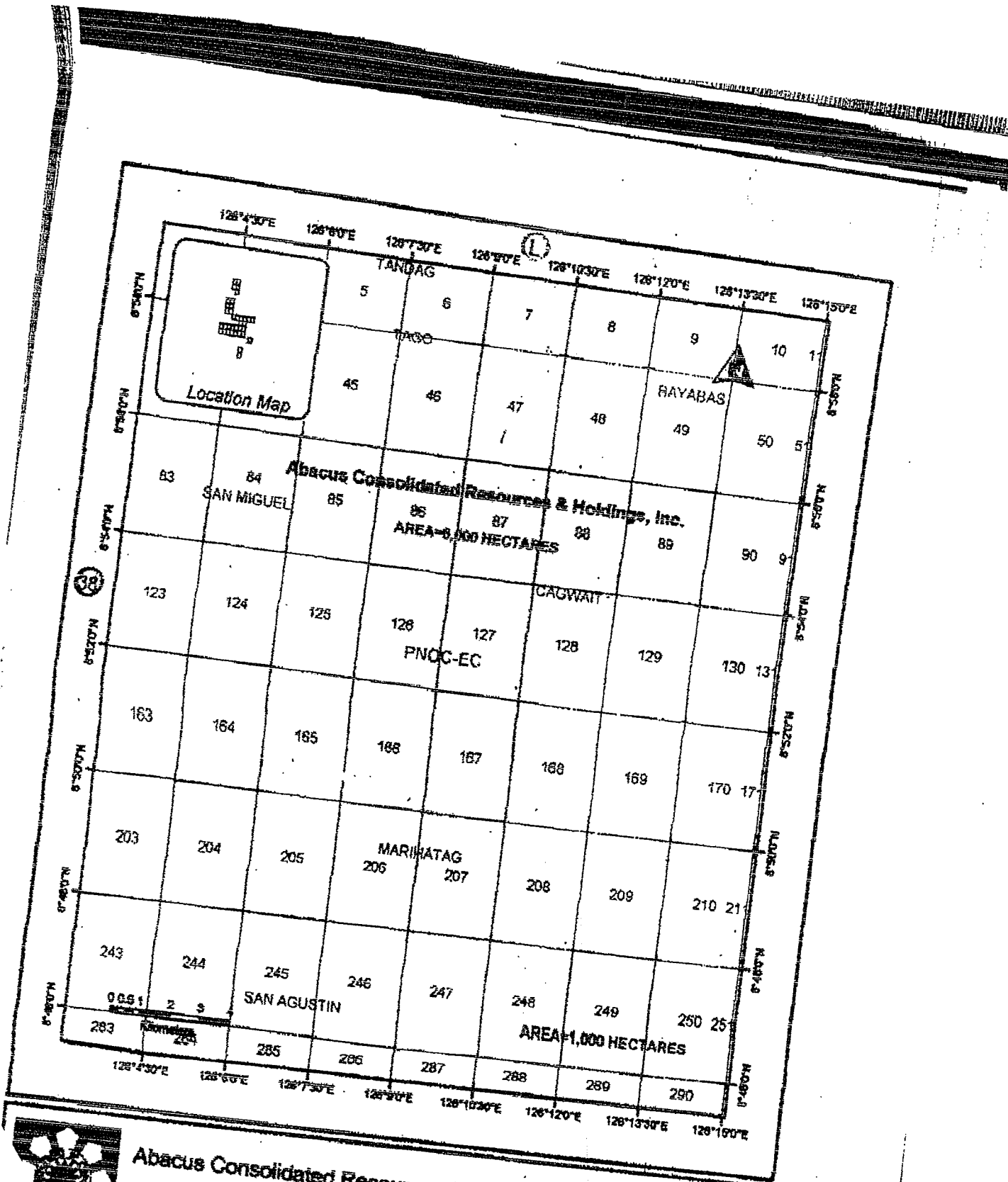
Subject to the provisions of PD 972, as amended, and BED Circular No. 81-11-10.

