Philex Building, 27 Brixton Street, Pasig City 1600, Philippines
P.O. Box 2398, MCPO, Makati City 1200
P.O. Box 3394, Manila
Telephone Nos.: 631-1381 to 88 • Fax: 633-3242 / 634-4441
Email: philex@philexmining.com.ph
http://www.philexmining.com.ph

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CORPORATE PROFILE

Philex Mining Corporation (the Company) was incorporated in the Philippines in 1955 to engage primarily in mining activities. Its shares are listed in the Philippine Stock Exchange.

The Company has continuously operated since 1958 the Sto. Tomas II deposit at Padcal, Tuba, Benguet. The Padcal mine is the first underground block cave operation in the Far East. Total ore mined to 2009 has reached 340.4 million tonnes, producing 5.3 million ounces of gold, 2.0 billion pounds of copper, and 5.8 million ounces of silver.

In 1996, the Company commenced commercial operation of the Bulawan gold mine in Negros Occidental under subsidiary Philex Gold Philippines, Inc. (PGPI). The mine was eventually decommissioned in 2002 and since then placed on care and maintenance.

From 2001, PGPI focused on its Surigao Property where the Boyongan and Bayugo copper-gold porphyry deposits were discovered and explored under Silangan Mindanao Mining Co., Inc. The Silangan Project is currently in its prefeasibility study stage.

In 2005, Brixton Energy & Mining Corporation was incorporated to own, explore and develop the Company's coal property in Diplahan, Zamboanga. In 2007, Philex Petroleum Corporation (PPC) was incorporated to engage in petroenergy businesses. The Company and PPC effectively control 64.98% of Forum Energy plc (FEP), a UK-based company listed on the Alternative Investment Market of the London Stock Exchange. FEP is an oil exploration company owning participating interests in several service contracts in the Philippines, particularly SC 72 which covers the Sampaguita natural gas discovery in the waters off northwestern Palawan.

ABOUT THE COVER:
Photo shows a miner and his son at the Padcal mine. Philex is committed to being a socially-responsible mining company for whom the well-being of the future generations is a paramount concern. *(Photo taken by Danny Victoriano of Samahan ng mga Litratista sa Rizal)*

Metro Manila

Philex Building
27 Brixton Street
Pasig City 1600
Philippines

P.O. Box 2398, MCPO, Makati City 1200
Telephone : (632) 631-1381 to 88
Fax : (632) 633-3242
(632) 634-4441
Email : philex@philexmining.com.ph

Padcal Mine Site

Padcal, Tuba, Benguet
Smart FCT : 0919-540-0796
0918-919-3266

Poro Installation

Poro Point, San Fernando, La Union
Telephone : (072) 242-1346

Toronto Office

Philex Gold Inc.
Suite 1200
95 Wellington Street West
Toronto, Ontario
M5J 2Z9
Telephone : 416-365-3711
Fax : 416-941-8852

Corporate Websites

http://www.philexmining.com.ph
http://www.philexgold.com

Independent Public Accountants

SyCip Gorres Velayo & Co.

Attorneys

Agrava, Roxas & Martinez
Angara Abello Concepcion Regala & Cruz
Baniqued & Baniqued
Galo R. Reyes (Baguio)
Migallos & Luna
Pastelero Law Office
Siguion Reyna, Montecillo & Ongsiako

Bankers

ANZ
Banco De Oro
Bank of Commerce
Bank of the Philippine Islands
BNP Paribas
Citibank, N.A.
Credit Agricole CIB
Credit Suisse
Deutsche Bank
Goldman Sachs International
JP Morgan Chase Bank, N.A.
Land Bank of the Philippines
Metropolitan Bank & Trust Company
Mizuho Corporate Bank, Ltd.
NOMURA
Philippine National Bank
Rizal Commercial Banking Corporation
Standard Chartered Bank
The Hongkong and Shanghai Banking Corp. Ltd.
Union Bank of the Philippines
United Coconut Planters Bank

Transfer Agent

Fidelity Stock Transfers, Inc.
Ground Floor, Philex Building
27 Brixton Street
Pasig City 1600
Philippines
Telephone : (632) 634-0401
(632) 631-1381 to 88 local 286/287
Telefax : (632) 635-9897
Email : fsti@compass.com.ph

VISION

A socially responsible Filipino company striving for excellence in mining.

MISSION

We shall continue to improve our present gold and copper mining activities to make them more efficient and cost-effective.

We shall continue to expand our mining operations to take advantage of emerging opportunities throughout the Philippines.

We will continue to be socially-responsible by supporting the communities where we operate and by protecting and enhancing the environment.

We will develop all our employees so that they will use their talents to work professionally, harmoniously and safely towards the achievement of our vision.

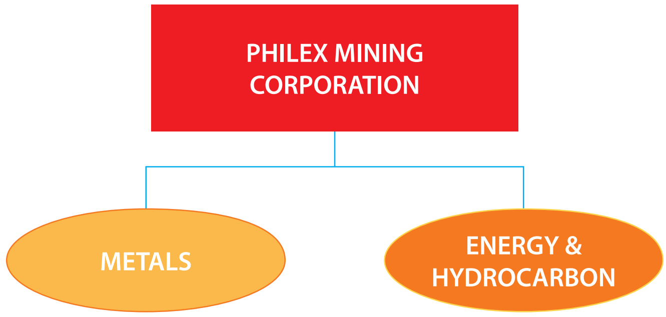
In all our activities, we will aim for excellence which means doing everything in the best possible way, striving to be the best we can be.

By achieving our mission, we will enhance shareholder value and contribute to nation-building.

ENVIRONMENTAL POLICY

Philex, as a socially and environmentally responsible Philippine company striving for excellence in mineral resource development, is committed to the continual improvement of its operations, to minimize adverse environmental impacts, to comply with applicable legislations and other requirements, and to promote environmental awareness and commitment among its workers at all levels.

BUSINESS STRUCTURE



- Padcal Operations
- Philex Gold Philippines Inc.
- Silangan Mindanao Mining Co., Inc.

- Brixton Energy & Mining Corporation
- Philex Petroleum Corporation
- Pitkin Petroleum Plc
- Forum Energy Plc

Parade along Session Road, Baguio City, during the celebration of the 56th Annual Mine Safety and Environment Conference in November 2009. The year's theme was "Responsible Mining for a Strong Republic".

Message from the Chairman & Chief Executive Officer

In November 2008, First Pacific acquired 20% of the total issued shares of Philex Mining Corporation and thus has now become part of the First Pacific Group. In December 2009, First Pacific added to its holdings and today, its economic interest in Philex amounts to 46.5%. As Managing Director and Chief Executive Officer of First Pacific, we welcome the inclusion of Philex into the First Pacific family.

I wish to take this opportunity to introduce First Pacific to those who may not be familiar with it. First Pacific is a Hong Kong-based investment and management company listed in Hong Kong and also in the United States through American Depositary Receipts. Its principal business interests relate to telecommunications, infrastructure, consumer food products and natural resources. In addition to Philex, its investments and economic interests as at March 23, 2010 (shown in brackets) are in Indofood (50.1%), PLDT (26.5%) and Metro Pacific Investments Corporation (MPIC) (55.6%). MPIC holds the group's interests in the following Philippine companies: Maynilad Water Services, Metro Pacific Tollways, Meralco, Makati Medical Hospital, Cardinal Santos Hospital, Davao Doctors Hospital and the Manila North Harbour (port terminal operations). As you can see from this list, First Pacific is involved in almost all aspects of day-to-day life in the Philippines.

First Pacific decided to go into natural resources because we strongly believe that the Philippine mining industry has tremendous potential for growth given the country's known but still largely undeveloped mineral deposits. First Pacific has chosen Philex to be the key company in its entry into this sector because of Philex's reputation in the industry as a responsible and profitable operator, with "mature" mining assets that are close to being operational to secure its future and, of course, a market price that was well below its real value.

My vision is for Philex to become the dominant gold and copper producer in the region within the next decade whilst maintaining its core values as a responsible corporate citizen fully cognizant of and committed to the welfare of its employees, the community, the environment and, of course, its shareholders. This rather lofty goal will entail an active acquisition program to bring other mineral deposits, even other companies if necessary, into Philex. On this matter, I would like to reassure you that it can depend on First Pacific's financial resources, proven management skills and extensive business network to make this vision a reality.

This investment program will be done in parallel with ongoing efforts to maximize production and minimize costs in Padcal, whilst looking into the possibility of extending its mine life beyond 2017. Philex will focus on exploring for and acquiring gold deposits with or without other metal by-products, projecting itself in the industry and in the financial markets as a low-cost gold producer. Philex continues to be bullish on gold given the global economic uncertainty, and also optimistic on the upside potential for copper prices given that new mining projects located here or abroad are either not starting up as scheduled, or producing at expected capacity.

In April 2010, Philex completed a tender offer for the minority shares of Philex Gold Inc., heretofore an 81%-owned subsidiary, thereby giving Philex full ownership of the Silangan Project. In the medium term, technical and financial resources will be devoted primarily to bringing this project into production as soon as practicable. In the energy sector, the upgrading of Geophysical Survey Exploration Contract (GSEC) 101 to Service Contract (SC) 72, otherwise known as the Sampaguita natural gas deposit under Philex Petroleum Corporation, implies a bigger commitment on our part in the energy sector.

As we train our sights on the future, we reinforce our faith in the management and staff of Philex. I also wish to thank the Company's officers and employees for their hard work and dedication, and to the directors and our shareholders for their loyalty and support.

MANUEL V. PANGILINAN
Chairman & Chief Executive Officer

In 2009, the Company benefitted from the rise in metal prices from the lows seen the previous year. During the year, gold market price per ounce averaged $974, reaching a high of $1,214 in December 2009, up from last year's average of $872 where the lowest level of $703 was registered in October 2008. Copper market price per pound also rallied towards the latter half of 2009, reaching a high of $3.33 in December 2009 from the low of $1.26 a year ago, although averaging lower at $2.34 for the year from to $3.15 in 2008.

The Padcal mine, however, had an unusually high rate of operating setbacks during the year, such as the entry of watery and clayey material that not only diluted ore grades but also caused problems in the conveyor belt, frequently interrupting the 2.3 kilometer-long conveyor that feeds the mill. Consequently, the tonnage milled declined to 8.2 million tonnes from the 8.9 million tonnes milled in 2008. The copper in mill feed averaged 0.228% copper, the lowest in five years and 11% below the 2008 average. In terms of metals, production in 2009 of gold was 119 thousand ounces compared to 145 thousand ounces in 2008, while copper was 33.8 million pounds versus 41.2 million pounds in 2008. Nevertheless, the higher metal prices realized this year at the average of $946 per ounce for gold and $2.24 per pound for copper from $788 and $2.22 last year, respectively, helped enable the mine to generate net operating income of P2.6 billion this year. While this is lower than in 2008, still it is the fourth highest in the Padcal mine's 52 years of operations.

Since acquiring control of the Silangan Project from Anglo American in February 2009, the Company has drilled 66 in-fill holes totaling 45,611 meters for resource definitions in 2009. This activity continues to this writing as the Company is still to define the boundaries of the Bayugo deposit. Meantime, the Company is doing the prerequisite studies, such as metallurgical tests, engineering design and the optimum location of surface infrastructures as part of the prefeasibility study preparatory to the definitive or bankable feasibility study of the project. In 2009, the Company recognized a non-recurrent negative goodwill of P766 million from the 50% interest it acquired in the project as required under generally accepted accounting rules.

Over in Zamboanga Sibugay, work in the coal project under the Company's wholly-owned subsidiary, Brixton Energy & Mining Corporation, continues in full steam. Hopefully, Brixton would put this coal mine into commercial production by 2010 with an initial capacity of 100 tonnes per day, eventually ramping up to 500 tonnes per day.

In October 2009, the Company preterminated its outstanding gold hedge collars given the unprecedented rise in gold prices. This allows the Company to recognize in full the current gold prices for the hedged volume up to 2011 which would have been limited to $800 per ounce. To protect its 2010 revenues from any excessive downsizing in prices, the Company purchased put options at the strike prices averaging $848 per ounce for gold and $3.00 per pound for copper for substantially all of its production for the year.

One of our long-standing operating goals has been to maintain Padcal production cost at levels well below the global average for mine production. We are glad to report that Padcal's 2009 operating cost of $404 per ounce net of copper revenue credits in producing gold is even lower than the average global cash cost of $478 per ounce as published in the GFMS Gold Survey 2010. The Padcal mine is indeed blessed with this combination of gold, copper and silver minerals from its ore reserves. We are mindful though that as the mine continues over its remaining life, previously from 2014 but now officially declared to be up to 2017, the grades would gradually decline. Hopefully, before then, the Silangan Project would have already been put in place and delivering ore as second source of revenue for the Company.

JOSE ERNESTO C. VILLALUNA, JR.
President & Chief Operating Officer

Comparative Financial Highlights
(In Thousands except Per Share Data and Metal Prices)

	2009	2008	2007	2006	2005
GROSS REVENUES					
Gold	**P5,108,322**	P5,363,774	P4,935,735	P3,544,723	P1,925,899
Copper	**3,741,625**	4,259,135	7,191,720	6,347,798	3,431,524
Silver	**82,939**	85,128	89,317	67,478	35,125
Petroleum	**85,074**	9,330	-	-	-
Coal	**37,024**	-	-	-	-
Total	**9,054,983**	9,717,367	12,216,771	9,959,999	5,392,547
Dollars Generated [1]	**$ 188,283**	$ 201,477	$ 244,025	$ 167,097	$ 82,723
EXPENSES					
Cost of Mine Products Sold [2]	**P5,065,889**	P4,808,330	P4,697,369	P4,539,124	P3,670,042
General and Administrative Expenses [2]	**848,930**	537,027	402,037	216,891	143,896
Petroleum Production Costs	**75,725**	15,973	-	-	-
Cost of sales-Coal	**22,392**	-	-	-	-
INCOME (LOSS)					
From Operations	**2,365,046**	3,686,825	6,131,229	3,736,317	725,326
Other Income (Loss)	**1,136,935**	(416,605)	(509,979)	(164,510)	(97,085)
Core Net Income	**1,849,666**	3,055,057	5,204,285	3,038,015	314,554
Net Income	**2,735,369**	2,800,393	5,005,649	3,086,668	409,136
Earnings per Share	**0.581**	0.833	1.690	1.044	0.138
TAXES:					
Excise Tax	**164,745**	211,033	213,508	170,752	98,218
Income Tax	**766,612**	469,827	615,601	485,142	175,950
Total Taxes, Direct and Indirect	**947,230**	335,072	884,882	665,536	383,376
DIVIDENDS:					
Cash Dividends Declared	**-**	-	1,333,691	442,131	-
Stock Dividends Issued	**972,902**	890,994	-	-	-
FINANCIAL CONDITION					
Current Assets	**5,022,269**	12,544,048	5,651,000	3,558,066	2,008,643
Current Liabilities	**1,153,725**	5,878,088	1,608,304	1,713,474	2,352,651
Property, Plant and Equipment					
- Net Book Value	**4,668,892**	4,066,257	3,843,909	3,725,816	3,843,171
- Additions	**1,480,152**	968,259	1,269,842	584,010	1,065,868
Total Assets [2]	**21,378,413**	19,398,482	10,904,605	8,016,069	6,421,892
Stockholders' Equity	**17,683,535**	12,528,011	8,441,980	5,067,078	2,158,059
Book Value per Share	**3.633**	3.873	2.851	1.713	0.730
METAL PRICES					
Copper - USc/lb.	**224.39**	221.93	347.26	322.68	176.35
Gold - US$/oz.	**945.87**	787.79	708.16	609.96	430.47
Silver - US$/oz.	**15.29**	12.79	13.63	12.25	7.57

[1] From mine products, net of smelting and refining charges
[2] 2008 and 2007 figures restated to conform with 2009 presentation

Review of Operations

PADCAL OPERATIONS

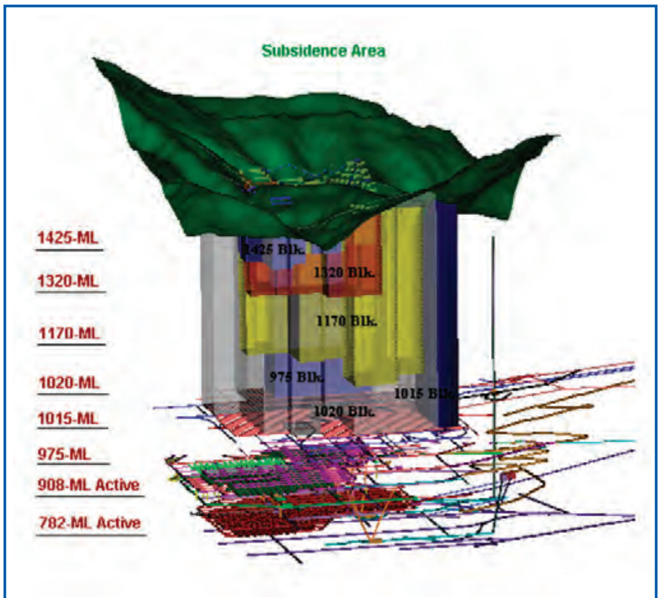
Mining Operations

Tonnage mined in 2009 totaled 8.2 million tonnes, 8% lower than the previous year's production of 8.9 million tonnes due to difficult underground conditions and ore handling problems that contributed to lower ore tonnage and grade. This year's gold grade averaged 0.57 grams per tonne, 11% lower than the average grade of 0.64 grams per tonne in 2008, while the average copper grade of 0.23% is lower by 11% compared to last year's copper grade of 0.26%.

Development works for the year were concentrated in the 908 and 782 meter levels (ML).

At 908 ML, the projected nine drawpoints to be commissioned for 2009 were completed. Advance drives and support installation for the projected 52 drawpoints for 2010 were also undertaken during the later part of the year.

At 782 ML, 69 drawpoints were commissioned into production, which included the 12 drawpoints that were not completed in 2008. The commissioning of eight special drawpoints at the 773 ML and two pillar robbing sites at 782 ML were also completed during the year. Ground stress problems were encountered and mitigated at production lines 8 and 10 and undercut lines 10 and 11. Towards the last quarter of the year, drilling drifts were developed at 840 ML which will serve as additional sources of ore. The area is above the central block of 782 ML from which the Underground Operations plans to extract ore from the 840 ML to 890 ML high grade portion.



Section of mining levels - Sto.Tomas II ore body

Breaker stations at 908 ML and 773 ML were completed to service both production levels. A new twin-shaft sizer was installed at 745 ML feeder belt conveyor 1, the first of its kind in the Philippines, which allows the ore to undergo comminution before it falls to the conveyors. During the year, the installation of the 35 meters sacrificial belt between the loading chutes and the cable hauled conveyor (CHC) was also completed. This sacrificial belt is critical to the operations as it is expected to prolong the life of the conveyor belts of the CHC, to ensure no major disruption in production.

Milling Operations

In 2009, the mill produced a total of 62,458 tonnes of concentrate containing 119,171ounces of gold, 33.8 million pounds of copper, and 117,047 ounces of silver. This year's production is 20% lower than the last year's production of 77,920 tonnes of concentrate containing 145,003 ounces of gold, 41.2 million pounds of copper, and 136,589 ounces of silver.

PRODUCTION AND SALES STATISTICS

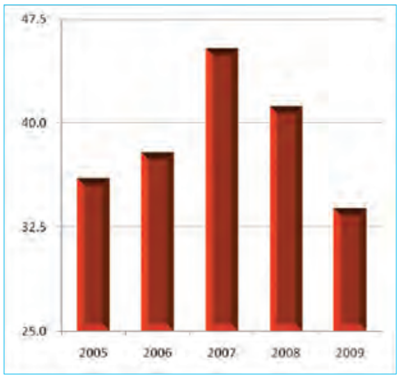
	2009	2008
Production		
Tonnes Milled	**8,196,864**	8,912,955
Concentrate Produced (Tonnes)	**62,458**	77,920
% Copper in Mill Feed	**0.228**	0.257
Gold in Mill Feed (Grams/Tonne)	**0.567**	0.643
% Copper Rocovery	**82.14**	81.66
% Gold Recovery	**79.70**	78.69
Copper Produced (Kilograms)	**15,341,234**	18,681,032
(Pounds)	**33,821,592**	41,184,577
Gold Produced (Grams)	**3,706,620**	4,510,101
(Ounces)	**119,171**	145,003
Silver Produced (Grams)	**3,640,581**	4,248,402
(Ounces)	**117,047**	136,589
Sales		
Concentrate (Tonnes)	**65,059**	75,102
Copper (Kilograms)	**15,953,559**	17,692,391
(Pounds)	**35,171,535**	39,005,000
Gold (Grams)	**3,891,350**	4,296,477
(Ounces)	**125,110**	138,135
Silver (Grams)	**3,779,722**	4,052,158
(Ounces)	**121,521**	130,280

Total concentrates shipped for the year were 65,059 tonnes containing 125,110 ounces gold, 35.2 million pounds copper, and 121,521 ounces silver.