Prepared by:

*Fernandez B. Apoderado*  
Fernandez B. Apoderado  
Geodetic Engineer

*AAAP:MCUG*  
05/16/05

*JMC* *PK* *for*



**Abacus Consolidated Resources & Holdings, Inc.**  
**COC Application**  
**Tandag, Surigao del Sur**

DEPARTMENT OF ENERGY  
 INFORMATION TECHNOLOGY &  
 ENVIRONMENT SERVICES  
 PREPARED BY: TBA  
 CHECKED BY: JAC/ JAC/JJ  
 DATA SOURCE: DSD  
 DATE LIBRARY: 12 MAR 2006  
 APPROVED BY: JPP

©: Natural Resources Atlas 1998

ORIGINAL SCALE: 1:500,000

DATUM: Luzon Datum 1911

PROJECTION: unprojected

# DEED OF ASSIGNMENT OF MINING RIGHTS IN EXCHANGE FOR SHARES OF STOCK

KNOW ALL MEN BY THESE PRESENTS

This Deed of Assignment, made and executed by and between

ABACUS CONSOLIDATED RESOURCES & HOLDINGS, INC., a corporation duly organized and existing under and by virtue of Philippine laws, with business address at No. 28 N. Domingo St., New Manila, Quezon City, represented in this act by its President, CLARITA T. ZARRAGA, hereinafter to be known as the "ASSIGNOR",

-in favor of-

ABACUS COAL EXPLORATION AND DEVELOPMENT CORPORATION, a corporation duly organized and existing under and by virtue of Philippine laws, with business address at No. 28 N. Domingo St., New Manila, Quezon City, represented in this act by its President, ILUMINADO B. MONTHMAYOR, hereinafter to be known as the "ASSIGNEE".

WITNESSETH, That -

WHEREAS, the ASSIGNOR is the holder of certain coal mining rights represented by Coal Operating Contract (COC) No. 148 signed and executed by and between the ASSIGNOR and the Department of Energy on January 10, 2007, covering Coal Block Nos. L38-84 to -89 and L38-249, located in Tago and Marihatag, Surigao del Sur;

WHEREAS, the aforesaid coal mining rights have been appraised by Cierzo Appraisers, Inc. (CAI), a third party independent appraisal company duly accredited with the Securities and Exchange Commission, and CAI has reported the said rights to be worth a total of Two Billion Six Hundred Ninety Three Million Four Hundred Three Thousand Six Hundred Sixty Five Pesos (P2,693,403,665.00), per CAI Asset Valuation Report dated May 22, 2008.

WHEREAS, the ASSIGNOR is a stock corporation with an authorized capital stock of Twenty Million Pesos (P20,000,000.00) divided into Two Billion (2,000,000,000) shares with a par value of One Centavo (P.01), of which the amount of Five Million Pesos (P5,000,000.00) has been subscribed and Two Million Five Hundred Thousand (P2,500,000.00) has been paid,

WHEREAS, the ASSIGNEE is increasing its authorized capital stock from Twenty Million Pesos (P20,000,000.00) to Three Hundred Million Pesos (P300,000,000.00), or an increase of Two Hundred Eighty Million Pesos (P280,000,000.00);

WHEREAS, the ASSIGNEE has as its primary purpose the commercial exploration and development of coal;

WHEREAS, the ASSIGNOR is willing to assign its coal-mining rights described in the first whereas clause hereof in favor of the ASSIGNEE, and in exchange therefore the ASSIGNEE is willing to consider the ASSIGNOR's existing unpaid subscription of Two Million Five Hundred Pesos (P2,500,000.00) fully paid and to issue additional new and fully paid shares to the ASSIGNEE as follows

1) One Billion Five Hundred Million (1,500,000,000) shares from the unreserved capital stock of the ASSIGNEE

2) Twenty Eight Billion (28,000,000,000) shares from the increase in the ASSIGNEE's authorized capital stock from Twenty Million Pesos (P20,000,000.00) to Three Hundred Million Pesos (P300,000,000.00).

*[Signature]*

*[Signature]*

WHEREAS, the ASSIGNEE is willing to accept the assignment, exchange and conveyance of the coal mining rights of the ASSIGNOR in exchange for a total of Twenty Nine Billion Five Hundred Million (29,500,000,000) new shares of the ASSIGNEE with a par value of One Centavo (P 01) per share, and the full payment of the ASSIGNOR's subscription payable of Two Million Five Hundred Thousand Pesos (P2,500,000.00) on its existing subscription of Five Million Pesos (P5,000,000.00);

WHEREAS, the intention of the parties is that as a result of the assignment, exchange, the ASSIGNOR shall gain further control of the ASSIGNEE under the provisions of Sec. 40(c)(2) of the National Internal Revenue Code;

NOW THEREFORE, for and in consideration of the above premises, the ASSIGNOR hereby assigns, exchanges and conveys, unto and in favor of the ASSIGNEE its coal mining rights described in the first whereits clause hereof, with an appraised value of Two Billion Six Hundred Ninety Three Million Four Hundred Three Thousand Six Hundred Sixty Five Pesos (P2,693,403,665.00), in exchange for Twenty Nine Billion Five Hundred Million (29,500,000,000) new shares of the ASSIGNEE, with a par value of One Centavo (P 01) per share, and the full payment of the ASSIGNOR's subscription payable of Two Million Five Hundred Thousand Pesos (P2,500,000.00) on its existing subscription of Five Million Pesos (P5,000,000.00), subject to the following terms and conditions:

1. That the ASSIGNEE shall issue new shares of stock to the ASSIGNOR, as follows:
  - 1.1 One Billion Five Hundred Million (1,500,000,000) shares from the unsubscribed capital stock of the ASSIGNEE;
  - 1.2 Twenty Eight Billion (28,000,000,000) shares from the ASSIGNEE's authorized capital stock from Twenty Million Pesos (P20,000,000.00) to Three Hundred Million Pesos (P300,000,000.00).
2. That the above mentioned shares shall be issued only after the Securities and Exchange Commission has approved the ASSIGNEE's increase of capitalization from P20,000,000.00 to P300,000,000.00.
3. That any expenses on the assignment of the ASSIGNOR's coal mining rights shall be for the account of the ASSIGNOR, while the documentary stamp taxes and any other expenses on the new/original issuance of shares of the ASSIGNEE shall be for the account of the ASSIGNEE;
4. That this assignment is subject to the approval of the Department of Energy (DOE) and the Securities and Exchange Commission (SEC); that unless and until the DOE and SEC have approved this assignment, the same shall not be effective; and that should the DOE or the SEC not approve this assignment it shall be considered null and void and of no effect whatsoever.

IN WITNESS WHEREOF, we have set our hands hereinbelow this 23 day of SEP, 2008, at Quezon City, Philippines.

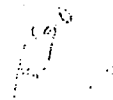
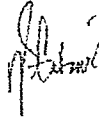
ABACUS CONSOLIDATED  
RESOURCES & HOLDINGS, INC.  
By:

CLARITA T. ZARRAGA  
President

ABACUS COAL EXPLORATION &  
DEVELOPMENT CORPORATION  
By:

ILUMINADO B. MONTENAYOR  
President

Signed in the presence of:



ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES)  
SAN JUAN M. M. I S.S

BEFORE ME, a Notary Public for and in  
following persons

| NAME                   | CTC NO.  | DATE/PLACE ISSUED              |
|------------------------|----------|--------------------------------|
| Clarita T. Zarraga     | 21507835 | 1/19/08/San Juan, Metro Manila |
| Luminado B. Montemayor | 23150081 | 3/03/08/Parañaque City         |

known to me and to me known to be the same persons who executed the foregoing instrument consisting of three (3) pages including this acknowledgment page, and they acknowledged to me that the same is their own true, free and voluntary act and deed and of the corporations they represent.