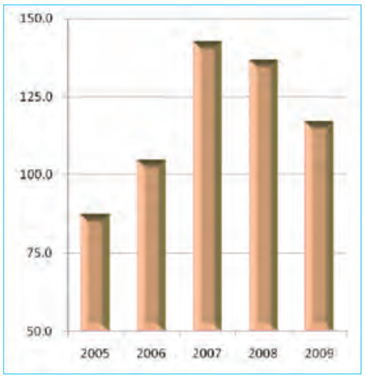
The mill plant completed last November 2009 the installation of six units of 50 m^3 WEMCO Smart flotation cells to replace the old agitair flotation machines. This new equipment resulted in an additional flotation volume of about 180 cubic meters to the rougher flotation circuit which is expected to improve overall metal recovery.

To improve equipment availability at the dump bin dewatering screens, two units of 5' x 16' heavy duty JCI scalper screens were installed as replacement for the phased-out 8' x 20' Allis Chalmers screens. By 2010, the plant will replace the remaining two locally-fabricated screens with heavy duty scalper screens.

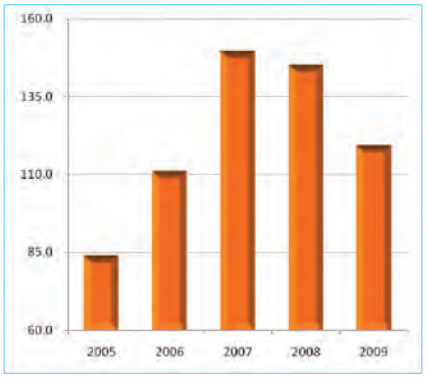
The new 50 m^3 WEMCO Smart flotation cells.



Gold Produced (in thousand ounces)



Copper Produced (in million pounds)



Silver Produced (in thousand ounces)

PHILEX MINING CORPORATION
PADCAL MINE

MINERAL RESOURCES

	CuEq* Cutoff	Classification	Tonnes (000)	Cu %	Au Grams/Tonne	Contained Cu (000 lbs.)	Contained Au (ounces)
Sto. Tomas II Deposit							
908 ML	0.33%	Measured	58,000	0.24	0.53	307,000	1,000,000
782 ML	0.33%	Measured	98,000	0.23	0.49	500,000	1,500,000
Total Resources [1]		**Measured**	**156,000**	**0.24**	**0.50**	**807,000**	**2,500,000**

** CuEq = %Cu + 0.55 x g/t Au; Metal Prices: US$ 2.00/lb Cu, US$ 800/oz; Metal Recoveries: 82% Cu, 77% Au.*

This resource statement was prepared by Mr. Noel C. Oliveros, Exploration Group Manager of Philex Mining Corporation, who has sufficient experience relevant to the style of mineralization of Sto. Tomas Porphyry Copper Deposit. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the Philippine Mineral Reporting Code (PMRC). He is a professional Geologist with PRC License No. 1285 and accreditation number Geology CP-07-08-07. He has given his consent to the Public Reporting of this statement concerning Mineral Resource Estimation.

[1] Includes proved reserves.

ORE RESERVES

	CuEq* Cutoff	Classification	Tonnes (000)	Cu %	Au Grams/Tonne	Recoverable Cu (000 lbs.)	Recoverable Au (ounces)
Sto. Tomas II Deposit							
908 ML	0.37%	Proved	28,000	0.21	0.42	100,000	282,000
782 ML	0.37%	Proved	41,200	0.23	0.46	174,000	462,000
Total Reserves		**Proved**	**69,200**	**0.22**	**0.44**	**274,000**	**744,000**

** CuEq = %Cu + 0.54 x g/t Au; Metal Prices: US$ 2.00/lb Cu, US$ 800/oz; Metal Recoveries: 82% Cu, 75% Au.*

This estimate was prepared by Engr. Eulalio B. Austin, Jr. (BSEM), Vice President and Resident Manager for Philex Mining Corporation, Padcal Operations. Engr. Austin is a Competent Person under the definition of the Philippine Mineral Reporting Code (PMRC) and has sufficient experience as to the type of deposit and style of mining in Padcal Mine. He is a licensed mining engineer with PRC registration number 0001814. He has given his consent to the Public Reporting of this statement concerning Ore Reserve Estimation.

SILANGAN MINDANAO MINING CO., INC.

MINERAL RESOURCES

	Cutoff % Cu	Classification	Tonnes (000)	Cu %	Au Grams/Tonne	Contained Cu (000 lbs.)	Contained Au (ounces)
Boyongan	0.50	Measured+Indicated	105,400	0.80	0.98	1,800,000	3,300,000
Bayugo	0.40	Indicated	85,700	0.88	0.73	1,700,000	2,000,000
Total		**Measured+Indicated**	**191,100**	**0.84**	**0.87**	**3,500,000**	**5,300,000**
Bayugo	0.40	**Inferred**	**32,700**	**0.75**	**0.63**	**500,000**	**600,000**

Mr. Noel C. Oliveros, Exploration Group Manager of Philex Mining Corporation, has given his consent to the release of this resource estimate, the contents of which he has reviewed and has found to be consistent with the resource estimates in the technical reports of the Boyongan and Bayugo deposits prepared by the Independent Resource Estimates (IRES) of South Africa, and compliant with the rules and guidelines as set forth in National Instrument (NI) 43-101. He has sufficient experience in resource evaluation relevant to the style of mineralization in the Surigao mineral district. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the Philippine Mineral Reporting Code (PMRC). He has given his consent to the Public Reporting of this estimate following the PMRC guidelines concerning Mineral Resource Estimation.

PHILEX GOLD PHILIPPINES, INC.

MINERAL RESOURCES

	Cutoff g/t	Classification	Tonnes (000)	Au Grams/Tonne	Contained Au (ounces)
Bulawan/ Vista Alegre					
Bulawan Main	0.50	Measured+Indicated	17,500	2.25	1,260,000
Korokan	0.35	Measured+Indicated	3,200	0.74	80,000
Nagtalay	0.50	Measured+Indicated	3,200	1.26	130,000
Subtotal		**Measured+Indicated**	**23,900**	**1.91**	**1,470,000**
Sibutad					
Larayan	0.50	Measured	2,000	1.03	70,000
Lalab	0.50	Measured+Indicated	15,100	0.81	390,000
Subtotal		**Measured+Indicated**	**17,100**	**0.84**	**460,000**
Total		**Measured+Indicated**	**41,000**	**1.46**	**1,930,000**
Sibutad (Lalab)	0.50	**Inferred**	**1,800**	**3.73**	**220,000**

This resource statement was prepared by Mr. Noel C. Oliveros, Exploration Group Manager of Philex Mining Corporation, who has sufficient experience relevant to the style of mineralization of the Vista Alegre deposits in Negros and Sibutad deposits in Zamboanga del Norte. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of Philippine Mineral Reporting Code (PMRC). He is a professional Geologist with PRC License No. 1285 and accreditation number Geology CP-07-08-07. He has given his consent to the Public Reporting of this statement concerning Mineral Resource Estimation.

PHILEX MINING CORPORATION

Padcal and Vicinity

Exploration in Padcal and its immediate vicinity was pursued in three areas in 2009: the Sto. Tomas II orebody at 773 ML and 908 ML, the underground tunnels covered by MPSA-276-2009-CAR, the Butan prospect within MPSA-156-2000-CAR, and the Tapaya prospect within MPSA-157-2000-CAR.

Within the Sto. Tomas II orebody, diamond drilling continued underground at two mining levels to find possible extensions of the orebody below the lowest existing mining level, 782 ML. Twelve holes were completed for an aggregate distance of 6,066 meters. Eleven holes were drilled at 773 ML; these holes delineated zones of copper and gold mineralization with grades ranging from 0.08% to 0.29% copper and 0.32 grams per tonne to 0.92 grams per tonne gold just below 782 ML.

One drill hole located in the northeast block of 773 ML intersected 117 meters of mineralization with average grade of 1.63 grams per tonne gold and 0.04% copper between 450m and 325m elevation. This zone will be further explored in 2010 to understand the changes in mineralization and alteration patterns.

In Butan, the lateral and vertical extent of the northeast trending gold-bearing Bell vein was explored through diamond drilling on the surface. The two holes were drilled with an aggregate depth of 801 meters. Both were terminated short of the projected depth of the vein due to technical problems in drilling. Results showed very narrow intercepts of the vein with low gold content. Once the consent from the surface claimants is obtained, drilling will be done to test the vein on its southwest and northeast portion. Underground drilling at 745 ML in Butan will also be pursued in 2010.

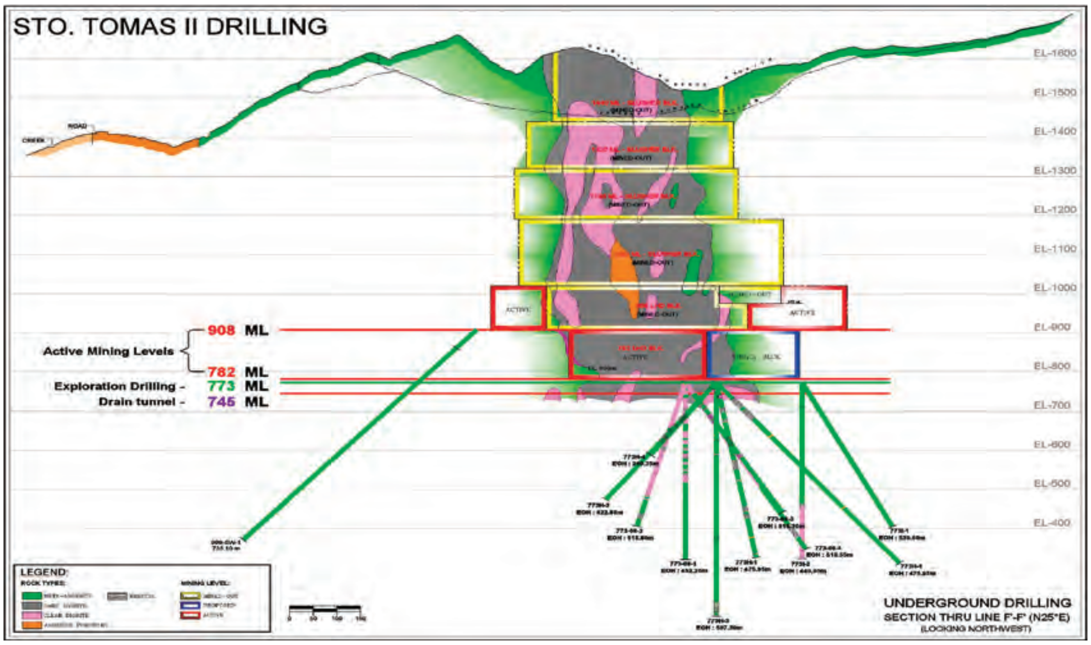
The exploration of Tapaya was concluded with the completion of the last two holes in 2009 for an additional drilling distance of 1,929.80 meters. The diamond drilling campaign in Tapaya started middle of 2007 and continued in 2008. The drilling campaign delineated a mineralized zone with marginal copper grade and nil gold values. At present conditions, the prospect area does not warrant immediate follow-up investigation.

Other prospect areas lined-up for exploration within the vicinity of Padcal were not pursued on account of the opposition from surface claimants.

For 2010, exploration in Padcal and vicinity will be vigorously pursued to look into the other areas not yet fully evaluated like Bumolo, Clifton and Bumolo-2.

Bulog Prospect

Scout drilling in the Bulog Prospect located a few kilometers southwest of the non-operating Maricalum Copper Mine commenced in March 2009. As of December 2009, the total



drilling advance was 4,608 meters from 11 scout holes. Three drillholes west of the Bulog Ridge, roughly 300 meters apart, have intercepted low grade epithermal gold mineralization. The intercepts averaged 12 meters and had an average gold grade of 1.0 grams per tonne. Two scout drill holes also intersected low grade porphyry Cu-Au style of mineralization. Further exploration activities for 2010 will include (a) verification of the large soil gold anomaly field east of the Bulog Ridge, and (b) a search for the richer potassic zone of the Bulog porphyry copper system.

SILANGAN PROJECT

Bayugo

The Bayugo orebody was discovered in 2003 by Anglo American during the definition drilling of the Boyongan orebody. Its subsequent definition drilling was pursued only in 2007 but was stopped in late 2008 when Anglo decided to relinquish its rights over its property. After the acquisition of the 50% interest of Anglo by Philex, through its subsidiary SMMCI, the exploration program for the Bayugo Project was resumed to continue delineating the orebody.

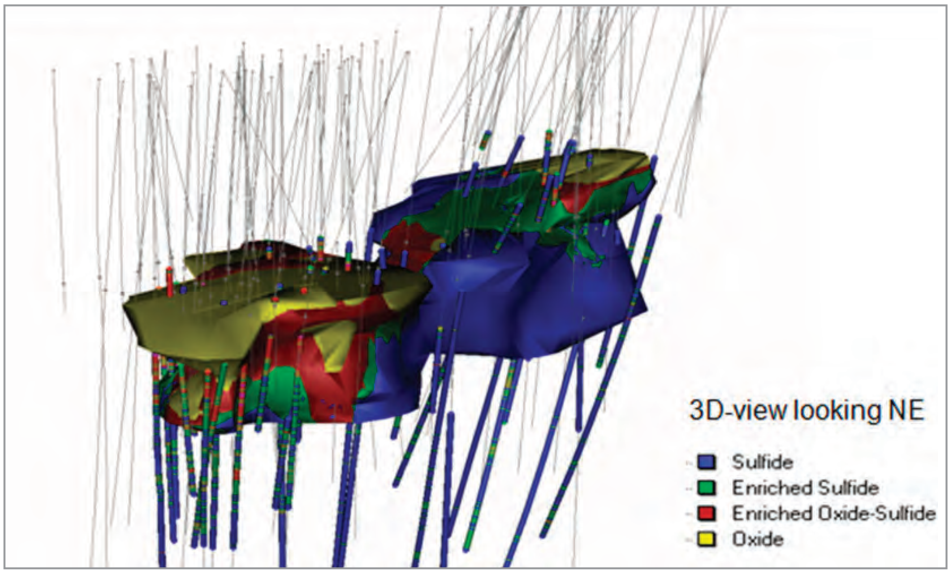
Drilling by Philex in Bayugo started in February 2009 with infill and definition holes using eleven drill rigs. A total of 66 drill holes have been completed with total meterage of 45,611 meters as of December 31, 2009.

In November 2009, external consultant Independent Resource Estimations (IRES) of South Africa submitted an initial estimate of indicated and inferred mineral resources using a cut-off grade of 0.4% copper as follows:

Resource Category	Tonnes	Cu (%)	Au (g/t)
Indicated	86 million	0.88	0.73
Inferred	33 million	0.75	0.63

In accordance with the "reasonable prospects for economic extraction" provision in the Philippine Mineral Reporting Code ("PMRC") and the CIM Standards on Mineral Resource and Reserves, only the resources at an economic cut-off grade of 0.4% copper are reported. The resource estimate is compliant to National Instrument 43-101 (NI 43-101) and based on IRES' verified drill results from 43 drill holes up to September 30, 2009.

Copper and gold mineralization at Bayugo, similar to Boyongan, was developed in association with discrete phases of the diorite complex interpreted as progenitor intrusive rocks. The supergene processes however are different. The Bayugo deposit experienced only locally significant supergene copper sulfide enrichment with restricted oxidation. In contrast, the Boyongan deposit experienced a vertically extensive zone of sulfide oxidation with minimal enrichment. The supergene profile at Bayugo, based on new drill holes, consists of oxide, enriched mixed oxide-sulfide and enriched sulfide above the hypogene or clean sulfide zone.



Tentative Bayugo ore zones comprising the Indicated Resources at 0.4% Cu cut-off.

The Bayugo deposit is further subdivided into West Bayugo and East Bayugo representing two progenitor intrusive stocks having different vertical extent of the supergene processes. West Bayugo experienced thicker supergene copper sulfide enrichment below a thin oxide zone. In contrast, East Bayugo is dominated by hypogene sulfides with minimal sulfide enrichment and a very limited oxide zone.

Fourteen drill holes in Bayugo were sampled for metallurgical tests. Samples were taken from each of the mineralized zones and were sent to KDE & Metcon Research in USA and 100 kilograms for parallel test at Padcal Mine. Based on initial Metcon results, the enriched sulfide zone showed the highest copper recovery of 95% but showed a low recovery for gold, 73%. The clean sulfide zone yielded a 93% recovery for copper and 83% for gold.

The infill drill hole results to date at the Bayugo deposit confirm the occurrence of high grade porphyry copper-gold mineralization. Step-out drill hole results have been confirming the extensions of the deposit to the south and to the west. Drilling will continue to intensify through 2010 with a total of 14 drill rigs now at the site. This will accelerate the drilling program to attain resource estimates at Indicated and Measured categories by July 2010 which are necessary to advance the project to pre-feasibility and feasibility study stages.

Assay laboratory audits were conducted on the two main commercial laboratories that provide assaying services to Silangan samples and to all the other Company exploration projects. This resulted in the establishment of analytical protocols for gold, copper and other base metals that should enable comparable measurements of the geochemical characteristics of the different ore types. In addition, a full analytical laboratory is now being put together in Silangan to service the needs of the exploration team. The QA-QC (quality assurance-quality control) aspects of the exploration results are further refined with the assistance of Company consultants in order to conform to reportorial requirements for exploration results and resource estimates. The PMRC is now in place to guide reporting of exploration results.

PHILEX GOLD PHILIPPINES INC.

Lascogon Project (Surigao del Norte)

Two types of gold mineralization, namely vein-type and stratiform or Carlin-like type, were recognized in the Lascogon prospects. The Carlin-like prospect in Lascogon contains gold-bearing jasperoid boulders which were discovered through soil geochemical survey. Since 2005 until 2007, the subsurface exploration used diamond and reverse circulation (RC) drilling and trenching to evaluate the identified targets.

Majority of high gold values come from the Carlin-like Lascogon deposit, whereas the drilled vein-type targets yielded insignificant gold. A review of the mineral resource estimate for the Project is now on-going.

Vista Alegre Project (Negros)

The company undertook an extensive drilling campaign involving resource definition drilling at the Nagtalay Prospect and scout drilling in five other prospects within Vista Alegre Project from 2007 to 2009. More than 12,000 meters of core samples were subjected to assaying and other tests. A total 5,172 meters were drilled at Vista Alegre in 2009. While the results of the scout drilling in Southridge, Libertad and Laka Quartz areas were unattractive, the results in Skid 9 and Laburan areas were encouraging.

Sibutad Prospect (Zamboanga del Norte)

Drilling for porphyry style mineralization in Sibutad was terminated in May 2009. The total drilling meterage for 2009 stood at 6,775 meters from 15 drill holes. Four of these drill holes were sunk in Larayan, two in Magsaysay and nine in Lalab. Drilling was initially confined in these areas as clearance from the Mines and Geosciences was still being secured to explore outside of the Company-controlled areas. The results of the drilling were negative for porphyry-style mineralization. However, several new but small gold-copper bearing hydrothermal breccia bodies were encountered that will augment the existing resource model of Sibutad. The second half of 2009 was devoted to surface exploration activities outside the confines of the Company-controlled areas where gold mineralization shows affinity with Lalab.

BRIXTON ENERGY & MINING CORPORATION (BRIXTON)

Brixton, is a wholly owned subsidiary of the Company, engaged in exploration and development of energy related resources. In May 2008, its Coal Operating Contract No. 130 was converted into Coal Operating Contract for Development and Production No. 130, for a period of 10 years, followed by another 10-year extension. The contract covers two coal blocks in Sibugay, Zamboanga. The final ore reserves cannot be disclosed yet pending issuance of a technical report by a competent person as required under the Philippine Mineral Reporting Code.

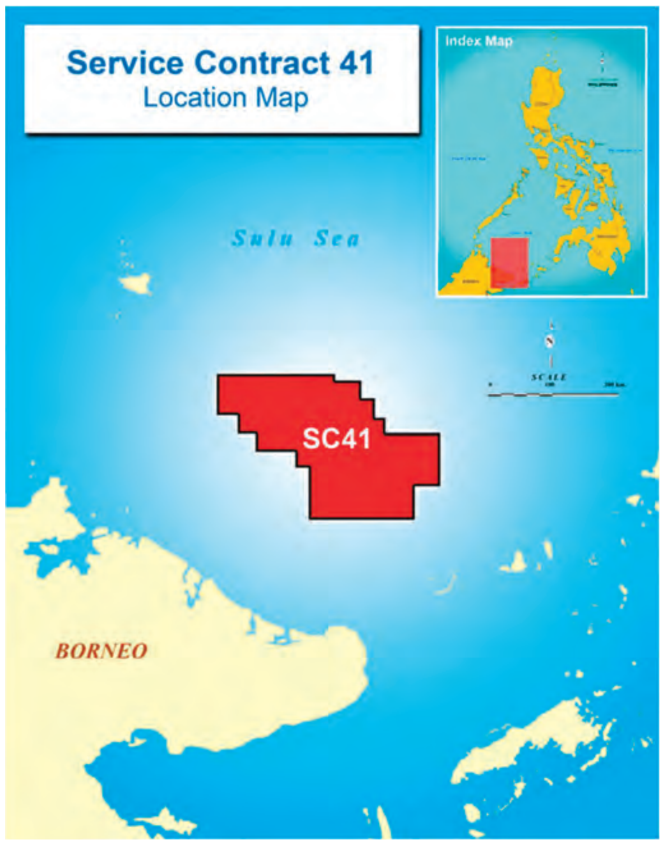
In November 2008, Brixton obtained the Environmental Compliance Certificate for the advancement of the coal project to development stage in 2009, with an estimated capital requirement of P280 million. Expenditures on this project to December 31, 2009 amounted to P149.8 million, with P100 million spent during the year. Commencement of full commercial operation is expected in 2010.

PHILEX MINING CORPORATION

Service Contract No. 41 (Deepwater South Sulu Sea)

Lumba-Lumba-1A well, labeled as dry well with hydrocarbon, was plugged and abandoned. The findings of the well drilling operation suggested the presence of a petroleum generation system within the Service Contract area. This prompted the consortium to conduct further re-evaluation of the 3D seismic data. The re-evaluation using the services of an Australian company, DownUnder Geosolutions (DUGS), will involve the integration of the subsurface information out of the well which is anticipated to contribute in the reduction of risk in subsequent drilling works.

SC41 has reached Extension 1 past its 10th year anniversary. During the extension, the consortium is expected to commit to drill another exploration well before May 10, 2010. Given the stiff schedule, the consortium will endeavor to extend the period before making the commitment. The consortium is also committed to support the on-going farm-out efforts by Tap



Energy-Related Activities

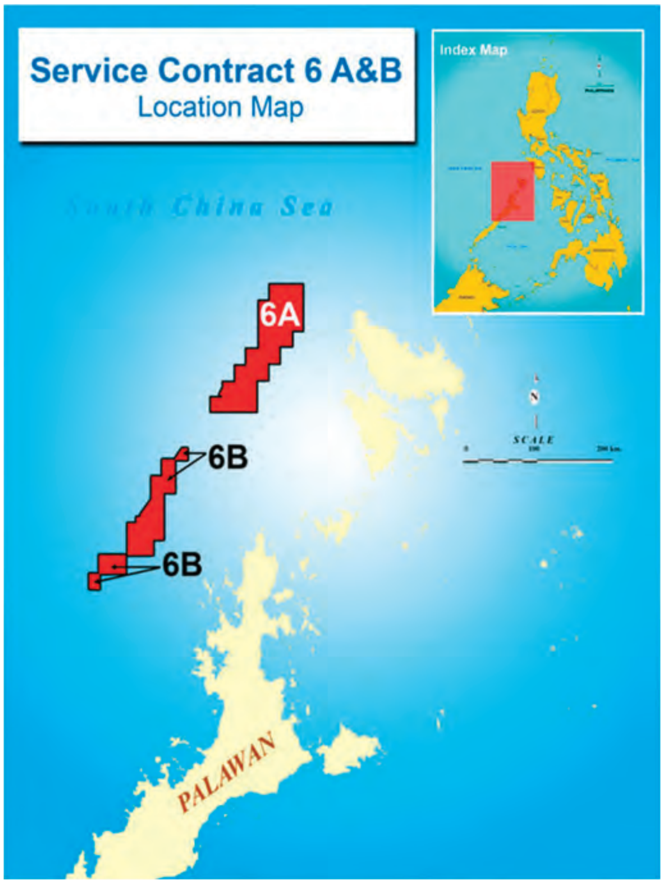
Oil as operator in order to properly manage and distribute the associated exploration.

PMC maintains 2.26% working interest in the Service Contract.

Service Contract No. 6 (Cadlao Block-NW Palawan)

Blade Petroleum, as the operator, secured the approval of the Department of Energy (DOE) of its field development plan on June 17, 2009. This is a requirement relative to the fifteen (15) year final extension granted to the consortium in 2008.

The development plan includes the drilling of two production wells estimated to cost about US$100 million. The wells are anticipated to drain between 1.0 to 1.5 million barrels of oil projected to sell for about US$ 2 per barrel less than the current Dubai crude price.



A 4.95% Over-Riding Royalty Interest (ORRI) from the field's gross production is maintained and shared equally by PMC, Philodrill Corporation and Trans-Asia Oil & Energy Development Corporation.

Service Contract No. 6A (Octon Block-NW Palawan)

The consortium was granted the final fifteen (15) year extension of SC6A (Octon Block) production term by the DOE. The production term extension was granted subsequent to the formal request by the consortium and upon presentation of the work program that will be carried out by Vitol GPC Investment SA as a prospective farminee into the block.

The extension is effective as of March 1, 2009 with five (5) year phases entailing annual work program and budget that are subject to DOE's review and approval. During the extension period, the consortium is likewise committed to pay annual training fund for the DOE personnel.

To date, Vitol GPC Investment SA is conducting continued technical evaluation to provide a reasonable exploration model for the Octon discovery. The output of the technical evaluation is needed prior to the conduct of developmental works that is likely to include drilling of new wells. The technical evaluation is running parallel to the on-going work involving Phase-2 of the Galoc field development. The consortium hopes to see a long-term synergy in getting both Galoc and Octon fields producing side by side.

PHILEX PETROLEUM CORPORATION

Philex Petroleum Corporation (PPC) was incorporated in 2007 as a wholly-owned subsidiary of PMC. In June 2008, 49% of Philex Petroleum was acquired by Anatolian Property BV, a corporation whose shareholders are funds managed by Ashmore Investment Management Limited. In July 2009, the Company purchased the 49% interest of Anatolian Property BV, giving back the Company full control over PPC which currently holds 39.14% of Forum Energy plc (FEP), a UK-based company listed at the Alternative Investment of the London Stock Exchange. FEP is an oil exploration company owning participation interests in several service contracts in the Philippines, particularly GSEC 101, now converted to Service Contract 72, covering the Sampaguita natural gas discovery in northwestern Palawan. As FEC also owns 25.84% of FEP, the total holdings of the Company in FEP through PPC and FEC would be 64.98%.

In 2008, Philex Petroleum also acquired 6.4% of Pitkin Petroleum Ltd (Pitkin), an international upstream oil and gas company focused on Tertiary basis primarily in the Pacific Rim Region, with operations in Vietnam, the Philippines, Peru and the U.S.A. It is involved throughout the exploration and production value chain, with interests in production, a potential redevelopment project and an active exploration program. In June 2009, Pitkin reported the discovery of oil in the Ca Rong Do (Red Emperor) well in Block 07/03 offshore Vietnam which flowed oil at a combined rate per day of 3,265 barrels together with 8.1 million standard cubic feet of gas.

On Pitkin's Philippine Service Contract 53, a 200-kilometer 2D seismic survey has recently been completed by contractor BGP, Inc. of China. SC 53 covers an area of 7,240 square kilometres, mostly onshore and adjacent to the Palawan Basin, which hosts all the producing oil and gas wells in the Philippines. Pitkin operates three (3) Service Contracts in the Philippines which comprise a total area of approximately 20,000 square kilometers, both onshore and offshore. The investment in Pitkin brought the Philex Group's total investment to 21% taken together with the holdings of Philex Mining Corporation.

Philex Petroleum also acquired 21% of PetroEnergy Resources Corporation, a local company listed in the Philippine Stock Exchange engaged in oil exploration and in providing technical services to companies exploring for oil in the Philippines.

Testing of the Ca Rong Do [Red Emperor] discovery well Block 07/03 in offshore Vietnam.

PADCAL MINE

Environmental Management

The Padcal Mine's Environmental Management System (EMS) sustained its ISO 14001 Certification, which is now on its 10th cycle, showcasing the Company's advocacy for responsible mining. After seven years of maintaining the EMS, the Company continues to demonstrate its commitment to operate responsibly.

During the year, more than 298 thousand seedlings of various tree species were planted in the reforestation areas, of which 229 thousand seedlings were planted on newly established plantation areas covering 135 hectares, while 69 thousand assorted forest tree seedlings were planted on the existing 200 hectares of the previously established plantation areas for enhancement. To date, about two thousand hectares have been successfully reforested with more than seven million seedlings of various tree species, which the Company continues to maintain and protect throughout the year.


Philex employees attending to seedling production at Philex forest nursery.

In 2009, the Padcal Mine was awarded First Runner-Up, second to Philex Gold Philippines, Inc – Bulawan Operations, in the "Best Mining Forest Contest" (Metallic Category) during the 56th Philippine Mine Safety & Environment Association's (PMSEA) Annual Mine Safety and Environment Conference held in Baguio City on November 11-14, 2009. The contest is part of the "Adopt-A-Mountain, Adopt-A-Mining Forest Program". Since the launching of this Program in 1989, the Padcal Mine has been a consistent top winner, being the champion for the years 1991, 1994, 2000-2002, 2004, 2007 and 2008.

The Company participated in the Earth Day Celebration held on April 22, 2009 and in the Arbor Day Celebration on June 25, 2009. As part of the Company's social commitment, it has also provided 7,775 assorted planting stocks and seedlings of various tree species to the following stakeholders for their tree planting programs: CENRO-Baguio, CENRO-La Trinidad, PMB-LAWFR, LGU-Itogon, civic organizations, schools, and other local community groups. Likewise, the Company conducted maintenance brushing and enrichment planting at the Philex-Sta. Fe Road, Ampucao, Itogon, and at the Lion's Park, Kennon Road, Baguio City.

Community Development

PMC continues to advocate Corporate Social Responsibility (CSR) among its employees and their families as well as in the host and neighboring communities.

For 2009, the Company spent P29.0 million for its Social Development and Management Program (SDMP) to develop and support the different community activities and livelihood programs in the countryside.

The Company continues to implement its Health, Education, Livelihood and Employment Enhancement and Public Infrastructure programs, aptly called HELP. These programs were designed to cater to the specific needs of the host and neighboring communities with the vision of fostering partnership among these stakeholders and the Company.

During the year, the Sto. Nino Hospital in Padcal Mine has provided free basic health services to approximately 7,300 patients from the host and neighboring communities. There were also three medical missions conducted in the barrios which benefited 533 patients.

The Company supported 40 college students and to date has produced 11 college graduates. Fifty-seven high school students availed of the Secondary Scholarship Program, while 22 students successfully completed their technical-vocational courses at the Baguio School for Business and Technology College and the Philippine Institute of Mining and Quarrying. It has also supported 33 learners under the Department of Education's Alternative Learning System Program. Fifty-four students were accepted as trainees under the Summer Special Program for Employment of Students. The Company continues to adopt local schools in the host communities with the main objective of improving the performance levels of the students.

Under its Livelihood and Employment Enhancement Program, the Company supported five local cooperatives. One of the major

Medical mission conducted in Ansagan, Tuba, Benguet Province, a joint project of the Company, Barangay Ansagan and MHO-Tuba in December 2009.

accomplishments of the program was the launching of four (4) Community Business and Technology Centers where the local workers and residents can learn and acquire entrepreneurship skills in livestock, aquaculture, coffee and meat processing, among others. The program is a tie up between the Company and the Foundation for People Development.

The implementation of the health, education and livelihood programs were supported with improved infrastructures. For 2009, the Company concreted an aggregate of 2.4 kilometers farm-to-market road in the host community. Six units water works were constructed with an aggregate volume of 140 cubic meters for irrigation and domestic purposes.

On December 10, 2009, the Company was conferred the National Outstanding Volunteer Award by the Philippine Government through the Philippine National Volunteer Service Coordinating Agency (PNVSCA) in recognition of the Company's exemplary volunteerism in the protection and preservation of life under emergency situations. In particular, the Company actively participated in the rescue and recovery operations in at least four (4) calamity areas – in Tinoc, Ifugao; Mayantoc, Tarlac; Kias, Baguio City; and La Trinidad, Benguet. The Company also joined the road clearing operations along Kennon Road and Naguilian Road in Benguet Province due to the vast landslides caused by Typhoon Pepeng.

Tailings Pond

About 8.1 million tonnes of mill tailings were impounded at tailings storage facility no. 3 in 2009, which now contains a total of about 141.2 million tonnes of tailings since the start of impoundment in 1992. The Padcal Mine has three tailings storage facilities. Both tailings storage facilities 1 and 2 were already decommissioned and currently undergoing rehabilitation.

The dam embankment of tailings storage facility 3 is continuously being built up to maintain a freeboard of not less than five meters at its main dike at any given time. The actual freeboard as of December 31, 2009 is 7.1 meters.

Earthworks for the 32-meter wide open spillway of tailings storage facility 3 is already completed except for minor excavations in preparation for the plunge pool. The construction of the second silt trap / check dam at the downstream of the said spillway is almost completed.

All the tailings storage facilities are regularly monitored by a Multi-partite Monitoring Team (MMT) composed of representatives from the host communities, LGU, government agencies and local organizations. The stability of the storage facilities is also being checked by an outside consultant.

SILANGAN PROJECT

Anchored on the principle of partnership building, the Silangan Mindanao Mining Co., Inc. (SMMCI) continues to implement its Community-Based Development and Environmental Management Program in coordination with the local government units, civic organizations and other members of the host communities.

Environmental Management

The Company, as a testament of its commitment to protect the environment, fully supported the operation and activities of the Community Technical Working Group (CTWG). The CTWG conducted quarterly monitoring of the drilling exploration sites to evaluate the Company's compliance to its Environmental Work Program. During the year, there was no serious complaint raised in the CTWG's evaluation. The CTWG expressed its appreciation for the efforts of the Company in effecting mitigating measures over the impacts of the exploration project to the environment.

For this reason, SMMCI was bestowed the 2009 Presidential Mineral Industry Environment Award (Exploration Category) for outstanding performance in environmental management and community development.

Community Development

The Information, Education and Communication (IEC) campaign is continuously being conducted where the Company's social development programs and updates on the exploration project are regularly disseminated to the host and the neighboring communities. Social and environmental issues are discussed and harmonious relationship is developed through community immersion and regular dialogues with local group leaders and focused group discussions with various sectors such as schools, religious groups and environmentalists.

During the year, through the Education Assistance Program under SMMCI, the Company sponsored 86 scholars from the Silangan Project who were provided with uniforms, school supplies and financial assistance to cover school fees. Of these scholars, 32 students are from the Indigenous People (IP) belonging to the Mamanwa tribe. Training on masonry and carpentry, in partnership with Technical Education and Skills Development Authority (TESDA), was also provided for out-of-school youth (OSY). These OSYs were trained on the job during the construction of some infrastructure projects in the local barangays and schools as part of their practicum. SMMCI also provided financial and in-kind assistance to local school projects like educational trainings for teachers, computer literacy seminars and science fairs.

Technical assistance was extended to the Company's partner People Organization, the San Isidro Capayahan Timamana Livelihood Association (SICATILA) through community planning, financial audits and conduct of regular meetings to further strengthen their organization.

In the Municipality of Tubod, SMMCI extended infrastructure assistance to nine (9) barangays and to the local schools in the host communities. The assistance came in the form of supplies and materials to schools, local construction projects, repairs of purok centers, improvement of the provincial road within the barangay, and repair of the drinking water system in the locality.

In partnership with the Rotary Club of Metro Surigao and in coordination with the local government unit, the Company provided financial assistance to the Operation Smile Program (cleft palate operation) in Surigao City in 2009. Additionally, a joint project for Cataract Operation was also conducted in Tubod, Surigao del Norte, with Loving Presence Foundation and the Municipal LGU. Free medicines were also distributed to 951 beneficiaries during a medical and dental mission conducted by SMMCI in the neighboring communities. The Company also provided free accident insurance to 210 local volunteer workers from the three (3) host barangays.

SMMCI is also an active participant and a financial supporter of community affairs like sports activities, fiesta celebrations and other major cultural activities in the Municipality of Tubod and its barangays.

SMMCI scholars from Mamanwa Tribe in one of the Academic Motivation sessions.

Carpentry and Masonry Skills Training Project jointly being implemented by the MLGU of Tubod,TESDA and the SMMCI.

PHILEX GOLD PHILIPPINES, INC.

BULAWAN

Environmental Management

As part of PGPI's continued thrust for environmental protection and enhancement in 2009, more than 39,000 tree seedlings of various species were produced in Bulawan's in-house nursery. Twenty-three hectares of tree plantations were also established during the year. Another 10 hectares of tree plantations for the Assisted Natural Regeneration (ANR) project were established by PGPI and was applied for accreditation from the Forest Management Bureau and Mines and Geosciences Bureau.

During the tree planting activity of Barangay Camindangan, PGPI donated 10,000 mahogany seedlings to the local community.

Regular environmental inspection of the abandoned and completed drill sites around Bulawan was also conducted to ensure stability and safety of the sites. Various erosion control measures were established at the ongoing and terminated exploration sites.

For its reforestation efforts, Bulawan was awarded Champion of the Best Mining Forest Contest under metallic category for fiscal year 2008-2009 during the Annual National Mine Safety and Environment Conference (ANMSEC) held last November 11 to 14, 2009 at Baguio City.

Community Development

PGPI-Bulawan has been an active participant in the development projects for community infrastructure improvements through counter-parting scheme with the host community and the local government units (LGUs). Under this scheme, PGPI provides assistance in the form of construction materials while the LGUs and the community provide the manpower including the implementation aspect of the projects. This scheme creates a sense of responsibility to the local community and pride among the local residents once the construction projects are finally finished.

Some of the infrastructure projects implemented by PGPI during the year are as follows:

- Construction of a suspension bridge at Omas (a joint project with the City of Sipalay);
- Construction of water flow at Kipot Creek at Barangay Manlucahoc (also a joint project with the City of Sipalay);
- Construction of a 7.3 kilometer access road from Sitio Omas to Bulog prospect; and

One of the water projects supported by PGPI which provides clean water to the residents in the local communities.

- Construction and improvement of water tanks stationed in public schools within the host communities which provide water not only to students but to the local residents as well.

In addition, PGPI sponsored feeding programs to 489 student from three (3) local schools in the host communities and donated packs of noodles during the Nutrition Month celebration. PGPI provided educational assistance in the form of school supplies and materials like uniforms, chairs, books, teaching aids and computers, among others. It also donated construction materials for the improvement of school facilities.

Financial assistance and material donations were also provided for livelihood projects, local cultural celebrations and sports competitions.


PGPI donated monoblock chairs to a local school.

SIBUTAD PROJECT

Environmental Management

Under the Care and Maintenance Program, PGPI-Sibutad continues to implement environmental activities through reforestation, maintenance of established plantations, rehabilitation of mine disturbed areas, regular desilting of receiving water bodies in the area, and other environmental protection and enhancement measures.

During the year, PGPI-Sibutad accomplished soil bagging of 8,055 auri coliformis seedlings and planted 6,440 seedlings of various plant and tree species in new and established plantations in the area. To date, it has planted a total of 404 thousand seedlings covering an area of more than 138 hectares.

Community Development

Sibutad has been a showcase for best mining rehabilitation practice in Mindanao. As part of PGPI-Sibutad's continuous Information, Education and Communication (IEC) campaign program, the Company accommodates various visitors from the private sector, schools and universities, government agencies and other stakeholders for mine visit and tour of the area. The site has become an attraction in the locality and is being frequented by visitors.

Under the IEC program, open communication with the host community and the local residents are encouraged. Regular courtesy calls, discussion and presentation of Exploration Work Program to LGUs, presence of company representatives during regular LGU sessions, and dialogues with the local groups and landowners were constantly conducted.

PGPI-Sibutad continues to actively participate and provide financial and materials assistance to local social development projects, improvement of school facilities and structures, and other community activities.

LGU members at the view deck of the Sibutad site during a mine tour.

PHILEX MINING CORPORATION

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills

The management of Philex Mining Corporation is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2009 and 2008. These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, have audited the consolidated financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to the Board of Directors and stockholders.