WITNESS MY HAND AND SEAL on this \_\_\_\_ day of SEP 23 2008, 2008, at Quezon City, Philippines.

Notary Public


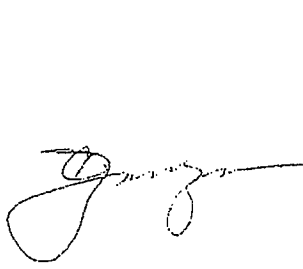
Doc. No. 250

Page No. 50

Book No. Y

Series of 2008.

RONALD C. MARIA  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2008  
PTR. NO.: 030609 - 1/08 - San Juan, P.I.  
IBP. NO.: 733946 - 1/08 - 1/08  
ROLL NO.: 35004





Republic of the Philippines

DEPARTMENT OF ENERGY

ANNEX

C

December 14, 2009

MR. LEONARDO S. GAYAO

President

Abacus Coal Exploration and Development Corp.

28N. Domingo cor. Gilmore Streets

New Manila, Quezon City

*Subject: Coal Operating Contract (COC) No. 148*

Dear Mr. Gayao:


This is with reference to your request for a confirmation to the effect that Abacus Coal Exploration and Development Corporation (Abacus Coal) is currently the recognized COC holder and Operator of COC No. 148 by the Government through the Department of Energy (DOE).

After a careful review of the communications/correspondence between the DOE and Abacus Consolidated Resources and Holdings, Inc. (Abacus Consolidated/Abacus Coal), namely:

1. The September 23, 2008 letter of OIC-Undersecretary Ramon Allan V. Oca, informing Abacus Consolidated that "there are no other requirements necessary for assignment of COC 148 from Abacus Consolidated to Abacus Coal" (Attachment "A"); and
2. The February 5, 2009 letter of Secretary Angelo T. Reyes addressed to Abacus Coal approving the company's request for a term extension of COC 148 until January 10, 2010 for Abacus Coal "to complete its technical exploration program and come up with detailed coal reserve evaluation of the contract area" (Attachment "B");

the DOE hereby CONFIRM that Abacus Coal is the recognized COC holder and Operator of COC No. 148.

Very truly yours

  
ATTY. EMMANUEL C. DANAR  
Chief-Contracts Division  
Legal Services

/mag

Ltr-Gayao-AbacusCoal-COC148





## ANNEX D

22 May 2008

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.**  
28 N. Domingo St., New Manila  
Quezon City

Attention : **MS. CLARITA ZARRAGA**  
President

Subject : **CAI File No. 06-2007-0415-003**  
Valuation of Coal Mining Rights

Gentlemen :

We express our professional statement of opinion on the valuation of certain coal mining rights of the **ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.** ("ABACUS"), which are located in Surigao del Sur, Eastern Mindanao, described in this Independent Valuation Report. Our Independent Valuation Report was made on the basis of certain information and internal data provided to us by Abacus, as well as on our analyses and research of market data which we have deemed reasonable, appropriate and applicable based on our experience as valuation professionals.

### Management Responsibility of Client

Abacus and its management are responsible for the preparation and fair presentation of information and internal data provided to us. While we verify information and data in cases where such verification is required, our services do not cover certification on the accuracy and completeness of information provided to us by Abacus and its management.

We have gathered, summarized and interpreted the material information contained in the technical reports dated February 2008 made by technical personnel of Abacus. Accordingly, we have regarded such technical reports as expert reports.

### Responsibility of the Valuation Professional

Our responsibility as valuation professionals is to come up with an appropriate reasonable financial valuation for the coal mining rights of Abacus based on information, internal data and market data available to us, as well as on our own analyses. Our valuation reports are made based on reasonable information that adequately supports our conclusions to establish the fair value of the subject coal mining rights of Abacus as of March 28, 2008.