MANUEL V. PANGILINAN
Chairman of the Board & Chief Executive Officer

RENATO N. MIGRIÑO
Treasurer, Chief Financial Officer & Vice President - Finance

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph
BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

The Stockholders and the Board of Directors
Philex Mining Corporation

We have audited the accompanying financial statements of Philex Mining Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes. We did not audit the December 31, 2009 and 2008 financial statements of Forum Energy plc and its subsidiaries whose financial statements reflected total assets comprising 9.1% and 10.0% of the related consolidated totals as of December 31, 2009 and 2008, respectively, and reduced the consolidated net income by 6.5% and 2.7% for the years ended December 31, 2009 and 2008, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Forum Energy plc and its subsidiaries is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits and the reports of the other auditors. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009, in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

Martin C. Guantes
Partner

March 5, 2010

Consolidated Balance Sheets

(Amounts in Thousands, Except Par Value Per Share and Number of Equity Holders)

	December 31	
	2009	2008 (Restated, Note 4)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱2,881,115**	₱10,713,106
Accounts receivable (Notes 7 and 21)	**517,115**	127,702
Inventories (Note 8)	**1,146,219**	1,262,530
Derivative assets (Note 18)	**19,975**	–
Other current assets (Note 9)	**457,845**	440,710
Total Current Assets	**5,022,269**	12,544,048
Noncurrent Assets		
Property, plant and equipment (Note 10)	**4,668,892**	4,066,257
Available-for-sale financial assets (Note 11)	**756,948**	378,804
Investments in shares of stock (Notes 11 and 26)	**1,136,755**	260,288
Goodwill (Note 4)	**258,593**	258,593
Deferred income tax assets - net (Note 22)	**43**	171,674
Deferred exploration costs and other noncurrent assets (Note 12)	**9,534,913**	1,718,818
Total Noncurrent Assets	**16,356,144**	6,854,434
TOTAL ASSETS	**₱21,378,413**	₱19,398,482
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term bank loans (Note 13)	**₱–**	₱4,039,200
Accounts payable and accrued liabilities (Note 14)	**866,890**	780,071
Income tax payable	**2,243**	52,044
Dividends payable (Note 23)	**168,856**	173,301
Provisions and other payables (Notes 11 and 28)	**115,736**	199,392
Derivative liabilities (Note 18)	**–**	634,080
Total Current Liabilities	**1,153,725**	5,878,088
Noncurrent Liabilities		
Provision for mine rehabilitation costs (Note 10)	**33,700**	26,639
Accrued retirement benefits cost (Note 16)	**30,324**	80,151
Provision for losses (Note 28)	**500,808**	569,894
Deferred income tax liabilities - net (Notes 4 and 22)	**1,976,321**	842
Derivative liabilities (Note 18)	**–**	314,857
Total Noncurrent Liabilities	**2,541,153**	992,383
Total Liabilities	**3,694,878**	6,870,471
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (held by 46,055 and 46,578 equity holders in 2009 and 2008, respectively) (Note 23)	**₱4,900,605**	₱3,880,851
Additional paid-in capital	**774,494**	681,749
Retained earnings (Note 23)	**9,441,593**	7,584,186
Net unrealized gain on AFS financial assets (net of related deferred income tax of ₱169,113 in 2009) (Notes 11 and 22)	**445,277**	1,727
Cumulative translation adjustment (net of related deferred income tax of ₱145,085 and ₱143,651 in 2009 and 2008, respectively) (Notes 18 and 22)	**(231,617)**	(300,113)
Net revaluation surplus (Note 4)	**1,611,397**	39,012
Effect of transaction with minority interest (Note 2)	**41,536**	–
	16,983,285	11,887,412
Minority Interests (Note 23)	**700,250**	640,599
Total Equity	**17,683,535**	12,528,011
TOTAL LIABILITIES AND EQUITY	**₱21,378,413**	₱19,398,482

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income
(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2009	2008	2007
REVENUE (Notes 7, 18 and 27)			
Gold	**₱5,108,322**	₱5,363,774	₱4,935,735
Copper	**3,741,625**	4,259,135	7,191,720
Silver	**82,939**	85,128	89,317
	8,932,886	9,708,037	12,216,772
Less marketing charges	**677,002**	669,212	986,137
	8,255,884	9,038,825	11,230,635
Petroleum	**85,074**	9,330	–
Coal	**37,024**	–	–
	8,377,982	9,048,155	11,230,635
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 15)	**4,546,585**	4,164,353	4,171,206
General and administrative expenses (Note 15)	**848,930**	537,027	402,037
Mine products taxes and royalties (Note 15)	**487,225**	578,062	457,910
Petroleum production costs	**75,725**	15,973	–
Handling, hauling and storage	**54,471**	65,915	68,253
	6,012,936	5,361,330	5,099,406
OTHER INCOME (CHARGES)			
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	**765,897**	–	–
Interest income (Note 6)	**188,124**	153,850	127,705
Interest expense (Notes 10 and 13)	**(108,047)**	(53,543)	(109,621)
Equity in net earnings (losses) of associates - net (Note 11)	**(72,624)**	10,113	–
Foreign exchange gains (losses) - net (Notes 18 and 20)	**(68,875)**	238,430	(306,606)
Gain (loss) on disposal of property, plant and equipment, and others (Note 10)	**(1,698)**	5,656	(50,416)
Gain on disposal of AFS financial assets (Note 11)	**126**	84,565	106,843
Others - net (Notes 10, 11, 12, 18 and 28)	**434,032**	(855,676)	(277,884)
	1,136,935	(416,605)	(509,979)
INCOME BEFORE INCOME TAX	**3,501,981**	3,270,220	5,621,250
PROVISION FOR INCOME TAX (Note 22)			
Current	**457,514**	491,376	559,638
Deferred	**309,098**	(21,549)	55,963
	766,612	469,827	615,601
NET INCOME	**₱2,735,369**	₱2,800,393	₱5,005,649
Net income attributable to:			
Equity holders of the Parent Company	**₱2,830,309**	₱2,892,887	₱5,004,991
Minority interests (Note 23)	**(94,940)**	(92,494)	658
	₱2,735,369	₱2,800,393	₱5,005,649
BASIC EARNINGS PER SHARE (Note 25)	**₱0.581**	₱0.833	₱1.690
DILUTED EARNINGS PER SHARE (Note 25)	**₱0.580**	₱0.828	₱1.688

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
NET INCOME	**₱2,735,369**	₱2,800,393	₱5,005,649
OTHER COMPREHENSIVE INCOME (LOSS)			
Revaluation surplus from acquisition of subsidiaries (Note 4)	**1,572,385**	39,012	–
Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)	**433,937**	(46,144)	98,178
Gain on translation of foreign subsidiaries	**71,738**	35,072	–
Realized loss (gain) on disposal of AFS financial assets (Note 11)	**9,613**	(127,247)	(69,527)
Gain (loss) on fair value of hedging instruments (Note 18)	**(3,242)**	175,198	(590,311)
Adjustments on fair valuation of subsidiaries' net assets (Note 4)	**–**	(904,717)	–
Unrealized loss on AFS financial asset, net of related deferred income tax, removed from equity and transferred to the consolidated statements of income (Note 11)	**–**	30,716	–
	2,084,431	(798,110)	(561,660)
TOTAL COMPREHENSIVE INCOME	**₱4,819,800**	₱2,002,283	₱4,443,989
Total Comprehensive Income Attributable to:			
Equity holders of the Parent Company	**₱4,914,740**	₱2,999,494	₱4,443,331
Minority interests (Note 23)	**(94,940)**	(997,211)	658
	₱4,819,800	₱2,002,283	₱4,443,989

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2009, 2008 and 2007 (Amounts in Thousands, Except Par Value Per Share)

	Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on AFS Financial Assets (Note 11)	Cumulative Translation Adjustment	Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Minority Interest (Note 2)	Subtotal	Minority Interests (Note 23)	Total
BALANCES AT DECEMBER 31, 2006	**₱2,957,790**	**₱2,393**	**₱1,911,555**	**₱115,751**	**₱79,928**	**₱–**	**(₱339)**	**₱–**	**₱5,067,078**	**₱–**	**₱5,067,078**
Total comprehensive income (loss) for the year	–	–	5,004,991	28,651	(590,311)	–	–	–	4,443,331	658	4,443,989
Issuance of additional shares of stock	10,781	94,158	–	–	–	–	–	–	104,939	–	104,939
Increase in additional paid-in capital due to conversion of a liability	–	5,755	–	–	–	–	–	–	5,755	–	5,755
Increase in minority interest (Note 23)	–	–	(562)	–	–	–	–	–	(562)	154,472	153,910
Dividends declared during the year - ₱0.45 per share (Note 23)	–	–	(1,333,691)	–	–	–	–	–	(1,333,691)	–	(1,333,691)
BALANCES AT DECEMBER 31, 2007	**2,968,571**	**102,306**	**5,582,293**	**144,402**	**(510,383)**	**–**	**(339)**	**–**	**8,286,850**	**155,130**	**8,441,980**
Total comprehensive income (loss) for the year	–	–	2,892,887	(142,675)	210,270	39,012	–	–	2,999,494	(997,211)	2,002,283
Issuance of additional shares of stock (Note 23)	21,286	32,098	–	–	–	–	–	–	53,384	–	53,384
Increase in additional paid-in capital due to exercise of stock option	–	43,190	–	–	–	–	–	–	43,190	–	43,190
Declaration of 30% stock dividend during the year (Note 23)	890,994	–	(890,994)	–	–	–	–	–	–	–	–
Buyback of treasury stock (Note 23)	–	–	–	–	–	–	(5,621,956)	–	(5,621,956)	–	(5,621,956)
Reissuance of treasury stock (Note 23)	–	504,155	–	–	–	–	5,622,295	–	6,126,450	–	6,126,450
Net increase in minority interest (Note 23)	–	–	–	–	–	–	–		–	1,482,680	1,482,680
BALANCES AT DECEMBER 31, 2008	**3,880,851**	**681,749**	**7,584,186**	**1,727**	**(300,113)**	**39,012**	**–**	**–**	**11,887,412**	**640,599**	**12,528,011**
Total comprehensive income (loss) for the year	–	–	2,830,309	443,550	68,496	1,572,385	–	–	4,914,740	(94,940)	4,819,800
Issuance of additional shares of stock (Note 23)	46,852	–	–	–	–	–	–	–	46,852	–	46,852
Increase in additional paid-in capital due to exercise of stock option	–	92,745	–	–	–	–	–	–	92,745	–	92,745
Declaration of 25% stock dividend during the year (Note 23)	972,902	–	(972,902)	–	–	–	–	–	–	–	–
Increase in minority interest (Note 23)	–	–	–	–	–	–	–	–	–	154,591	154,591
Effect of transactions with minority interest (Note 2)	–	–	–	–	–	–	–	41,536	41,536	–	41,536
BALANCES AT DECEMBER 31, 2009	**₱4,900,605**	**₱774,494**	**₱9,441,593**	**₱445,277**	**(₱231,617)**	**₱1,611,397**	**₱–**	**₱41,536**	**₱16,983,285**	**₱700,250**	**₱17,683,535**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(Amounts in Thousands)

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱3,501,981**	₱3,270,220	₱5,621,250
Adjustments for:			
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	**(765,897)**	–	–
Depletion and depreciation (Note 10)	**736,622**	705,627	785,705
Unrealized foreign exchange losses (gains) and others - net	**(450,773)**	688,013	251,337
Interest income (Note 6)	**(188,124)**	(153,850)	(127,705)
Measurement of mine product inventories to NRV	**(136,217)**	(380,960)	–
Interest expense (Notes 13 and 14)	**108,047**	53,543	109,621
Equity in net losses (earnings) of associates - net	**72,624**	(10,113)	–
Stock-based compensation expense	**28,664**	43,190	71,733
Loss (gain) on disposal of property, plant and equipment, and others - net	**1,698**	(5,656)	50,416
Gain on disposal of AFS financial assets	**(126)**	(84,565)	(106,843)
Impairment loss on AFS financial assets (Note 11)	**–**	226,979	–
Operating income before working capital changes	**2,908,499**	4,352,428	6,655,514
Decrease (increase) in:			
Accounts receivable	**(135,711)**	1,761,860	(1,034,297)
Inventories	**252,416**	22,493	(8,937)
Derivative assets	**(19,975)**	–	34,539
Other current assets	**228,160**	(90,829)	(91,673)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**(243,290)**	81,188	(50,646)
Derivative liabilities	**(478,836)**	16,450	–
Advances from related parties	**–**	–	(52,203)
Provision for retirement benefits cost (Note 16)	**88,172**	86,179	87,000
Cash generated from operations	**2,599,435**	6,229,769	5,539,297
Income taxes paid	**(357,067)**	(507,401)	(635,837)
Interest received	**225,635**	103,812	127,705
Retirement benefits contributions (Note 16)	**(138,000)**	(132,000)	(120,000)
Interest paid	**(116,170)**	(52,273)	(93,915)
Payments for provision for losses (Note 28)	**(81,145)**	(148,638)	(93,849)
Net cash from operating activities	**2,132,688**	5,493,269	4,723,401
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of receivables from Anglo American Exploration (Philippines) B.V. (Note 4)	**(1,288,416)**	–	–
Additions to:			
Property, plant and equipment (Note 10)	**(1,480,152)**	(968,259)	(1,269,842)
Investments in shares of stock (Note 11)	**(742,686)**	(247,746)	–
AFS financial assets	**(170,500)**	(100,327)	(542,399)
Increase in deferred exploration costs and other noncurrent assets	**(841,417)**	(426,059)	(115,539)
Acquisition of non-cash net assets of:			
Silangan Mindanao Exploration Co., Inc. (Note 4)	**(783,762)**	–	–
Silangan Mindanao Mining Co., Inc. (Note 4)	**(392,352)**	–	–
Forum Energy plc	**–**	(393,480)	–
FEC Resources, Inc.	**–**	–	(123,300)
Acquisition of minority interest in Philex Petroleum Corporation (Note 2)	**(172,704)**	–	–
Dividends received	**5,645**	–	–
Net proceeds from sales of:			
Property, plant and equipment	**596**	50,487	378,686
Investments in shares of stock	**–**	248,138	–
AFS financial assets	**–**	103,116	172,195
Payment of subscription payable	**–**	(28,524)	–
Net cash used in investing activities	**(5,865,748)**	(1,762,654)	(1,500,199)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Short-term bank loans and long-term debt (Notes 13 and 18)	**(4,750,903)**	(268,028)	(982,848)
Dividends (Note 23)	**(4,445)**	(44,496)	(1,212,828)
Proceeds from:			
Availment of short-term bank loans (Note 13)	**711,703**	4,042,596	–
Exercise of stock options	**110,932**	53,384	38,961
Reissuance of treasury shares (Note 23)	**–**	6,126,450	–
Payments for buyback of treasury shares (Note 23)	**–**	(5,621,956)	–
Net cash from (used in) financing activities	**(3,932,713)**	4,287,950	(2,156,715)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(166,218)**	64,233	(31,675)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(7,831,991)**	8,082,798	1,034,812
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**10,713,106**	2,630,308	1,595,496
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱2,881,115**	₱10,713,106	₱2,630,308

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information, Business Operations and Authorization for Issue of the Financial Statements

Corporate Information

Philex Mining Corporation (the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commision (SEC). The Parent Company, Philex Gold Philippines, Inc. (PGPI, an 81.0%-owned subsidiary through holding companies and incorporated in the Philippines) and its subsidiaries, Silangan Mindanao Exploration Co., Inc. and subsidiary (SMECI, an 88.6%-owned subsidiary and incorporated in the Philippines), and Brixton Energy & Mining Corporation (BEMC, a wholly owned subsidiary and incorporated in the Philippines), collectively referred to as the "Group" (see Note 2), are primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. SMECI, through its subsidiary, Silangan Mindanao Mining Co., Inc. (SMMCI), owns the Boyongan deposit which is currently under the development stage. BEMC has a coal property under development in Zamboanga del Norte.

Meanwhile, Philex Petroleum Corporation (PPC, a wholly owned subsidiary and incorporated in the Philippines), Forum Energy plc (FEP, a 62.6%-owned subsidiary and registered in England and Wales) and FEC Resources, Inc. (FEC, a 50.7%-owned subsidiary and incorporated in Canada) are engaged primarily in oil and gas operation and exploration activities, both of which hold participation in oil and gas production and exploration activities through their investee companies (see Note 2). Income for the Group is derived mainly from the Padcal Mine, with income from petroleum operations and other sources being relatively insignificant.

The Parent Company's registered business address is Philex Building, 27 Brixton corner Fairlane Streets, Pasig City.

Business Operations

Padcal Mine Operations

The Parent Company currently has the Padcal Mine as its only operating segment. The Padcal Mine is on its 52nd year of operation producing gold, copper and silver as its principal products.

BEMC

BEMC is presently conducting developmental works on its coal mine property at the Diplahan Project in Zamboanga Sibugay in preparation for the planned commercial production in 2010. While awaiting the completion of the mine site development and the start of large-scale production, BEMC engages in the purchase of coal products from small-scale miners who are operating and are permitted to operate within the area of the BEMC's mine properties, and subsequently selling them to local customers.

SMECI

SMECI, through Silangan Mindanao Mining Co., Inc. (SMMCI), is conducting exploration activities in the Boyongan and Bayugo copper-gold deposits (referred to as the Silangan Project). The Boyongan mineral deposit was subjected to a pre-feasibility study, which was completed in December 2007. The Bayugo deposit is under the pre-feasibility study stage with intensive step-out and infill drilling works being carried out necessary to complete the pre-feasibility study. Initial resource estimates over the Boyongan and Bayugo mineral deposits yielded positive results.

PGPI

PGPI has a number of mineral properties throughout the Philippines at various stages of exploration. It previously operated the Bulawan mine in Negros Occidental and developed the Sibutad Project in Zamboanga. It is currently not engaged in any development or commercial production activities.

The Group's ability to realize its net deferred oil and mine exploration costs amounting to ₱9,534,913 and ₱1,718,818 as of December 31, 2009 and 2008, respectively (see Note 12), depends on the success of its exploration and future development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issue of the Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors (BOD or the Board) on March 5, 2010.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV) (see Note 8), and for available-for-sale (AFS) financial assets (see Note 11) and derivative financial instruments (see Note 18) that are measured at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional currency, rounded to the nearest thousand (₱000) except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the Parent Company's mine products inventories that are measured at NRV, which was permitted by the SEC. The significant accounting policies followed by the Group are disclosed below.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new and amended accounting standards that became effective beginning January 1, 2009:

- Amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and liquidity risk disclosures are presented in Notes 17 and 18, respectively, to the consolidated financial statements.

- PFRS 8, *Operating Segments*, replaces Philippine Accounting Standards (PAS) 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be what management uses internally for evaluating the performance of operating segments and allocating resources to those segments where information may be different from that reported in the consolidated balance sheet, consolidated statement of income and consolidated statement of comprehensive income, and the Group will have to provide explanations and reconciliations of the differences. Adoption of this standard did not have any effect on the financial position or performance of the Group. Disclosures about each of the business segments identified by the Group are shown in Note 5 to the consolidated financial statements, including revised comparative information.

- Amendments to PAS 1, *Presentation of Financial Statements*, separate owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the consolidated statement of comprehensive income. It presents all items of recognized income and expenses, either in one consolidated single statement (a consolidated statement of comprehensive income), or in two linked consolidated statements (a separate consolidated statement of income and a consolidated statement of comprehensive income). The Group has elected to present two-linked statements - a consolidated statement of income and a consolidated statement of comprehensive income. The consolidated financial statements have been prepared under these revised disclosure requirements.

Adoption of the following changes in PFRS and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations did not have any significant impact on the Group's consolidated financial statements.

- Amendments to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to PFRS 2, *Share-based Payment -Vesting Condition and Cancellations*
- Revised PAS 23, *Borrowing Costs*
- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendment to PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

<u>Improvements to PFRS</u>
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*
- PAS 41, *Agriculture*

The omnibus amendments to PFRS issued in 2009 included an amendment to the Appendix to PAS 18, *Revenue*. As the amendment to the Appendix to PAS 18 specifies no transitional provisions, the amendment is effective immediately and retrospectively. The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: (a) has primary responsibility for providing the goods or services; (b) has inventory risk; (c) has discretion in establishing prices; and (d) bears the credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition policy has been updated accordingly.

Summary of Significant Accounting Policies

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Subsidiaries
Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group or the Parent Company directly or through the holding companies. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated in full.

The Parent Company's subsidiaries and their respective nature of business are as follows:

Subsidiaries	Nature of Business
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines to serve as an intermediary holding company through which its subsidiaries and the Company conduct large-scale exploration, development and utilization of mineral resources.
Philippines Gold Mining Company B.V. (PGMC-BV)	Incorporated in The Netherlands, as previously the intermediary holding company of PGI.
Philex Gold, Inc. (PGI)	Incorporated in Canada and owns 100% of the outstanding shares of PGPI. PGI, currently 81% owned by PGHI, is listed at the TSX Venture Exchange.
PGPI	Incorporated in the Philippines as a wholly owned subsidiary of PGI and is primarily engaged in large-scale exploration, development and utilization of mineral resources, previously by the Bulawan mine and Sibutad Project. Currently owns 50% effective interest in SMMCI through SMECI.
Lascogon Mining Corporation (LMC)	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, principally the Lascogon Project in Surigao.
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources but is currently the holding company of SMMCI.
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.
PPC	Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, oil, and other sources of energy.
FEP	A United Kingdom (UK)-based oil and gas exploration and production company registered in England and Wales, with focus on the Philippines and whose shares are listed with the Alternative Investment Market of the London Stock Exchange.
FEC	Incorporated under the laws of Alberta, Canada and is engaged primarily in the business of exploration and development of oil and gas and other mineral related opportunities, either directly or indirectly through companies in which FEC invests.

(Forward)

Subsidiaries	Nature of Business
BEMC	Incorporated in the Philippines on July 19, 2005 to engage in exploration, development and utilization of energy-related resources.
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines to act as a stock transfer agent and/or registrar of client corporations.
Philex Land, Inc. (PLI)	Incorporated in the Philippines to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures.
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently under dormant status.

The ownership of the Group over the foregoing companies in 2009 and 2008 is summarized as follows:

As of December 31, 2009:

	Percentages of Ownership	
	Direct	Indirect
PGHI	100.0	–
PGMC-BV	–	100.0
PGI	–	81.0
PGPI	–	100.0
LMC	–	60.0
SMECI	–	60.0
SMMCI	–	83.3
PPC	100.0	–
FEP	–	36.8
FEC	50.7	–
LMC	–	40.0
FEP	–	25.8
BEMC	100.0	–
SMECI	40.0	–
SMMCI	16.7	–
FSTI	100.0	–
PLI	100.0	–
PIAI	100.0	–

As of December 31, 2008:

	Percentages of Ownership	
	Direct	Indirect
PGHI	100.0	–
PGMC-BV	–	100
PGI	–	81.0
PGPI	–	100.0
LMC	–	60.0
PPC	51.0	–
FEP	–	33.0
FEC	50.7	–
LMC	–	40.0
FEP	–	28.4
BEMC	100.0	–
FSTI	100.0	–
PLI	100.0	–
PIAI	100.0	–

Acquisition of Boyongan copper-gold porphyry property
On September 25, 2008, the Board approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from Anglo American Exploration Philippines B.V. (Anglo). The acquisition, which was consummated on February 6, 2009, was executed through a share and asset purchase agreement for a total consideration of US$55,000 (or ₱2,619,375), US$24,695 (or ₱1,176,114) for the shares, US$43 (or ₱2,020) for the project properties, US$27,053 (or ₱1,288,416) for the receivables and US$3,209 (or ₱152,825) for the payment of loans of Anglo in joint venture companies. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.

Sale and acquisition of minority interest of PPC
On April 23, 2008, the Parent Company and Ashmore Mining B.V. (formerly Anatolian Property, B.V.) [Ashmore], executed a Share Purchase Agreement under the terms of which the Parent Company agreed to sell and Ashmore agreed to buy 245,000,000 shares of stock of PPC, which represents 49.0% of the outstanding shares of stock of PPC, for US$5,918 (or ₱248,142).

The sale brought down to 51.0% the total number of shares owned and controlled by the Parent Company as of December 31, 2008. The consideration received from Ashmore was equal to the minority interest disposed.

On July 22, 2009, the Parent Company acquired the 245,000,000 shares of stock of PPC from Ashmore, which represents 49.0% of the outstanding shares of stock of PPC for US$3,571 (or ₱172,704). The difference between the acquisition cost and the book value of the interest acquired amounting to ₱41,536 was recognized as "Effect of transaction with minority interest" in the equity section of the 2009 consolidated balance sheet. With the acquisition, PPC is now a wholly owned subsidiary of the Parent Company.

Acquisition of additional shares of stock in FEP
On July 3, 2008, PPC acquired 4,004,000 shares of stock of FEP representing 13.31% of the outstanding shares for ₤1,922 (or ₱170,495). On September 23, 2008, PPC completed the purchase of additional 5,935,311 shares of FEP for ₤2,849 (or ₱235,499). The purchase of the shares, representing 19.73% of the issued capital stock of FEP, brought to 61.46%, including the 28.42% interest of FEC, the total number of shares owned and controlled by the Parent Company which requires consolidation of FEP to the Group.

On November 27, 2009, PPC acquired additional 2,227,934 shares of stock of FEP for ₤1,114 (or ₱87,058). With the additional acquisition, PPC now holds a total of 36.77% of the outstanding shares of FEP. The total number of shares owned and controlled by the Parent Company now totaled to 20,717,445 shares (62.61%), including the 25.84% interest of FEC. The interest of FEC over FEP was reduced to 25.84% due to the effect of dilution from placement and issuance of new shares by FEP.

Minority Interest
Minority interest represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest's equity in the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to and is able to make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated with all such profits until the minority's share of losses previously absorbed by the majority is recovered.

Minority interest represents the portion of profit or loss and the net assets not held by the Group. Transactions with minority interest are accounted for using the entity concept method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as an equity transaction.

<u>Investments in Associates</u>
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of 20% to 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

<u>Investments in Joint Venture Entities</u>
Joint venture entities are all entities subject to a joint control under a contractual arrangement with other parties. Investments in joint venture entities are accounted for under the equity method. Under the equity method, the investments are carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture entity, less any impairment in value. Dividends are considered return on capital and deducted from the investment account. Unrealized gains arising from transactions with the joint ventures are eliminated to the extent of the Group's interests in the joint ventures, against the investments in those joint ventures. Unrealized losses are similarly eliminated but only to the extent that there is no evidence of the asset transferred.

The Group has investments in the shares of stock of a joint venture entity, namely Minphil Exploration Co., Inc. (MECI). MECI's wholly owned subsidiary, Northern Luzon Exploration & Mining Co., Inc. (NLEMCI) has not started productive operations as of December 31, 2009 and 2008 (see Notes 11 and 26).

Business Combination and Goodwill

Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of income any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different on the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Group is a revaluation to be accounted for as such and presented separately as part of equity. If the revaluation relates directly to an identifiable fixed asset, the revaluation will be transferred directly to retained earnings when the asset is derecognized in whole through disposal or as the asset concerned is depreciated or amortized.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

Foreign Currency Translation of Foreign Operations

Each entity (subsidiaries and branches) in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate on the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at balance sheet date. All exchange differences are recognized in the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial statements of consolidated foreign subsidiaries that are integral to the operations of the Group are translated as if the transactions of the foreign subsidiaries had been those of the Parent Company. At each balance sheet date, foreign currency monetary items are translated using the prevailing rate, non-monetary items that are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items that are carried at fair value are translated using the exchange rate that existed when the values were determined. Income and expenses are translated at the average monthly prevailing rates for the year.

Financial statements of consolidated foreign branches and subsidiaries that are not integral to the operations of the Group are translated into the presentation currency of the Group (the Peso) at the rate of exchange at the balance sheet date and, their statement of income are translated at the exchange rates at the dates of transactions. The exchange differences arising from the translation are taken directly to the consolidated statement of comprehensive income (under cumulative translation adjustment). On disposal of a foreign entity, the cumulative translation adjustment amount recognized in equity relating to that particular foreign operation is recognized in the consolidated statement of income.

For purposes of consolidation, the financial statements of FEP, FEC and PGI, which are expressed in United States (US) dollar amounts, have been translated to Peso amounts as follows:

a. assets and liabilities for each consolidated balance sheet presented (i.e., including comparatives) are translated at the closing rate at the date of the consolidated balance sheet;

b. income and expenses for each consolidated statement of income (i.e., including comparatives) are translated at exchange rates at the average monthly prevailing rates for the year; and

c. all resulting exchange differences are recognized as a separate component of equity.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to insignificant risk of change in value.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial recognition and classification of financial instruments
Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities on the other hand are classified into the following categories: financial liabilities at FVPL and other financial liabilities, as appropriate. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

As of December 31, 2009 and 2008, the Group's financial assets and financial liabilities consist of derivative instruments at FVPL, loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

Day 1 profit
Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Derivatives and Hedging
The Parent Company uses currency and commodity derivatives such as forwards, swaps and option contracts to economically hedge its exposure to fluctuations in gold and copper prices. For accounting purposes, such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are accounted for as at FVPL, where any gains or losses arising from changes in fair value on derivatives are taken directly to consolidated statement of income, unless hedge accounting is applied.

For the purpose of hedge accounting, hedges are classified as:

a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or

b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

c. hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Parent Company formally designates and documents the hedge relationship to which the Parent Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of income.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs. If the related transaction is not expected to occur, the amount is taken to consolidated statement of income.

Hedges of a net investment in a foreign operation
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in the consolidated statement of comprehensive income while any gains or losses relating to the ineffective portion are recognized in consolidated statement of income. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in the consolidated statement of comprehensive income is transferred to the consolidated statement of income

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income.

<u>*Loans and Receivables*</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2009 and 2008, included under loans and receivables are the Group's cash and cash equivalents, and accounts receivable.

<u>*AFS Financial Assets*</u>
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as "Unrealized gain on AFS financial assets."

When the investment is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the consolidated statement of income as "Dividends income" when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within 12 months from the balance sheet date.

Note 11 discusses the details of the Group's AFS financial assets as of December 31, 2009 and 2008.

<u>*Other Financial Liabilities*</u>
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As of December 31, 2009 and 2008, included in other financial liabilities are the Group's short-term bank loans, accounts payable and accrued liabilities, dividends payable, derivative liabilities, and subscriptions payable.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the

liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Impairment of Financial Assets
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

Loans and receivables
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets
For AFS financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss is removed from equity and recognized in the consolidated statement of income.

Impairment losses on equity investments are recognized in the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "interest income" in the consolidated statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Inventories
Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated at NRV. Coal inventory and materials and supplies are valued at the lower of cost and NRV. Cost incurred in bringing materials and supplies to their present location and condition is accounted for as purchase cost determined on a weighted average basis.

NRV for mine products and coal inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of materials and supplies, NRV is the value of the inventories when sold at their condition at the balance sheet date.

Input Tax Recoverable
Input tax recoverable is stated at 10% in prior years up to January 2006 and 12% starting February 2006 of the applicable purchase cost of goods and services, net of output tax liabilities and allowance for probable losses.

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depletion and depreciation and accumulated impairment in value, if any.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes, borrowing costs and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to consolidated statement of income in the period in which costs are incurred. In situations where it can be clearly demonstrated that the expenditures would result in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of such property, plant and equipment.

When assets are sold or retired, the cost and related accumulated depletion and depreciation and accumulated impairment in value are removed from the accounts and any resulting gain or loss is reflected in the consolidated statement of income.

Depletion or amortization of mine and mining properties is calculated using the units-of-production method based on estimated recoverable reserves. Depreciation of other items of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

	No. of Years
Buildings and improvements	5 to 10
Machinery and equipment	2 to 20
Surface structures	10

Depreciation or depletion of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or depletion ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

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

Property, plant and equipment also include the estimated costs of rehabilitating the Padcal Mine, for which the Group is constructively liable. These costs, included under land, buildings and improvements, are amortized using the units-of-production method based on the estimated recoverable mine reserves until the Group actually incurs these costs in the future.

Level and block development (included as part of mine and mining properties) and construction in progress are stated at cost, which includes the cost of construction, plant and equipment, other direct costs and borrowing costs, if any. Block development and construction in progress are not depleted or amortized until such time as these are completed and become available for use.

Deferred Exploration Costs
Expenditures for exploration works on oil and mining properties (i.e., acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting an oil and mineral resource) are deferred as incurred and included under "Deferred exploration costs and other noncurrent assets" account in the consolidated balance sheet. If and when recoverable reserves are determined to be present in commercially producible quantities,

the deferred exploration expenditures, and subsequent oil and mine development costs are capitalized as part of the mine and mining properties account classified under property, plant and equipment.

A valuation allowance is provided for unrecoverable deferred oil and mine exploration costs based on the Group's assessment of the future prospects of the exploration project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful exploration and development of the area of interest, or alternatively, by its sale. If the project does not prove to be viable, all revocable cost associated with the project and the related impairment provisions are written off. When a project is abandoned, the related deferred oil and mine exploration costs are written off. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset is capitalized by the Company. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Other borrowing costs are recognized as an expense in the period in which it incurs them.

Impairment of Noncurrent Non-financial Assets

The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. The Group's non-financial assets include property, plant and equipment, investments in shares of stock, and deferred mine and oil exploration costs and other noncurrent assets. If any such indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the consolidated statement of income in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each balance sheet date as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the assets or CGU's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in the consolidated statement of income unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value on a systematic basis over its remaining estimated useful life.

Revenue Recognition

Revenue is recognized upon delivery to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from sale of mine products

Revenue from sale of mine products is measured based on shipment value price, which is based on quoted metal prices, as adjusted to reflect the net realizable value of mine products inventory at the end of the financial reporting period.

Revenue from sale of oil products

Revenue is derived from sale of oil to third party customers. Sale of oil is recognized at the time of delivery of the product to the purchaser. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty.

Revenue from sale of coal

Revenue from sale of coal is recognized when the risks and rewards of ownership is transferred to the buyer, usually on the day of delivery of the coal.

Interest income

Interest income is recognized as it accrues using the effective interest method.

Costs and Expenses Recognition

Costs and expenses are recognized in the consolidated statement of income in the year they are incurred.

Retirement Benefits Cost

Retirement benefits cost is actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the Group's retirement plan at the end of the previous reporting year exceed 10% of the higher of the defined benefits obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. If there is no change or there is an increase in the present value of economic benefits, the entire net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the asset is measured with the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Share-based Payments

Certain officers and employees of the Group receive additional remuneration in the form of share-based payments of either the Parent Company, FEP or PGI, whereby equity instruments (or "equity-settled transactions") are awarded in recognition of their services.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. Further details are given in Note 24.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for the period represents the movement in cumulative expense recognized as the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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 recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Foreign Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchanges rates at the date when the fair value was determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the consolidated statement of income, any exchange component of that gain or loss shall be recognized in the consolidated statement of income.

Related Party Relationships and Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Income Taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided, using the balance sheet liability 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 income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT], and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax amount to be utilized.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that has been enacted or substantively enacted at the balance sheet date.

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

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Earnings Per Share
Basic earnings per share is computed by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted Earnings Per Share
Diluted earnings per share amounts are calculated by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

Other Comprehensive Income
Other comprehensive income comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Capital Stock
Ordinary or common shares are classified as equity. The proceeds from the increase of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value or shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Treasury Shares
Own equity instruments, which are reacquired (treasury shares), are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Events After the Balance Sheet Date
Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date (adjusting event) are reflected in the consolidated financial statements. Events after the balance sheet date that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Future Changes in Accounting Policies

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2009. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine interpretations to have any significant impact on its consolidated financial statements.

- Amendments to PFRS 2, *Share-based Payments - Group Cash-settled Share-based Payment Transactions*, effective for annual periods beginning on or after January 1, 2010, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Revised PFRS 3, *Business Combinations*, and Amendments to PAS 27, *Consolidated and Separate Financial Statements,* effective for annual periods beginning on or after July 1, 2009. Revised PFRS 3 significantly changes the accounting for business combinations occurring after this date including the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages that will impact the amount of goodwill recognized, and the reported results in the current and future periods. Amendment to PAS 27 requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as a transaction with owners in their capacity as owners (no resulting goodwill nor gain or loss). Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

  The changes introduced by the revised PFRS 3 must be applied prospectively and PAS 27 must be applied retrospectively with a few exceptions.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*, effective for annual periods beginning on or after July 1, 2009 with early application permitted, provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*, effective for annual periods beginning on or after July 1, 2009, applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Improvements to PFRS. The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying recording. The amendments are effective for annual periods beginning financial years January 1, 2010 except when otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of Revised PFRS 3, *Business Combinations.*

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such noncurrent assets or discontinued operations.

- PFRS 8, *Operating Segment*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime; in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditures resulting in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- PAS 39, *Financial Instruments: Recognition and Measurement*, clarifies the following:

  a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

  b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

  c. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the Philippines requires the management of the Group to exercise judgment, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting assumptions, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of the functional currency
The Parent Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Peso. It is the currency of the primary economic environment in which the Parent Company primarily operates.

Recognition of deferred income tax assets
The Group reviews the carrying amounts at each balance sheet date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The sufficiency of future taxable profits requires the use of assumptions, judgments and estimates, including future prices of metals, volume of inventories produced and sold and amount of costs and expenses that are subjectively determined like depreciation. As of December 31, 2009 and 2008, gross deferred income tax assets recognized in the consolidated balance sheets amounted to ₱464,504 and ₱637,709, respectively (see note 22).

Classification of financial instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date (see Note 17).

<u>Accounting Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainties 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 as follows:

Measurement of mine products sales
Mine products sales are provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on these sales is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine product sales, gross of marketing charges, amounted to ₱8,932,886, ₱9,708,037 and ₱12,216,772 in 2009, 2008 and 2007, respectively.

Impairment of loans and receivables
The Group assesses on a regular basis if there is objective evidence of impairment of loans and receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The determination of impairment requires the Group to estimate the future cash flows based on certain assumptions as well as to use judgment in selecting an appropriate rate in discounting. The Group uses specific impairment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties that can be specifically identified. The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱3,398,230 and ₱10,840,808 as of December 31, 2009 and 2008, respectively (see Note 17). Allowance for impairment on these financial assets as of December 31, 2009 and 2008 amounted to ₱2,446 and ₱628, respectively (see Note 7).

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 30% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. The Group recognized impairment losses on AFS financial assets amounting to ₱226,979 in 2008 and none in 2009 (see Note 11). As of December 31, 2009 and 2008, the carrying value of AFS financial assets amounted to ₱756,948 and ₱378,804, respectively (see Note 11).

Impairment of goodwill
The Group reviews the carrying values of goodwill for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (CGU) or group of CGUs to which the goodwill relates. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2009 and 2008 and the carrying value of goodwill as of December 31, 2009 and 2008 amounted to ₱258,593.

Measurement of NRV of mine products inventory
The NRV of mine products inventory is the estimated sales value less cost to sell, derivable from such inventory based on its weight and assay for metal content and the London Metal Exchange (LME) prices which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as of December 31, 2009 and 2008 amounted to ₱136,217 and ₱380,960, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

Write-down of carrying values of materials and supplies inventories
Materials and supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. No inventory write-down was made during 2009 and 2008. The carrying value of materials and supplies inventories amounted to ₱1,008,326 and ₱875,909 as of December 31, 2009 and 2008, respectively (see Note 8).

Estimation of fair value of identifiable net assets of an acquiree in a business combination
In a business combination, the Group applies the purchase method of accounting whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The determination of fair values requires estimates of economic conditions and factors such as metal prices, mineral reserve, freight exchange rates and others. Transactions qualified as business combinations are discussed in Note 4.

Estimation of useful lives of property, plant and equipment
The Group estimates the useful lives of property, plant and equipment based on internal technical evaluation and experience. Estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. The carrying value of property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱4,668,892 and ₱4,066,257, respectively (see Note 10). The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2.

Estimation of provision for mine rehabilitation costs
The Group recognized a liability relating to the estimated costs of mine rehabilitation. The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates. Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance sheet date represents management's best estimate of the present value of the future rehabilitation costs required. Changes

to estimated future costs are recognized in the consolidated balance sheet by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to the consolidated statement of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income. Provision for mine rehabilitation costs amounted to ₱33,700 and ₱26,639 as of December 31, 2009 and 2008, respectively (see Note 10).

Impairment of noncurrent non-financial assets
The Group assesses whether there are indications of impairment on its noncurrent non-financial assets, at least on an annual basis. The Group's non-financial assets include property, plant and equipment, investments in shares of stock, and deferred mine and oil exploration costs and other noncurrent assets. If there are, impairment testing is performed. This requires an estimation of the value-in-use of the CGUs to which the assets belong. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. No further impairment losses were recognized in 2009 and 2008 in view of the significantly improved profitability of the Group. As of December 31, 2009 and 2008, the carrying value of noncurrent non-financial assets, which includes property, plant and equipment, investments in shares of stock, and deferred exploration costs and other noncurrent assets, amounted to ₱15,340,560 and ₱6,045,363, respectively.

Estimation of recoverable reserves
Recoverable reserves were determined using various factors or parameters such as market price of metals and global economy. These are economically mineable reserves based on the current market condition. The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of the mine, stripping ratios and for forecasting the timing of the payment of mine rehabilitation costs. On June 30, 2009, the Padcal mine life had been extended from 2014 to 2017 due to the discovery of additional reserves per an internal geological study performed by the Parent Company's geologists.

Valuation of financial assets and financial liabilities
The Group carries certain financial assets and financial liabilities (i.e., derivatives and AFS financial assets) at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, quoted security prices), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and financial liabilities would affect the profit or loss and equity.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 17.

Provisions for losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. During the year, payments were made for a total of ₱81,145, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation and an additional ₱41,000 provision. Total provision for losses amounted to ₱561,628 and ₱715,758 as of December 31, 2009 and 2008, respectively.

Estimation of retirement benefits cost
The Group's retirement benefits cost is actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. As of December 31, 2009 and 2008, the Group's accrued retirement benefits cost amounted to ₱30,324 and ₱80,151, respectively, while the related net retirement benefits cost amounted to ₱88,172 and ₱86,179, respectively (see Note 16).

4. Business Combinations

Acquisition of SMECI and SMMCI
On February 6, 2009, the Parent Company acquired the 50% interest of Anglo in the companies holding the Silangan Project (SMECI and SMMCI), which gave the Parent Company control over the property together with its 81.0%-owned subsidiary, PGPI, which holds the other 50%.