Our valuation procedures are based on globally accepted models that are highly quantitative, but some required inputs involve a certain degree of judgment on our part which we have deemed prudent and reasonable based on our experience and available market data. As in other valuation cases, the value of any asset or firm will change as new information develops.

Our valuation is intended to be used for financial planning and reporting purposes. Our valuation does not in any way, guarantee or confirm the estimate of available reserves.

### Prohibitions

Neither the whole nor any part of this report, any reference thereto may be published, included in or with, attached to any document or used for any purpose other than that specifically stated in this report, without the written consent of Cuervo Appraisers, Inc. in accordance and exclusively for the purpose, form and context in which it may appear.

### Representations

Cuervo Appraisers, Inc., through its Manila and Cebu offices has been in the business of providing asset valuation solutions for companies across all industries for 27 years in the Philippines and overseas. Cuervo Appraisers, Inc. has been involved in numerous valuation projects for various assets and enterprises, both tangible and intangible and is well qualified to undertake the work required.

In our opinion, and as discussed in the following narrative, the estimated fair value of the coal mining rights of Abacus identified in this report as of March 28, 2008 is **PHILIPPINE PESOS: TWO BILLION SIX HUNDRED NINETY THREE MILLION FOUR HUNDRED THREE THOUSAND SIX HUNDRED SIXTY-FIVE (PhP2,693,403,665.00).**

We certify that we have neither present nor prospective interest on Abacus or on the reported value.

Very truly yours,

**CUERVO APPRAISERS, INC.**

By:

*Charito Cole-Alfaro*  
**CHARITO COLE-ALFARO**  
President



**Cuervo Appraisers**  
Asset Valuation Solutions

## NARRATIVE REPORT

### I. GENERAL PRINCIPLES GOVERNING THIS REPORT

This report covers an analysis and evaluation of the fundamental characteristics of an asset, in this case certain coal mining rights, using information contained in the technical reports done by technical personnel of Abacus dated February 2008. This report was made for the purpose of expressing an opinion on the estimated value of the coal mining rights under consideration as of March 28, 2008.

The term "*value of the mining right*" is defined as the benefits of a firm from a mining asset that exceeds its costs of developing said asset. These benefits may be received in the near or distant future, and costs include certain direct cost of the development & research and the cost of capital used therein.

The underlying theme in fundamental analysis is that the true value of a firm or asset can be related to its financial characteristics: its growth prospects, risk profile, and cash flows. Efficient market hypothesis, on the other hand, implies that the market price at any point in time represents the best estimate of the true value of the firm.

A "*mining right*" provides a firm with the right to develop the mining asset and appropriate such asset. The mining right granted to the owner for a certain period of time enables the owner to recoup the cost of development, production and marketing of the products. The mining right is an appropriable asset, and can thus be transferred or licensed which is necessary for its commercialization.

"*Valuation*" is the process of determining the true value of a firm or asset, as well as determining what assumptions about growth and risk are implied in the market price, or why an asset, share of stock, bond, option or future will sell for its price.

The valuation methods used in this report are widely used and accepted by various international institutions, and have been carefully developed over time by experienced global practitioners in the area of valuation.

### II. BRIEF PROFILE OF ABACUS RESOURCES AND HOLDINGS, INC.

#### A. Company Overview

Abacus Consolidated Resources and Holdings, Inc. (ABA) was originally incorporated and registered with the Securities and Exchange Commission in 1981 as Piedra Negra Mining Corporation, and publicly listed its shares on October 28, 1987. In 1989, the company changed its name to Abacus Consolidated Resources & Holdings, Inc. and in 1993, subsequently changed its primary purpose from a mining firm to that of a holding company.

ABA owns a controlling interest in companies engaged in real estate and financial services and in the leasing of gaming equipment. ABA also directly holds certain mining properties, with its mining businesses still in the pre-operating stage. The company's subsidiaries are composed of the Philippine Regional Investment Development Corporation and Pacific Online Systems Corporation. ABA also has an existing Mines Operating Agreement with Phsamed Mining Corporation for the exploration and development of its gold mining claims in Agusan del Sur and Surigao del Sur, and Coal Operating Contract with the Department of Energy in Tandag, Surigao del Sur.