The final fair values of the identifiable net assets of SMECI and SMMCI as of the date of acquisition are as follows:

	SMECI		SMMCI	
	Fair Values	Carrying Values	Fair Values	Carrying Values
Assets				
Current assets	₱1,440,247	₱1,440,247	₱1,569	₱1,569
Investment	3,236,355	2,500	–	–
Land	–	–	7,510	7,510
Deferred mine exploration costs	–	–	6,977,717	1,426,007
Other noncurrent assets	–	–	3,172	3,172
	4,676,602	1,442,747	6,989,968	1,438,258

(Forward)

	SMECI		SMMCI	
	Fair Values	Carrying Values	Fair Values	Carrying Values
Liabilities				
Current liabilities	(1,441,241)	(1,441,241)	(1,440,233)	(1,440,233)
Deferred income tax liability	–	–	(1,665,513)	–
	(1,441,241))	(1,441,241)	(3,105,746)	(1,440,233)
Net Assets	₱3,235,361	₱1,506	₱3,884,222	(₱1,975)

The share of the Group in the foregoing fair values amounted to ₱1,942,011 while the cost of the business combination amounted to ₱1,176,114 which consisted of the cash purchase price and transaction costs incurred for the equity interests in SMECI and SMMCI. The resulting negative goodwill based on the accounting for this business combination amounted to ₱765,897.

The acquisition of SMECI and SMMCI by the Parent Company in 2009 qualified as a step acquisition and resulted in the Parent Company's step-by-step comparison of the cost of the individual investments with the Group's interest in the fair values of SMECI's and SMMCI's identifiable assets, liabilities and contingent liabilities. A revaluation surplus amounting to ₱1,572,385 was recognized in 2009 which pertains to the adjustments to the fair values of the net assets of both SMECI and SMMCI relating to the previously held interest of the Parent Company in SMECI and SMMCI through PGPI.

From the date of acquisition, SMECI contributed a net loss of ₱1,882 to the 2009 consolidated statement of income of the Group. The contributed net loss had the acquisition of SMECI been completed at the beginning of 2009 is immaterial.

Acquisition of FEP

On July 3, 2008, PPC acquired 4,004,000 shares of stock of FEP representing 13.31% of its outstanding shares for £1,922 (or ₱185,158). On September 23, 2008, PPC completed the purchase of additional 5,935,311 shares of FEP for £2,849 (or ₱251,481). These purchases of the FEP shares representing 19.73% of its issued capital stock brought to 61.46%, including the 28.42% interest of FEC, the total number of shares owned and controlled by the Group, which since then required the consolidation of FEP to the Group.

The finalized fair values of the identifiable net assets of FEP as of September 23, 2008 are as follows:

	Fair Values (Restated)	Carrying Values
Assets		
Cash and cash equivalents	₱43,158	₱43,158
Receivables	29,927	29,927
Advances to subsidiaries	186,311	186,311
Inventories	3,212	3,212
Property and equipment	179,735	180,661
Investments	282	282
Deferred oil and gas exploration costs	948,811	1,897,621
Other assets	43,633	43,633
	1,435,069	2,384,805
Liabilities		
Accounts payable and accrued expenses	12,427	12,427
Contingent liability	387,374	–
Other payables	183,817	183,817
	538,618	196,244
Net Assets	₱851,451	₱2,188,561

The net assets recognized in the December 31, 2008 consolidated financial statements were provisionally determined. The purchase price allocation was completed in 2009 and showed that the fair value of deferred oil and gas exploration costs at the date of the acquisition was ₱948,811. Accordingly, total goodwill arising from the acquisition was restated to ₱155,319.

The acquisition of FEP by PPC in 2008 qualified as a step acquisition and resulted in the Parent Company's step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of FEP's identifiable assets, liabilities and contingent liabilities at each transaction dates. A revaluation surplus amounting to a provisional value of ₱94,247 was previously recognized which pertains to the adjustment to the fair values of the net assets of FEP relating to the previously held interest of the Parent Company in FEP through FEC. With the finalization of fair values in 2009, this revaluation surplus in the 2008 consolidated balance sheet was restated to ₱39,012. Further, the related minority interest in the net assets of FEP and its subsidiaries was restated from ₱1,186,739 to ₱315,188.

From the date of acquisition, FEP contributed a net loss of ₱74,097 to the profit or loss of the Group for the year ended December 31, 2008. Had the acquisition of FEP been completed at the beginning of 2008, FEP would have contributed to the profit or loss of the Group net losses of ₱192,802 in 2008.

5. Segment Information

The Group is organized into business units on their products and activities and has two reportable operating segments: the mining segment and the oil and gas segment. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The following tables present revenue and profit and certain assets and liability information regarding the Group's business segments.

Year ended December 31, 2009:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱8,255,884	₱122,098	₱–	₱–	₱8,377,982
Inter-segment	–	–	–	–	–
Consolidated revenue	₱8,255,884	₱122,098	₱–	₱–	₱8,377,982
Results					
Profit (loss) before tax, interest expense and interest income	₱2,967,829	(₱351,418)	(₱426)	₱805,917	₱3,421,902
Interest income - net	79,145	742	190	–	80,077
Income (loss) before income tax	3,046,974	(350,676)	(236)	805,917	3,501,979
Income tax expense (benefit)	(769,280)	2,668	–	–	(766,612)
Net income (loss)	₱2,277,694	(₱348,008)	(₱236)	₱805,917	₱2,735,367
Assets and Liabilities					
Segment assets	₱14,792,821	₱3,681,120	₱5,938	₱1,004,786	₱19,484,665
Investments	5,740,126	1,035,317	–	(4,881,738)	1,893,705
Deferred income tax assets	–	43	–	–	43
Consolidated total assets	₱20,532,947	₱4,716,480	₱5,938	(₱3,876,952)	₱21,378,413
Consolidated total liabilities	₱6,801,938	₱1,257,093	₱77	(₱4,364,230)	₱3,694,878
Other Segment Information					
Addition to property, plant and equipment	₱1,161,578	₱295,887	₱–	₱–	₱1,457,465
Depletion and depreciation	749,478	103,058	–	–	852,536
Non-cash expenses other than depletion and depreciation	53,465	72,624	–	–	126,089

Year ended December 31, 2008:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱9,038,825	₱9,330	₱–	₱–	₱9,048,155
Inter-segment	–	–	–	–	–
Consolidated revenue	₱9,038,825	₱9,330	₱–	₱–	₱9,048,155
Results					
Profit (loss) before tax, interest expense and interest income	₱3,318,835	(₱154,413)	(₱283)	₱5,774	₱3,169,913
Interest income - net	97,364	2,813	130	–	100,307
Income (loss) before income tax	3,416,199	(151,600)	(153)	5,774	3,270,220
Income tax expense	(466,513)	(3,314)	–	–	(469,827)
Net income (loss)	₱2,949,686	(₱154,914)	(₱153)	₱5,774	₱2,800,393
Assets and Liabilities					
Segment assets	₱18,362,142	₱1,425,708	₱6,130	(₱1,206,264)	₱18,587,716
Investments	1,610,166	1,028,926	–	(2,000,000)	639,092
Deferred income tax assets	171,674	–	–	–	171,674
Consolidated total assets	₱20,143,982	₱2,454,634	₱6,130	(₱3,206,264)	₱19,398,482
Consolidated total liabilities	₱9,198,816	₱976,705	₱33	(₱3,305,083)	₱6,870,471
Other Segment Information					
Addition to property, plant and equipment	₱966,664	₱187,990	₱–	₱–	₱1,154,654
Depletion and depreciation	706,777	66,413	–	–	773,190
Non-cash expenses other than depletion and depreciation	1,319,938	10,113	–	–	1,330,051

Year ended December 31, 2007:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
Sales to external customers	₱11,230,635	₱–	₱–	₱–	₱11,230,635
Results					
Profit before tax, interest expense and interest income	₱5,603,166	₱–	₱–	₱–	₱5,603,166
Interest income - net	18,084	–	–	–	18,084
Income before income tax	5,621,250	–	–	–	5,621,250
Income tax expense	(615,601)	–	–	–	(615,601)
Net income	₱5,005,649	₱–	₱–	₱–	₱5,005,649
Assets and Liabilities					
Segment assets	₱10,605,543	₱699,126	₱6,250	(₱622,061)	₱10,688,858
Investments	1,509,924	274,413	–	(1,617,313)	167,024
Deferred income tax assets	48,723	–	–	–	48,723
Consolidated total assets	₱12,164,190	₱973,539	₱6,250	(₱2,239,374)	₱10,904,605
Consolidated total liabilities	₱4,857,166	₱134,699	₱–	(₱2,529,240)	₱2,462,625
Other Segment Information					

(Forward)

Addition to property, plant and equipment	₱1,269,842	₱–	₱–	₱–	₱1,269,842
Depletion and depreciation	785,705	–	–	–	785,705
Non-cash expenses other than depletion and depreciation	428,714	–	–	–	428,714

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2009	2008
Cash on hand and in banks	**₱2,122,499**	₱205,797
Short-term deposits	**758,616**	10,507,309
	₱2,881,115	₱10,713,106

Cash in banks and short-term deposits earn interest at bank deposit rates. Short-term deposits are made for varying periods, usually of up to three months depending on the cash requirements of the Group. Interest income arising from cash in banks and short-term deposits amounted to ₱188,124, ₱153,850 and ₱127,705 in 2009, 2008 and 2007, respectively.

7. Accounts Receivable

Accounts receivable consist of:

	2009	2008
Trade - net of allowance for doubtful accounts of ₱771 in 2009	**₱409,192**	₱4,721
Accrued interest	**12,257**	50,038
Others - net of allowance for doubtful accounts of ₱1,675 in 2009 and ₱628 in 2008 (Note 21)	**95,666**	72,943
	₱517,115	₱127,702

The Parent Company's trade receivables arise from shipments of copper concentrates which are initially paid based on 90% of their provisional value, currently within one week from shipment date. The 10% final balance does not bear any interest until final settlement which usually takes around three months from shipment date. In 2008, the Parent Company's trade receivables were adjusted by ₱395,484 to reflect the effect of quotational period prices lower than the provisional prices, which resulted to a net payable of ₱142,197 presented as trade payable in the liability section of the consolidated balance sheet as of December 31, 2008 (see Note 14).

Accrued interest receivables arise from the Group's short-term deposits.

The following is a rollforward analysis of the allowance for impairment losses recognized on accounts receivable:

	2009	2008
January 1		
Trade	**₱–**	₱–
Others	**628**	1,361
Provisions during the year		
Trade	**771**	–
Others	**1,047**	–
Write-offs	**–**	(733)
December 31	**₱2,446**	₱628

The impaired receivables were specifically identified as of December 31, 2009 and 2008.

8. Inventories

Inventories consist of:

	2009	2008
Mine products - at NRV	**₱136,217**	₱380,960
Coal - at cost	**1,676**	5,661
Materials and supplies:		
On hand:		
At cost	**836,729**	792,928
At NRV	**71,660**	55,333
In transit - at cost	**99,937**	27,648
	₱1,146,219	₱1,262,530

As of December 31, 2009 and 2008, the cost of materials and supplies inventories on hand that are carried at NRV amounted to ₱208,287 and ₱339,617, respectively. Related allowance for inventory obsolescence amounted to ₱136,627 and ₱284,284 as of December 31, 2009 and 2008, respectively.

Materials and supplies on hand include materials and supplies at PGPI's Bulawan Mine which ceased operations in 2002 that do not qualify as assets held for sale under PFRS 5. Details of these materials and supplies are as follows:

	2009	2008
Cost	**₱137,427**	₱138,682
NRV	**34,328**	35,583

9. Other Current Assets

Other current assets consist of:

	2009	2008
Input tax recoverable - net of allowance for probable loss of ₱154,842 in 2009 and ₱170,525 in 2008	**₱389,012**	₱316,663
Prepaid expenses and others	**68,833**	124,047
	₱457,845	₱440,710

Input tax recoverable represents the value-added tax (VAT) paid on purchases of applicable goods and services, net of output tax liabilities, which can be recovered as tax credit against future tax liability of the Group upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

10. Property, Plant and Equipment

Property, plant and equipment consist of:

As of December 31, 2009:

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost							
January 1	**₱6,458,598**	**₱234,857**	**₱4,897,435**	**₱97,761**	**₱238,869**	**₱2,197,683**	**₱14,125,203**
Additions	**652,336**	**23,355**	**710,158**	**1,379**	**70,237**	**–**	**1,457,465**
Disposals	**–**	**–**	**(16,766)**	**–**	**–**	**–**	**(16,766)**
Reclassifications							

(Forward)

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
within the "Property, plant and equipment" account	**52,626**	**–**	**(5,664)**	**639**	**(47,601)**	**–**	**–**
December 31	**7,163,560**	**258,212**	**5,585,163**	**99,779**	**261,505**	**2,197,683**	**15,565,902**
Accumulated Depletion and Depreciation							
January 1	**(4,455,843)**	**(211,033)**	**(3,105,735)**	**(88,652)**	**–**	**(2,197,683)**	**(10,058,946)**
Depletion and depreciation for the year (Note 15)	**(478,103)**	**(1,095)**	**(371,863)**	**(1,475)**	**–**	**–**	**(852,536)**
Disposals	**–**	**–**	**14,472**	**–**	**–**	**–**	**14,472**
December 31	**(4,933,946)**	**(212,128)**	**(3,463,126)**	**(90,127)**	**–**	**(2,197,683)**	**(10,897,010)**
Net Book Values	**₱2,229,614**	**₱46,084**	**₱2,122,037**	**₱9,652**	**₱261,505**	**₱–**	**₱4,668,892**

* Cost of land amounts to ₱1,163. This also includes capitalized costs of mine rehabilitation of ₱18,130 and related accumulated amortization of ₱7,837. In 2009, the Parent Company's Padcal mine life was extended from 2014 to 2017, which resulted to a decrease in Final Mine Rehabilitation and Decommissioning Plan (FMR/DP) costs of ₱1,573.

As of December 31, 2008:

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost							
January 1	₱5,996,379	₱371,549	₱4,774,327	₱101,242	₱156,954	₱2,197,683	₱13,598,134
Additions	462,219	5,492	510,639	–	176,304	–	1,154,654
Disposals	–	(10,517)	(432,301)	(3,481)	(49,619)	–	(495,918)
Reversals	–	(131,667)	–	–	–	–	(131,667)
Reclassifications within the "Property, plant and equipment" account	–	–	44,770	–	(44,770)	–	–
December 31	6,458,598	234,857	4,897,435	97,761	238,869	2,197,683	14,125,203
Accumulated Depletion and Depreciation							
January 1	(3,980,345)	(284,077)	(3,201,634)	(90,486)	–	(2,197,683)	(9,754,225)
Depletion and depreciation for the year (Note 15)	(475,498)	(5,035)	(291,010)	(1,647)	–	–	(773,190)
Disposals	–	10,516	386,909	3,481	–	–	400,906
Reversals	–	67,563	–	–	–	–	67,563
December 31	(4,455,843)	(211,033)	(3,105,735)	(88,652)	–	(2,197,683)	(10,058,946)
Net Book Values	₱2,002,755	₱23,824	₱1,791,700	₱9,109	₱238,869	₱–	₱4,066,257

* Cost of land amounted to P1,163. This also includes capitalized costs of mine rehabilitation of P18,130 and related accumulated amortization of P8,188. In 2008, the Parent Company completed the review of its FMR/DP for the Padcal Mine. The review resulted to a decrease in FMR/DP costs of P64,104.

Mine and mining properties as of December 31, 2009 and 2008 include mine development cost of the 782 Meter Level project amounting to ₱663,340 and ₱413,816, respectively. In 2009, the Parent Company's estimated mine life was extended until 2017, or an additional three years from the original estimated mine life of until 2014. Correspondingly, the extension in mine life was considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost amounting to ₱115,914 is capitalized under deferred mine exploration costs which relate to projects that are currently ongoing for BEMC, SMECI, PGPI and LMC in 2009.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to ₱10,293 and ₱9,942 as of December 31, 2009 and 2008, respectively. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2015 up to 2024, discounted using the Parent Company's historical average borrowing rate of 8% per annum. The related accumulated accretion of interest amounted to ₱10,640 and ₱8,509 as of December 31, 2009 and 2008, respectively.

Non-operating property and equipment in the Bulawan mine pertains to PGPI's fully-depreciated property and exploration equipment that are presently not in use. These assets do not qualify as assets held for sale under PFRS 5 and are thus retained as property, plant and equipment.

11. Investments

AFS Financial Assets
The Group's AFS financial assets consist of the following:

	2009	2008
Investments in quoted shares of stock of:		
Indophil Resources NL (Indophil)	**₱685,696**	₱122,782
Philippine Realty & Holdings Corporation (PRHC)	**50,746**	23,283
The Philodrill Corporation (Philodrill)	**4,163**	5,610
Other quoted equity investments	**1,783**	519
	742,388	152,194
Investments in unquoted shares of stock of:		
Philippine Associated Smelting and Refining Corporation	**14,055**	14,055
Pitkin Petroleum Limited (Pitkin)	**–**	212,050
Other unquoted equity investments	**505**	505
	14,560	226,610
	₱756,948	₱378,804

AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are neither readily available nor is there an alternative basis of deriving a reasonable valuation as of balance sheet date.

As of December 31, 2009 and 2008, the cumulative increase in value of AFS financial assets amounted to ₱614,390 and ₱1,727, respectively, of which ₱169,113 was recognized as deferred income tax liability in 2009. These changes in fair values in the same amounts have been recognized and shown as "Unrealized gain on AFS financial assets" account in the equity section of the consolidated balance sheets and are also shown in the consolidated statements of comprehensive income.

In 2009 and 2008, the Parent Company, at various dates, sold part of its investments in shares of stock of Philodrill and PRHC. The following table summarizes the Parent Company's sale of its AFS financial assets for the years ended:

December 31, 2009:

	Cost of AFS Financial Assets	Proceeds from Sale	Gain (Loss) on Sale of AFS Financial Assets
PRHC	**₱21,945**	**₱18,703**	**(₱3,242)**
Philodrill	**3,298**	**6,666**	**3,368**
Total	**₱25,243**	**₱25,369**	**₱126**

December 31, 2008:

	Cost of AFS Financial Assets	Proceeds from Sale	Gain on Sale of AFS Financial Assets
Philodrill	₱18,551	₱103,116	₱84,565

In 2008, fair value changes amounting to ₱30,716 relating to Indophil shares were transferred from equity to profit or loss, and an impairment loss amounting to ₱226,979 was recognized as part of the "Provisions and allowances for losses" account in the 2008 consolidated statement of income due to significant decline in value.

Meanwhile, unrealized loss on decrease in fair value amounting to ₱2,312 in 2009 and ₱96,531 in 2008 related to the Philodrill shares, that were disposed, were transferred from equity to consolidated statement of income. Unrealized gain on increase in fair value amounting to ₱11,925 related to PRHC, which were disposed, was also transferred from equity to consolidated statement of income in 2009.

The following table shows the movement of the "Net unrealized gain on AFS financial assets" account:

	2009	2008
At January 1	**₱1,727**	₱144,402
Net increase (decrease) in value of AFS financial assets net of related deferred income tax of ₱169,113 in 2009	**433,937**	(46,144)
Realized loss (gain) on disposal and retirement of AFS financial assets	**9,613**	(127,247)
Unrealized loss on AFS financial asset, net of related deferred income tax, removed from equity and transferred to the consolidated statements of income	**–**	30,716
At December 31	**₱445,277**	₱1,727

Investments in Shares of Stock
Investments in shares of stocks pertain to investments in joint venture entities and associates. The details of investments in shares of stocks carried at equity are as follows:

	2009	2008
Acquisition Costs		
January 1	**₱258,642**	₱3,470
Additional acquisition during the year	**742,686**	255,172
Reclassification from AFS financial assets - Pitkin	**212,050**	–
December 31	**1,213,378**	258,642
Accumulated Equity in Net Earnings (Losses) of Associates		
January 1	**1,646**	–
Equity in net earnings (losses) for the year	**(72,624)**	10,113
Dividends received	**(5,645)**	(8,467)
December 31	**(76,623)**	1,646
	₱1,136,755	₱260,288

Investments in Joint Ventures
As of December 31, 2008, investments in joint ventures include investments in shares of stock of MECI and SMECI (see Note 26) that are accounted for at equity.

The Group's proportionate ownership interests in MECI and its subsidiary as of December 31, 2009 follow:

	Percentage of Ownership	
	Direct	**Indirect**
MECI	**60**	**–**
NLEMCI *	**–**	**100**

* Incorporated on October 12, 1999 and has not started commercial operations (see Note 26).

The Group's proportionate ownership interests in MECI and SMECI and their respective subsidiaries as of December 31, 2008 follow:

	Percentage of Ownership	
	Direct	Indirect
MECI	60	–
NLEMCI *	–	100
SMECI	–	60
SMMCI **	–	100

* Incorporated on October 12, 1999 and has not started commercial operations (see Note 26).
**Incorporated on January 4, 2000 and has not started commercial operations (see Note 26).

The following are the summarized consolidated financial information of MECI and its subsidiary as of December 31, 2009:

Current assets	₱36
Noncurrent assets	89,401
Noncurrent liabilities	87,095
Equity	2,342
Net loss	171

The following are the summarized consolidated financial information of MECI and SMECI as of December 31, 2008:

	MECI	SMECI
Current assets	₱152,876	₱4,792
Noncurrent assets	86,185	2,019,747
Current liabilities	237,964	2,029,630
Equity (Capital deficiency)	1,097	(5,091)
Net loss	369	622

Investments in Associates
Investments in associates pertain to the Parent Company's and PPC's investments in the shares of stock of Pitkin and PERC, which are accounted for at equity.

Acquisition of additional 7.3% in Pitkin
On March 17, 2009, the Parent Company subscribed to additional 14 million shares of Pitkin for the aggregate amount of US$14,000 (₱679,601). The subscription brings the total holdings of the Parent Company to 18 million shares. PPC, a wholly owned subsidiary, also holds 6 million shares in Pitkin, bringing the total holdings of the Group to 24 million shares, or 21.01% ownership interest triggering the reclassification from AFS financial assets to investments in associates.

The following are the summarized financial information of Pitkin as of December 31, 2009 whose financial statements are stated in US$ and translated at the closing rate of US$1 = ₱46.20 for balance sheet accounts and average rate of US$1 = ₱47.64 for the net loss:

Current assets	₱833,604
Noncurrent assets	198,135
Current liabilities	23,820
Equity	1,007,919
Net loss	93,028

Acquisition of additional 19.85% of PERC
On March 24, 2008, PPC acquired additional 27,180,551 shares of PERC for ₱244,625. The acquisition of the shares, which is equivalent to 19.85% of the issued capital of PERC, brought to 20.6% the total ownership interest of PPC in PERC.

The following are the summarized financial information of PERC as of December 31, 2009 and 2008 whose financial statements are stated in US$ and translated at the closing rate of US$1 = ₱46.20 in 2009 and US$1 = ₱47.52 in 2008, for balance sheet accounts, and average rate of US$1 = ₱47.64 in 2009 and US$1 = ₱44.47 in 2008, for the net income:

	2009	2008
Current assets	**₱269,828**	₱177,069
Noncurrent assets	**750,950**	813,064
Current liabilities	**25,296**	20,913
Noncurrent liabilities	**16,187**	15,324
Equity	**979,295**	953,896
Net income	**80,634**	99,742

Subscription Payable
Subscriptions payable which is included as part of "Provisions and other payables" in the consolidated balance sheets as of December 31, 2009 and 2008 is related to the investments in shares of stock of PRHC and Philodrill amounting to ₱54,916 and ₱53,528, respectively.

12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

	2009	2008 (Restated, Note 4)
Deferred mine exploration costs (Note 4)	**₱9,423,316**	₱1,551,774
Less allowance for unrecoverable portion	**888,060**	888,060
	8,535,256	663,714
Deferred oil exploration costs	**1,025,525**	1,067,338
Less allowance for unrecoverable portion	**86,567**	86,375
	938,958	980,963
Others	**108,134**	121,576
Less allowance for unrecoverable portion	**47,435**	47,435
	60,699	74,141
	₱9,534,913	₱1,718,818

Deferred Mine and Oil Exploration Costs

a. Deferred mine and oil exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas that can be produced in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable.

b. On December 8, 2005, PGPI entered into Heads of Agreement (HOA) with Indexa Corp. (IC), and IC in turn executed on the same day a Deed of Assignment, which became effective on January 2, 2006, assigning its full interest over the HOA to FEC.

   Among the relevant provisions of the HOA are:

   i. PGPI will incorporate a subsidiary into which PGPI shall transfer its full interest over Mine Production Sharing Agreement No. 148-99-XIII (MPSA 148), together with the accumulated exploration costs incurred thereon.

   ii. PGPI shall undertake to apply for all approvals from the Bureau of Mines to permit PGPI to transfer 40% equity over this subsidiary to FEC. PGPI shall further undertake to obtain same approvals to cover FEC's or its designate's or affiliate's possible increase in its equity to 60%.

   iii. FEC will commit and provide the amount of US$250 to PGPI after the legal ownership of MPSA 148 has been transferred to the subsidiary.

   iv. FEC will provide US$100 each month from January 1, 2006 to October 31, 2006 to the subsidiary to fund expenditures to further determine and delineate the reserves of MPSA 148. Should the extension beyond October 2006 of the exploration permit not be obtained, FEC will be entitled to call the advances and demand full repayment from the subsidiary, which repayment shall be guaranteed by PGPI.

   In compliance with the above provisions of the HOA:

   i. On October 20, 2005, PGPI incorporated LMC. On December 13, 2005, PGPI assigned MPSA 148 to LMC, and transferred to the latter all accumulated exploration costs related to this property. Accordingly, the amount of US$250 was released to PGPI.

   ii. On December 29, 2005, PGPI received from FEC the amount of US$250 following the transfer to LMC of PGPI's legal ownership over MPSA 148 in December 2005.

   iii. FEC provided US$100 each month from January 1, 2006 to October 31, 2006 to LMC to fund expenditures to further determine and delineate the reserves of MPSA 148. This amount is recorded by LMC as part of payable to affiliated companies. On November 30, 2006, PGPI was able to obtain from the Bureau of Mines a permit to extend beyond October 2006 the exploration of MPSA 148 but by December 31, 2006, certain requirements necessary for the transfer of the 40% equity of FEC in LMC had not yet been complied with. Accordingly, LMC remained as a wholly owned subsidiary of PGPI as of that date. On September 30, 2007, FEC earned and got its 40% equity stake in LMC, with the completion of the documentary requirements for the transfer of the shares. At that time, FEC had not yet become a subsidiary of the Parent Company (see Note 2) but the carrying value of portion of FEC's advances which amounted to ₱11,260 ($250) resulted in an excess of ₱4,141 over the par value of LMC's newly issued shares to FEC, and the excess was taken up by the Group in the 2007 consolidated balance sheet as an additional paid-in capital.

Others

a. "Others" primarily pertains to materials and supplies that are being used in operations over a period of more than one year. These are amortized over the periods in which these are usable, normally ranging from 2 to 3 years.

b. Included in "Others" are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines (LBP) to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (R.A.) No. 7942, otherwise known as "The Philippine

Mining Act of 1995." The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad mines, and for research in the social, technical and preventive aspects of their rehabilitation. As of December 31, 2009 and 2008, the Parent Company's MRF amounted to ₱5,685 and ₱5,692, respectively, while PGPI's MRF amounted to ₱6,440 and ₱6,389, respectively.

13. Short-term Bank Loans

Short-term bank loans as of December 31, 2008 consisted of unsecured short-term US dollar-denominated loans with repricing every 30 to 120 days, obtained from various local banks with interest rate from 3.30% to 6.40% in 2009, 3.75% to 6.40% in 2008 and none in 2007. As of December 31, 2009, all bank loans have been fully paid. Interest expense arising from short-term bank loans amounted to ₱105,916 and ₱48,743 in 2009 and 2008, respectively, and none in 2007.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2009	2008
Trade (Note 7)	**₱302,754**	₱362,142
Accrued royalties and excise taxes	**109,656**	102,951
Trust receipts and acceptances	**59,354**	61,530
Withholding taxes	**52,023**	32,169
Accrued expenses - outside services	**42,380**	68,153
Accrued interest	**–**	13,664
Other non-trade and accrued liabilities	**300,723**	139,462
	₱866,890	₱780,071

Other non-trade and accrued liabilities include accrued payroll, other payroll related non-trade liabilities and other non-trade liabilities.

15. Costs and Expenses

Costs and expenses include the following:

	2009	2008	2007
Mining and milling costs:			
Materials and supplies	**₱1,500,571**	₱1,309,586	₱1,213,068
Communications, light and water	**989,110**	889,569	1,095,932
Personnel (Note 16)	**810,162**	788,163	705,603
Depletion and depreciation (Note 10)	**724,838**	696,174	778,564
Contracted services	**390,544**	374,698	312,720
Others	**131,360**	106,163	65,319
	₱4,546,585	₱4,164,353	₱4,171,206
General and administrative expenses:			
Taxes and licenses	**₱233,435**	₱44,606	₱24,439
Personnel (Note 16)	**172,195**	158,077	165,635
Contracted services	**101,344**	25,405	48,317
Exploration supplies	**23,497**	11,350	16,804
Depreciation (Note 10)	**11,784**	9,453	5,964
Others	**306,675**	288,136	140,878
	₱848,930	₱537,027	₱402,037
Mine products taxes and royalties:			
Royalties	**₱322,480**	₱367,029	₱244,402
Excise taxes	**164,745**	211,033	213,508
	₱487,225	₱578,062	₱457,910

16. Retirement Benefits Cost

The Parent Company and PGPI have a funded, non-contributory, defined benefit group retirement plan administered by a board of trustees, covering all regular employees. The following tables summarize the components of the net benefit expense recognized in the consolidated statement of income and the funded status and amounts recognized in the consolidated balance sheets:

Net retirement benefits cost:

	2009	2008	2007
Current service cost	**₱47,790**	₱49,902	₱47,322
Interest cost on defined benefits obligation	**58,711**	52,542	53,762
Expected return on plan assets	**(41,709)**	(46,943)	(47,854)
Net actuarial loss recognized during the year	**17,438**	24,736	27,828
Past service cost	**5,942**	5,942	5,942
	₱88,172	₱86,179	₱87,000
Portions recognized in:			
Mining and milling costs	**₱75,828**	₱74,114	₱74,820
General and administrative expenses	**12,344**	12,065	12,180
	₱88,172	₱86,179	₱87,000
Actual return (loss) on plan assets	**₱103,697**	(₱151)	₱27,832

Accrued retirement benefits cost:

	2009	2008
Defined benefits obligation	**₱943,686**	₱939,377
Fair value of plan assets	**(897,172)**	(695,148)
	46,514	244,229
Unrecognized net actuarial losses	**(4,306)**	(146,252)
Unrecognized past service cost	**(11,884)**	(17,826)
	₱30,324	₱80,151

Actuarial gains and losses, and past service cost relate to amendments on plan benefits and changes in actuarial assumptions subsequent to transition date.

The changes in present value of defined benefit obligation are as follows:

	2009	2008
January 1	**₱939,377**	₱928,311
Current service cost	**47,790**	49,902
Interest cost on defined benefits obligation	**58,711**	52,542
Benefits paid	**(39,673)**	(23,492)
Actuarial gains on obligation	**(62,519)**	(67,886)
December 31	**₱943,686**	₱939,377

The changes in fair value of plan assets are as follows:

	2009	2008
January 1	**₱695,148**	₱586,790
Expected return on plan assets	**41,709**	46,943
Actuarial gains (losses) on plan assets	**61,988**	(47,093)
Actual contributions to the plan	**138,000**	132,000
Benefits paid	**(39,673)**	(23,492)
December 31	**₱897,172**	₱695,148

The categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2009	2008
Cash and cash equivalents	**1%**	11%
Investments in debt securities	**95%**	85%
Investments in equity securities	**2%**	2%
Receivables	**2%**	2%
	100%	100%

The overall expected return on plan assets is based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled.

The Parent Company's and PGPI's expected total contribution to fund for 2010 is ₱50,855.

The principal assumptions used in determining retirement benefit costs for the Parent Company's and PGPI's plan are as follows:

	January 1		
	2009	2008	2007
Number of employees	**2,196**	2,221	2,299
Discount rate per annum	**6.25%**	5.66%	6.00%
Expected annual rate of return on plan assets	**6%**	8%	10%
Future annual increase in salary	**10%**	10%	10%

The latest actuarial valuation was as of December 31, 2009. The discount rate used was 7.50%.

Related amounts for the current and previous years are as follows:

	2009	2008	2007	2006	2005
Defined benefit obligation	**(₱943,686)**	(₱939,377)	(₱928,311)	(₱895,965)	(₱578,399)
Plan assets	**897,172**	695,148	586,790	478,542	267,946
Deficit	**(46,514)**	(244,229)	(341,517)	(417,423)	(310,453)
Experience adjustment on plan liabilities	**101,120**	53,531	(39,806)	6,203	–

17. Financial Instruments

Fair Values of Financial Instruments

The following table shows the carrying values and fair values of the Group's financial assets and financial liabilities:

	December 31, 2009		December 31, 2008	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**₱2,122,499**	**₱2,122,499**	₱205,797	₱205,797
Short-term deposits	**758,616**	**758,616**	10,507,309	10,507,309
Accounts receivable:				
Trade	**409,192**	**409,192**	4,721	4,721
Accrued interest	**12,257**	**12,257**	50,038	50,038
Others	**95,666**	**95,666**	72,943	72,943
Derivative assets	**19,975**	**19,975**	–	–
AFS financial assets:				
Quoted equity investments	**742,388**	**742,388**	152,194	152,194
Unquoted equity investments	**14,560**	**14,560**	226,610	226,610
Total	**₱4,175,153**	**₱4,175,153**	₱11,219,612	₱11,219,612
Liabilities				
Short-term bank loans	**₱–**	**₱–**	4,039,200	4,039,200

(Forward)

	December 31, 2009		December 31, 2008	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Accounts payable and accrued liabilities:				
Trade	**302,754**	**302,754**	362,142	362,142
Trust receipts and acceptances	**59,354**	**59,354**	61,530	61,530
Accrued expenses - outside services	**₱42,380**	**₱42,380**	₱68,153	₱68,153
Accrued interest	**–**	**–**	13,664	13,664
Other nontrade and accrued liabilities	**300,723**	**300,723**	139,462	139,462
Dividends payable	**168,856**	**168,856**	173,301	173,301
Subscriptions payable	**54,916**	**54,916**	53,528	53,528
Derivative liabilities	**–**	**–**	948,937	948,937
Total	**₱928,983**	**₱928,983**	₱5,859,917	₱5,859,917

The carrying values of cash and cash equivalents, accounts receivable, short-term bank loans, accounts payable and accrued liabilities, dividends payable and subscriptions payable, approximate their fair values because of their short-term nature. Quoted AFS financial assets are carried at fair value based on the quoted values of the securities. Unquoted AFS financial assets are carried at book value since fair value cannot be readily determined.

The fair values of derivative instruments are based on counterparty valuation.

Fair value measurements are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

The fair value hierarchy of the financial assets as of December 31, 2009 is presented in the following table:

	Level 1	Level 2	Level 3	Total
AFS quoted financial assets	₱742,388	₱–	₱–	₱742,388
Derivative assets	–	19,975	–	19,975
Total	₱742,388	₱19,975	₱–	₱762,363

During the year ended December 31, 2009, there were no transfers between Level 1 and 2 measurement and no transfers into and out of Level 3 fair value measurement.

Categories of Financial Assets:

	December 31, 2009	December 31, 2008
Loans and receivables:		
Cash and cash equivalents:		
Cash on hand and in banks	**₱2,122,499**	₱205,797
Short-term deposits	**758,616**	10,507,309
Accounts receivable:		
Trade	**409,192**	4,721
Accrued interest	**12,257**	50,038
Others	**95,666**	72,943
	3,398,230	10,840,808
AFS financial assets:		
Quoted equity investments	**₱742,388**	₱152,194
Unquoted equity investments	**14,560**	226,610
	756,948	378,804
Derivatives designated as cash flow hedges:		
Derivative assets	**19,975**	–
	₱4,175,153	₱11,219,612

All financial liabilities of the Group as of December 31, 2009 and 2008 are categorized under "other financial liabilities" except for derivative liabilities, which are designated as cash flow hedges.

18. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise mainly of cash and cash equivalents, receivables, AFS financial assets and accounts payable and accrued liabilities. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects.

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial Risks

The main risks arising from the Group's financial instruments are credit and concentration risks, liquidity risk, and market risk. The market risk exposure of the Group can be further classified to foreign currency risk, cash flow interest rate risk, equity price risk, and commodity price risk. The BOD reviews and approves the policies for managing some of these risks and they are summarized as follows:

Credit and concentration risks

Credit risk is such risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations, although the Group trades only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual mineral products sales are committed to, and 100% of the outstanding trade receivables are from, Pan Pacific Copper, Ltd (Pan Pacific) (see Note 7) with whom the Parent Company has a long-term supply agreement, assuring Pan Pacific with sale of the Parent Company's mine products as discussed in Note 27. This agreement is effective until end of the life of the mine currently declared as up to mid of 2017. The balance of the Company's annual mineral products sales is with Louis Dreyfuss (LD) Metals which is covered by a long-term agreement up to April 1, 2012.

With respect to credit risk arising from the other financial assets of the Group, which comprise of cash and cash equivalents, AFS financial assets and derivative assets, the Group's exposure to credit risk could arise from default of the counterparty, having a maximum exposure equal to the carrying amount of these instruments.

The table below summarizes the Group's exposure to credit risk for the components of the consolidated balance sheets as of December 31, 2009 and 2008:

	2009	2008
Cash and cash equivalents, excluding cash on hand:		
Cash in banks	**₱2,120,045**	₱203,972
Short-term deposits	**758,616**	10,507,309
Accounts receivable:		
Trade	**409,192**	4,721
Accrued interest	**12,257**	50,038
Others	**95,666**	72,943
AFS financial assets:		
Quoted equity investments	**742,388**	152,194
Unquoted equity investments	**14,560**	226,610
Derivative assets	**19,975**	–
Gross maximum credit risk exposure	**₱4,172,699**	₱11,217,787

The table below shows the credit quality of the Group's financial assets by class as of December 31, 2009 and 2008 based on the Group's credit evaluation process:

As of December 31, 2009:

	Neither past due nor impaired		**Past due or individually impaired**	
	High-Grade	**Standard**		**Total**
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	**₱2,120,045**	**₱–**	**₱–**	**₱2,120,045**
Short-term deposits	**758,616**	**–**	**–**	**758,616**
Accounts receivable:				
Trade	**409,192**	**–**	**771**	**409,963**

(Forward)

Accrued interest	**12,257**	**–**	**–**	**12,257**
Others	**95,666**	**–**	**1,675**	**97,341**
AFS financial assets:				
Quoted equity investments	**–**	**742,388**	**–**	**742,388**
Unquoted equity investments	**–**	**14,560**	**–**	**14,560**
Derivative assets	**19,975**	**–**	**–**	**19,975**
Total	**₱3,415,751**	**₱756,948**	**₱2,446**	**₱4,175,145**

As of December 31, 2008:

	Neither past due nor impaired		Past due or individually impaired	Total
	High-Grade	Standard		
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	₱203,972	₱–	₱–	₱203,972
Short-term deposits	10,507,309	–	–	10,507,309
Accounts receivable:				
Trade	4,721	–	–	4,721
Accrued interest	50,038	–	–	50,038
Others	72,943	–	628	73,571
AFS financial assets:				
Quoted equity investments	₱–	₱152,194	₱226,979	₱379,173
Unquoted equity investments	–	226,610	–	226,610
Total	₱10,838,983	₱378,804	₱227,607	₱11,445,394

Credit quality of cash and cash equivalents, and AFS financial assets are based on the nature of the counterparty and the Group's internal rating system.

High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience and/or counterparty credit standing. Standard-grade credit quality financial asset includes unquoted equity investments that can be readily sold to a third party.

The Group has no past due but not impaired financial assets as of December 31, 2009 and 2008.

Liquidity risk

Liquidity risk is such risk where the Group becomes unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary.

The table below summarizes the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk as of December 31, 2009:

	On demand	**Within 1 year**	**More than 1 year**	**Total**
Cash and cash equivalents	**₱2,881,115**	**₱–**	**₱–**	**₱2,881,115**
Accounts receivable:				
Trade	**–**	**409,192**	**–**	**409,192**
Accrued interest	**–**	**12,257**	**–**	**12,257**
Others	**–**	**95,666**	**–**	**95,666**
AFS financial asset:				
Quoted equity investment	**742,388**	**–**	**–**	**742,388**
Unquoted equity investment	**14,560**	**–**	**–**	**14,560**
Derivative assets	**–**	**19,975**	**–**	**19,975**
Total undiscounted financial assets	**₱3,638,063**	**₱537,090**	**₱–**	**₱4,175,153**

The tables below summarize the maturity profile of the Group's non-derivative financial liabilities as of December 31, 2009 and 2008, respectively, based on contractual undiscounted repayment obligations (including interest):

As of December 31, 2009:

	On demand	**Within 1 year**	**More than 1 year**	**Total**
Accounts payable and accrued liabilities	**₱–**	**₱705,211**	**₱–**	**₱705,211**
Dividends payable	**168,856**	**–**	**–**	**168,856**
Subscription payable	**54,916**	**–**	**–**	**54,916**
Total undiscounted financial liabilities	**₱223,772**	**₱705,211**	**₱–**	**₱928,983**

As of December 31, 2008:

	On demand	Within 1 year	More than 1 year	Total
Short-term bank loans	₱–	₱4,049,455	₱–	₱4,049,455
Accounts payable and accrued liabilities	–	644,951	–	644,951
Dividends payable	173,301	–	–	173,301
Subscription payable	53,528	–	–	53,528
Total undiscounted financial liabilities	₱226,829	₱4,694,406	₱–	₱4,921,235

As of December 31, 2008, the Group's derivatives financial liabilities amounted to ₱948,937, of which ₱634,080 matures within one year.