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Abacus signed a new Coal Operating Contract with the Department of Energy in January 2007. The company is in the process of obtaining the pre-condition certification from the National Commission on Indigenous Peoples and the environmental clearance certificate or certificate of non-coverage from the Department of Environment and Natural Resources preparatory to full-scale exploration activities.

The company's mining businesses are both still in pre-operating stage. Competition among producers of gold, on the one hand, and coal, on the other is not very significant given high worldwide demand for both. Once this demand dips, however, the company will face greater competition from mining companies in the Philippines and in other mine-producing countries.

The company faces the risk of non-recovery of pre-operating costs in the event actual exploration does not yield significant results.

#### B. Shareholders and Officers

Abacus is listed in the Philippine Stock Exchange. Its market capitalization as of March 28, 2008 stands at approximately P1.356 Billion.

Its Board of Directors consists of the following:

| <u>Name</u>              | <u>Position</u>          |
|--------------------------|--------------------------|
| Jose V. Romero, Jr.      | Chairman of the Board    |
| Manuel A. De Leon        | Director                 |
| Calixto Y. Laureano      | Director                 |
| Ricardo C. Leong         | Director                 |
| Martha R. Horrigan       | Director                 |
| Jose Fernando B. Camus   | Director                 |
| Danilo S. Venida         | Independent Director     |
| Senen B. De La Costa     | Independent Director     |
| Rodrigo C. Reyes         | Director                 |
| Clarita T. Zarraga       | President/Director       |
| Leonardo S. Gayao        | Director/Vice Pres-Legal |
| Illuminado B. Montemayor | Vice President-Treasurer |
| Joaquin E. San Diego     | Corporate Secretary      |
| Benjamin B. Zarraga      | Asst. Corp. Secretary    |
| Nelson P. Santos         | Comptroller              |

### III. THE GEOLOGIC REVIEW BY ABACUS

We note the following information, among others, from the expert report provided to us:

1. *"The company reported some 182 Million tons of geologic resource within the COC coal blocks. Previous exploration delineated initially 3.64 Million tons of mineable reserves from the seams which generally fall under sub-bituminous coal type."*
2. *"The current available surface and sub-surface data indicate that systematic reassessment of the initial coal resource and gathering of more coal quality data are necessary to warrant further development and economic feasibility study of coal deposits."*



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3. *"The company should conduct more detailed geologic mapping with supportive test pitting and trenching drilling program to confirm the earlier geological findings."*
4. *"The earlier geologic mapping indicated excellent targets for additional drilling within the vicinity of CBS No. 138-85. Additional coal resources from the other coal blocks potentially exist."*

The technical report comes with a proposed exploration work program which specifies a period of two years for exploration. Estimated cost to explore is at P28.05 Million in Year 1 and P28.38 Million in Year 2.

#### IV. FINANCIAL ANALYSIS

In evaluating the coal mining rights of Abacus, we have referred to the expert reports provided to us by the company. We have supplemented said information with available market information. Where information from the technical reports of Abacus was lacking, we have referred to available data from Semirara Mining Corporation, another publicly listed company also engaged in coal mining and is currently the major supplier of coal to NAPOCOR.

Our research on coal prices yielded the following results : (for Btu/lb of 8,800)

|      |              |
|------|--------------|
| 2003 | US\$ 18 / MT |
| 2007 | US\$ 40 / MT |
| 2008 | US\$ 44 / MT |

We referred to information disclosures of Semirara Mining to supplement the technical reports of Abacus.

Based on Semirara's disclosures, net coal production cost is at P1,376.11 / MT.

The Estimated total reserve in Semirara Island is 150 Million MT. In 2007, their production was estimated at 3.7 Million MT. Semirara has been mining since 1981. Average annual production is estimated at 2.8 Million MT. At this rate, about 70 Million MT has been mined, and about 80 Million MT has yet to be mined out. The Property Plant & Equipment of Semirara is approximately P2.0 Billion as of June 2007. Using these as references, the estimated capital expenditure requirement is therefore P25 Million per MT of resource.

The average strip ratio (waste to coal) of Semirara is at 9:1.

Applying these numbers to Abacus, and assuming that Abacus operates at the same capacity and efficiency as Semirara, we obtain the following total estimated cost to develop and produce.

|  |                     |
|--|---------------------|
| Exploration cost                             | P 28.05 M           |
| Year 1                                       | 28.38 M             |
| Year 2                                       | 4,550.00 M          |
| Est. Capital Exp. (P25M x 182M MT)           | <u>25,045.20 M</u>  |
| Est. Production cost (P1,376.11 x 18.2M MT*) | <u>P29,651.63 M</u> |
| TOTAL  |                     |

Note : Using Semirara's average strip ratio of 9:1, the 182 Million MT estimated resource of Abacus may be 18.2 Million MT.

## V. VALUATION

We have used the Option Pricing Approach to Mining Rights Patent Valuation. Specifically for this purpose, we have used the *Black Scholes Merton Valuation Model*.

The underlying asset in a mining right is the resource itself. The current value of the underlying asset is the present value of expected cash flows from this asset. The uncertainty in the cash flow estimates, such as is present in the quantification of natural resources, is the reason why the product option has value. If expected cash flows were known with certainty, there would be no need to adopt an option pricing framework, since there would be no value to the option.

The general model for this purpose is:

$$\text{Value of patent} = Se^{-yt}N(d_1) - Ke^{-rt}N(d_2)$$

$$\text{Where } d_1 = \frac{\ln(S/K) + (r - y + (\sigma^2/2))t}{\sigma\sqrt{t}}$$

$$d_2 = d_1 - \sigma\sqrt{t}$$

$N(d_1)$ ,  $N(d_2)$  = cumulative normal distribution functions of  $d_1$  &  $d_2$

$\ln$  = natural logarithm

$S$  = current value of underlying asset

$K$  = strike price of the option

$t$  = life to expiration of the option

$r$  = riskless interest rate

$\sigma^2$  = variance in the  $\ln(\text{value})$  of the underlying product

$y$  = dividend yield

Our choice of valuation model was based on the following rationales:

1. The mining right has a large potential of producing cash flows in the future, and may be undervalued using traditional valuation techniques due to uncertainty factors.
2. A product option (mining right) is normally exercised if the expected product sales exceed its costs of development (call option concept).
3. Many natural resource investments have been traditionally evaluated using discounted cash flow techniques. The use of these techniques may not be appropriate, given the options that these firms possess to leave the investments untouched, if the price of the resource declines and, to exploit them fully, if the price rises.

The value of the underlying resource was computed as follows:

|  |                     |
|--|---------------------|
| Estimated coal to be produced and sold | 18,200,000 MT       |
| March 2008 coal prices                 | x P1,852.40 / MT    |
| Total                                  | P 33,713.68 Million |

PhP/US \$ rate as of March 28, 2008 is at P42.1/\$. Coal prices as of March 2008 is at \$44/MT.

Riskless interest rate is 5.875%, based on latest local longest term fixed treasury issue dated March 2008.

The table below shows our inputs to the valuation model we used:

|                 | Estimated reserve | Current market price of coal | S <sub>0</sub> |      | total K        | S.K      | Ln S        |
|-----------------|-------------------|------------------------------|----------------|------|----------------|----------|-------------|
|                 | 18,200,000        | 1,852.40                     | 33,713,680,000 |      | 29,651,637,360 | 1.14     | 24.24116953 |
| Ln              |                   |                              |                |      |                | 0.128386 |             |
| y               |                   |                              | 0.1538         | 0.12 |                |          | 0.136296235 |
| σ <sub>2</sub>  |                   |                              |                |      |                |          | 0.3691832   |
| σ               |                   |                              |                |      |                |          |             |
| r               |                   |                              | 6.50           |      |                |          |             |
| q <sub>1</sub>  |                   |                              | 2.55           |      |                |          |             |
| d <sub>1</sub>  |                   |                              | (0.06)         |      |                |          |             |
| d <sub>2</sub>  |                   |                              | (1.00)         |      |                |          |             |
| Nd <sub>1</sub> |                   |                              | 0.48           |      |                |          |             |
| Nd <sub>2</sub> |                   |                              | 0.16           |      |                |          |             |

#### V. CONCLUSION

Based on our analyses, the variables we have used, and the Black Scholes Merton Option Pricing Valuation Model, the estimated fair value of the coal mining rights of Abacus identified in this report as of March 28, 2008 is **PHILIPPINE PESOS: TWO BILLION SIX HUNDRED NINETY THREE MILLION FOUR HUNDRED THREE THOUSAND SIX HUNDRED SIXTY-FIVE (PhP2,693,403,665.00).**



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## STATEMENT OF CAPABILITY OF THE VALUATION PROFESSIONAL

### CHARITO COLE-ALFARO

Ms. Alfaro is Managing Director of Value Management & Options Corporation ("ValueMan"), a business consulting firm engaged in providing management and financial advisory as well as merchant banking services to clients across industries. She is currently serving as President and member of the Board of Directors of Cuervo Appraisers, Inc., as well as member of the Board of Directors of CAMP Parkwood Land, Inc. She is a Certified Public Accountant with a track record of investment banking work. She was General Manager for a finance company which she successfully formed, organized and operated for a publicly listed commercial bank. She was also Vice President for Merchant Banking of a publicly listed company, where during her stint, she co-led a financial advisory team for a major infrastructure project, spearheaded a corporate acquisition and chaired the Investments Technical Committee. She was Assistant Vice President for Investment Banking of the investment house of a major pension fund. Prior to that, she was Assistant Vice President of another management consulting firm that was adviser to a major sugar conglomerate. She had worked with a holding firm engaged in Real Estate, Marketable Securities Dealership, and Manufacturing, where she organized the Real Estate Division and handled the Securities Dealership Division. She started her career as Financial Analyst of a publicly listed universal bank.

Ms. Alfaro's professional experience covers clientele in various industries, in the areas of corporate finance, corporate structuring, development of packages for sourcing funds through joint ventures, mergers, acquisitions, private equity and debt placements, and initial public offerings. She had successfully worked on listings of shares of stock of several companies on the Philippine Stock Exchange. She had developed business plans, financial, corporate investment and divestiture analyses. As business valuation consultant of Cuervo Appraisers Inc., she had accomplished corporate valuations covering valuations of business, shares of stock, intangible assets such as goodwill, franchises, trademark, patents, and mining rights, among others.

Ms. Alfaro graduated with honors from the University of the Philippines, Diliman, with a Bachelor of Science in Business Administration and Accountancy. She took studies leading to a masters degree in Applied Business Economics at the University of Asia and the Pacific. She is currently a candidate in the Chartered Financial Analyst (CFA) Study Program. The CFA program is a three-level study program covering International Finance, Portfolio Management, Fixed Income Securities, Equities, Accounting, Economics and Global Markets and Instruments, administered by the CFA Institute, a global professional organization based in Charlottesville, Virginia, USA. The course requires candidates to sequentially pass an internationally administered written examination for each level. The Charter is an internationally recognized mark for professionals in investment banking, funds management and global finance, among others. Ms. Alfaro is a member of the IPREA Business Valuation Society. IPREA is a local member of the International Valuation Standards Committee, an NGO member of the United Nations tasked to formulate and publish valuation standards, promote their worldwide acceptance and harmonize standards among countries.