Market risks

Foreign currency risk

Foreign currency risk is such risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency (see Note 7). All of the Parent Company's sales are denominated in US$. Also, the Parent Company is exposed to foreign exchange risk arising from its US$-denominated cash and cash equivalents, and trade receivables. For the years ended December 31, 2009, 2008 and 2007, the Parent Company recognized net foreign exchange gains (losses) of (₱55,459), ₱313,511 and (₱311,263), respectively, arising from the translation of these foreign currency-denominated financial instruments.

As the need arises, the Parent Company enters into structured currency derivatives to cushion the effect of foreign currency fluctuations.

The following table summarizes the impact on the consolidated statement of income before income tax of reasonably possible changes in the exchange rates of US dollar against the Peso:

US$ Appreciate/(Depreciate)	**2009**	2008
1%	**₱5,368**	₱5,923
(1%)	**(5,368)**	(5,923)

There is no other impact on the Group's equity other than those affecting profit or loss.

Cash flow interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2008, the Group's exposure to the risk in changes in market interest rates relates primarily to the Parent Company's short-term bank loans. In 2009, the Parent Company has paid in full its short-term bank loans amounting to ₱4,039,200 (see Note 13).

The Group relies on budgeting and forecasting techniques to address cash flow concerns. The Group also keeps its cash flow interest rate risk at a minimum by not borrowing when cash is available or by prepaying, to the extent possible, interest-bearing debt using operating cash flows. In 2008, the Group prepaid long-term debt aggregating to ₱268,028.

The following table demonstrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's 2008 income before income tax:

Change in market rate of interest	Effect on income before income tax
Decrease by 1.0%	₱742
Decrease by 0.5%	371
Increase by 1.0%	(₱742)
Increase by 0.5%	(371)

There is no other impact on the Group's equity other than those affecting profit or loss.

Equity price risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company, which are classified in the consolidated balance sheets as AFS financial assets (see Note 11). As of December 31, 2009 and 2008, investments totaling ₱742,388 and ₱152,194, represent 3.47% and 0.78%, respectively, of the total assets of the Group.

The effect on equity, as a result of a possible change in the fair value of the Parent Company's equity instruments held as AFS financial assets as at December 31, 2009 and 2008 that could be brought by changes in equity indices with all other variables held constant are as follows:

Currency	Change in quoted prices of investments carried at fair value	**2009**	2008
Australian Dollar			
(AU$)	Increase by 10%	**₱68,869**	₱12,278
	Increase by 5%	**34,434**	6,139
	Decrease by 10%	**(68,869)**	(12,278)
	Decrease by 5%	**(34,434)**	(6,139)
Peso	Increase by 10%	**₱5,669**	₱2,941
	Increase by 5%	**2,835**	1,471
	Decrease by 10%	**(5,669)**	(2,941)
	Decrease by 5%	**(2,835)**	(1,471)

The impact on the Group's equity excludes the impact on transactions affecting profit or loss.

Commodity price risk
The Parent Company's mine products revenues are valued based on international commodity quotations (i.e., primarily on the LME and London Bullion Metal Association quotes) over which the Parent Company has no significant influence or control. This exposes the Group's results of operations to commodity price volatilities that may significantly impact its cash inflows. The Parent Company enters into derivative transactions as a means to mitigate the risk of fluctuations in the market prices of its mine products.

The table below shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Parent Company as of December 31, 2009 and 2008:

Change in metal prices	**2009**	2008
Increase by 10%	**₱13,622**	₱38,096
Decrease by 10%	**(13,622)**	(38,096)

The table below shows the effect on equity should the change in the prices of copper and gold occur based on the gold derivatives of the Parent Company as of December 31, 2009 and 2008:

Change in metal prices	**2009**	2008
Increase by 10%	**₱1,997**	(₱608,330)
Decrease by 10%	**(1,997)**	608,330

<u>Derivative Financial Instruments</u>
The following table provides information about the Parent Company's derivative financial instruments outstanding as of December 31, 2009 and 2008 and the related fair values:

	2009		2008	
	Asset	**Liability**	Asset	Liability
Gold options	**₱19,975**	**₱–**	₱–	₱478,835
Structured currency derivatives	**–**	**–**	–	470,102

Gold Options
In 2007 and 2008, the Parent Company purchased put options and sold call options on gold (zero-cost collar structure) and designated these as cash flow hedges of forecasted production of gold. The put options provided protection for 2,500 ounces every month during which the average gold price is below the put strike of $610 per ounce while the sold call options provide the counterparty the option to buy the same number of ounces at strike prices of $800 per ounce. These transactions would have matured in early part of 2011.

Two additional collar transactions were also entered into in December 2008 and such were designated as cash flow hedges. Each transaction provided protection for 1,000 troy ounces of gold every month from January to June 2009. Agreed put strikes were $700 and $750 while call strikes were at $1,000 and $1,006.

On October 7, 2009, the Parent Company pre-terminated its gold collars with 1,000 oz monthly notional amount covering October 2009 to March 2011 deliveries and 1,500 oz. monthly notional amount covering October 2009 to April 2011 deliveries and paid a total unwinding fee of US$12,334 (₱573,013), ₱551,144 of which is attributed to fair value of the gold collars and taken to equity, and the remaining amount treated as transaction cost taken to consolidated statement of income. The pre-termination of the gold collars discontinued the hedge relationship of such derivatives. The effective portion of the unwinding cost of the hedge will remain in equity and be recycled to profit or loss upon occurrence of the forecasted transaction. The unwinding cost will be recycled monthly until 2011 based on contractual monthly notional amount of the collars. Total recycling in 2009 amounted to ₱88,894.

During the 4th quarter of 2009, the Parent Company entered into long gold put options intended to protect the Company against the risk of decreasing gold prices, with strike prices of $802 and $861 per oz. The put options have a total notional of 6,500 oz monthly from January to September 2010, and 5,000 oz monthly from October to December 2010. These were designated as cash flow hedges.

As of December 31, 2009, the outstanding gold put options have a positive fair value of ₱19,975. As of December 31, 2008, the negative fair values of the gold collars outstanding amounted to ₱478,835.

Copper Swaps
The Parent Company had three outstanding swap agreements in 2007 that economically hedged a portion of its copper production. To obtain swap prices better than market on the dates of the trades, the swap agreements included the options of the counterparty to extend the period of the swap dollar agreement.

For 2009 and 2008, there were no outstanding copper swaps as of cut-off date. Most recent copper swap transaction expired last October 2008 and the option to extend was not exercised.

Structured currency derivatives
In 2007, the Parent Company entered into structured US$ currency derivatives that consisted of a series of sell forwards and sold call options, each with a total of US$37,000 notional amount with various expiry dates until September 2009 and will terminate ("knock-out") if an accumulated Peso gain is reached. As of December 31, 2008, the structured currency derivatives, which were accounted for as at FVPL, had a negative fair value of ₱470,102. These derivatives matured in 2009.

Embedded derivatives
As of December 31, 2009 and 2008, the Parent Company had embedded derivatives, which represented by price exposure relative to its provisionally priced commodity sales contracts (see Note 27). Gains and losses from the marking-to-market of open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statement of income and to trade receivables in the consolidated balance sheet. The Parent Company determines mark-to-market prices using the forward price for quotational periods after balance sheet date stipulated in the contract. The effect of these fair value adjustments arising from outstanding derivatives as of December 31, 2008 amounted to a loss of ₱395,484, which is included under revenue and adjusted against receivables (see Note 7). The fair value adjustment for 2009 is not material.

Fair value changes on derivatives
Fair value changes of derivatives that are not designated as accounting hedges flow directly to the consolidated statement of income, while those which are designated as accounting hedges go to equity. Realized gains and losses on settlement are adjusted to the related revenue accounts.

The details of the net changes in the fair values of all derivative instruments as of December 31, 2009 and 2008 are as follows:

	2009	2008
January 1	**(₱948,937)**	(₱520,431)
Net changes in fair values of derivatives:		
Designated as accounting hedges	**(275,909)**	(61,769)
Not designated as accounting hedges	**27,811**	(646,931)

(Forward)

	2009	2008
	(1,197,035)	(1,229,131)
Fair value of settled instruments	1,217,010	280,194
December 31	₱19,975	(₱948,937)

Hedge effectiveness of cash flow hedges
Below is a rollforward of the Parent Company's cumulative translation adjustments on cash flow hedges for the years ended December 31, 2009 and 2008:

	2009	2008
January 1	₱335,185	₱510,383
Changes in fair value of cash flow hedges	546,980	40,626
Transferred to consolidated statements of income	(542,304)	(127,828)
Tax effects of items taken directly to or transferred from equity	(1,434)	(87,996)
December 31	₱338,427	₱335,185

As of December 31, 2009 and 2008, the ineffective portion of the fair value change of outstanding hedges is not material.

19. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources, ensuring that the Group complies with externally imposed capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Group's activities. No significant changes have been made in the objectives, policies and processes of the Group from the previous years.

The following table summarizes the total capital considered by the Group:

	2009	2008
Capital stock	₱4,900,605	₱3,880,851
Additional paid-in capital	774,494	681,749
Retained earnings	9,441,593	7,584,186
	₱15,116,692	₱12,146,786

20. Foreign Currency-Denominated Monetary Assets and Liabilities

The Group's foreign currency-denominated monetary assets and liabilities as of December 31 follow:

	2009		2008	
	US$	Peso Equivalent	US$	Peso Equivalent
Assets:				
Cash and cash equivalents	$6,036	₱278,863	$96,611	₱4,590,947
Trade receivables	5,146	237,745	–	–
AFS financial assets	–	–	416	19,768
	11,182	516,608	97,027	4,610,715
Liabilities:				
Short-term bank loans	–	–	85,000	4,039,200
Trade payables	–	–	4,881	231,945
	–	–	89,881	4,271,145
Net Monetary Assets	$11,182	₱516,608	$7,146	₱339,570

As of December 31, 2009 and 2008, the exchange rates of the Philippine Peso to the United States Dollar (US$) were ₱46.20 and ₱47.52 to US$1, respectively. As of March 5, 2010, the exchange rate is ₱46.05 to US$1.

21. Related Party Transactions

The following are the significant transactions with related parties:

a On September 25, 2008, the Board approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from Anglo American Exploration Philippines B.V. (Anglo). The acquisition, which was consummated on February 6, 2009, was executed through a share and asset purchase agreement for a total consideration of US$55,000 (or ₱2,619,375), US$24,695 (or ₱1,176,114) for the shares, US$43 (or ₱2,020) for the project properties, US$27,053 (or ₱1,288,416) for the receivables and US$3,209 (or ₱152,825) for the payment of loans of Anglo in joint venture companies. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.

b. In conjunction, Anglo assigned to the Parent Company its receivables from SMMCI for cash advances to finance SMECI's operations and exploration activities. From this point, the Parent Company continued providing the cash advances to SMMCI and SMECI. As of December 31, 2009, the outstanding cash advances to SMMCI and SMECI amounted to ₱2,021,948.

c. The Parent Company advances PGPI's working capital and capital expenditure requirements which amounted to ₱878,985 and ₱500,202 as of December 31, 2009 and 2008, respectively. A portion of these advances are secured by mortgage participation certificates on certain mining assets of PGPI's Bulawan mine which is currently on care and maintenance basis.

d. The Parent Company and PGPI were reimbursed by Anglo's wholly owned local subsidiary, Anglo American Exploration (Philippines), Inc. for expenses that the Parent Company and PGPI incurred pertaining to the exploration activities of NLEMCI and SMMCI (see Note 26).

As of December 31, 2009 and 2008, total reimbursements made by Anglo for the Parent Company and PGPI's advances amounted to ₱7,141 and ₱4,086, respectively, and are presented as "Others" under "Accounts receivable" account in the consolidated balance sheets as of December 31, 2009 (see Note 7).

For the years ended December 31, 2009, 2008 and 2007, the Group had not made any provision for doubtful debts relating to the amounts owed by related parties. This assessment is undertaken each financial year through the examination of the financial positions of the related parties.

Compensation of Key Management Personnel
Compensation of key management personnel pertains to short-term benefits amounting to ₱69,824, ₱58,869 and ₱43,148 in 2009, 2008 and 2007, respectively.

22. Income Taxes

a. The table below shows the details of the Group's current provision for income tax:

	2009	2008	2007
Parent Company - RCIT	**₱455,314**	₱490,656	₱559,608
BEMC - RCIT	**2,196**	667	–
LMC - RCIT	**4**	–	13
PGPI - MCIT	**–**	53	17
	₱457,514	₱491,376	₱559,638

b. The components of the Group's net deferred income tax assets (liability) are as follows:

	2009	2008
Deferred income tax assets on:		
Cumulative translation adjustment on hedging instruments	**₱145,085**	₱143,651
Unamortized past service costs	**86,924**	72,584
Impairment loss on AFS financial assets	**68,094**	68,094
Allowances for:		
Losses on input VAT	**43,739**	51,158
Probable losses on other noncurrent assets	**14,231**	14,231
Materials and supplies obsolescence	**9,682**	9,682

(Forward)

	2009	2008
Unrecoverable deferred mine and oil exploration costs	**8,868**	34,780
Doubtful accounts	**410**	410
Unrealized foreign exchange losses - net	**39,635**	37,694
Provisions	**33,196**	35,338
Accrued retirement benefits costs	**9,097**	24,047
Accumulated accretion of interest on provision for mine rehabilitation costs	**3,192**	2,553
Accumulated amortization of mine rehabilitation cost	**2,351**	2,457
Mark-to market loss on derivatives	**–**	141,030
Total deferred income tax assets	**464,504**	637,709
Deferred income tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	**(₱1,665,513)**	₱–
Accelerated depreciation	**(442,360)**	(418,340)
Unrealized gain on AFS financial asset	**(169,113)**	–
Loss on termination of gold hedging contracts	**(138,675)**	–
Measurement of mine products inventory at NRV	**(23,956)**	(47,695)
Cumulative unrealized foreign exchange gain	**(1,208)**	–
Total deferred income tax liabilities	**(2,440,825)**	(466,035)
Net deferred income tax assets (liabilities)	**(₱1,976,321)**	₱171,674

c. Deferred income tax liability amounting to ₱1,208 and ₱842 as of December 31, 2009 and 2008, respectively, pertains to unrealized foreign exchange gain of LMC. The Group's deferred income tax liability arising from the difference in fair value and carrying value of the net assets of a subsidiary acquired amounted to ₱1,665,513 in 2009.

d. Deferred income tax asset amounting to ₱43 as of December 31, 2009 pertains to NOLCO of BEMC.

The table below shows the details of the Group's net deferred income taxes:

	December 31, 2009		December 31, 2008	
	Net deferred income tax assets	**Net deferred income tax liabilities**	Net deferred income tax assets	Net deferred income tax liabilities
BEMC	**₱43**	**₱–**	₱–	₱–
SMMCI	**–**	**1,665,513**	–	–
Parent Company	**–**	**309,600**	171,674	–
LMC	**–**	**1,208**	–	842
	₱43	**₱1,976,321**	₱171,674	₱842

e. As of December 31, 2009 and 2008, PGPI's deductible temporary differences, NOLCO and excess MCIT for which deferred income tax assets have not been recognized are as follows:

	2009	2008
NOLCO	**₱121,635**	₱80,263
Deductible temporary differences on allowances for:		
Write-down of:		
Deferred mine exploration costs	**858,500**	858,500
Property and equipment	**766,909**	766,909
Non-operating materials and supplies	**103,099**	103,099
Input tax	**9,045**	9,045

(Forward)

Doubtful accounts	**628**	628
Deductible temporary difference relating to depreciation of non-operating property and equipment	**9,551**	9,551
Provision for losses	**2,100**	80,000
Excess MCIT	**70**	381

f. As of December 31, 2009, PGPI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income and used as deductions from future RCIT, respectively, were as follows:

Incurred During the Year Ended December 31	Available for Deduction Until December 31	NOLCO Amount	NOLCO Tax Effect	Excess MCIT
2007	2010	₱29,599	₱8,880	₱17
2008	2011	31,915	9,575	53
2009	2012	60,121	18,036	–
		₱121,635	₱36,491	₱70

The following are the movements of PGPI's NOLCO and excess MCIT for the years ended December 31, 2009 and 2008:

	NOLCO		Excess MCIT	
	2009	2008	**2009**	2008
Beginning balance	**₱80,263**	₱54,886	**₱381**	₱798
Additions	**60,121**	31,915	**–**	53
Expirations	**(18,749)**	(6,538)	**(311)**	(470)
Ending balance	**₱121,635**	₱80,263	**₱70**	₱381

g. A reconciliation of the Group's provision for income tax computed at the statutory income tax rates based on income before income tax to the provision for income tax is as follows:

	2009	2008	2007
Provision for income tax computed at the statutory income tax rates	**₱1,050,594**	₱1,144,577	₱464,563
Additions to (reductions in) income tax resulting from:			
Effect of tax rate and others - net	**(353,762)**	(758,190)	7,864
Income already subjected to final tax	**(53,629)**	(19,243)	(10,738)
Movements in deductible temporary differences for which the related deferred income taxes are recognized	**43,248**	–	10,180
Nondeductible expenses	**38,423**	–	–
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized	**33,139**	93,207	147,083
Stock-based compensation expense	**8,599**	9,476	7,209
NOLCO and excess MCIT for which deferred income tax assets were recognized in prior years, expired (used) in current year	**₱–**	₱–	(₱10,560)
Provision for income tax	**₱766,612**	₱469,827	₱615,601

h. RA No. 9337 was enacted into law amending various provisions in the 1997 National Internal Revenue Code. Among the reforms introduced by the RA are the following:

- change in regular corporate income tax rate from 32% to 35% for the next three years effective November 1, 2005, and 30% starting January 1, 2009; and

- change in the allowable deduction for interest expense from 38% to 42% effective November 1, 2005, and 33% effective January 1, 2009.

i. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. The Group did not avail of the OSD in 2009.

23. Equity

Capital Stock

The details of the Parent Company's capital stock follow:

	Number of Shares	
	2009	2008
Common stock - ₱1 par value		
Authorized:		
January 1	**5,000,000,000**	5,000,000,000
Increase in authorized capital stock	**3,000,000,000**	–
December 31	**8,000,000,000**	5,000,000,000
Issued, outstanding and fully paid:		
January 1	**3,880,851,172**	2,968,571,531
Issuance during the year	**46,851,875**	21,286,079
Stock dividend	**972,901,914**	890,993,562
December 31	**4,900,604,961**	3,880,851,172

On February 10, 2009, the BOD of the Parent Company approved the amendment to Article 7 of the Parent Company's Amended Articles of Incorporation to increase the authorized capital stock from ₱5,000,000 divided by 5,000,000,000 shares to ₱8,000,000 divided by 8,000,000,000 shares, both at a par value of ₱1 per share. On the same date, the Parent Company's BOD authorized the declaration of a 25% stock dividend equivalent to 972,901,914 shares in favor of stockholders of record as of February 25, 2009 to support the increase in the authorized capital stock.

On April 21, 2009, the increase in authorized capital stock and declaration of 25% stock dividend was ratified by the Parent Company's stockholders.

On May 22, 2009, the Parent Company's application for the increase in authorized capital stock and the 25% stock dividend was approved by the Philippine SEC.

Retained Earnings
On March 12, May 17 and October 23, 2007, the Parent Company's BOD authorized the declaration of cash dividends amounting to ₱295,779, ₱295,779 and ₱742,133 (or ₱0.10, ₱0.10 and ₱0.25 per share, respectively, or a total of ₱0.45 per share for the whole year), in favor of stockholders of record as of April 10, June 7 and November 26, 2007, respectively.

Furthermore, on October 23, 2007, the Parent Company's BOD authorized the declaration of a 30% stock dividend. The 67% stockholders' approval needed for the declaration was obtained on February 21, 2008. The said stock dividends favored the stockholders of record as of March 7, 2008. The amount transferred from retained earnings to capital stock for the stock dividends amounted to ₱890,994.

Treasury Stock
On March 25, 2008, the Parent Company's BOD approved the buyback of 10% of the Parent Company's outstanding shares in the open market. The Parent Company extended its share buyback program on August 5, 2008 to acquire another 10% of its outstanding issued shares in the open market. The Parent Company acquired a total of 778,444 shares for a cost of ₱5,621,956. The average cost per share amounted to ₱7.22.

On November 28, 2008, the Parent Company sold treasury stock totaling 778,621 shares, representing 20.06% of the total outstanding shares at the price of ₱7.92 per share to Asia Link B.V. (a wholly owned subsidiary of First Pacific Limited, Inc.). Total proceeds from the reissuance of treasury stock amounted to ₱6,126,450.

Minority Interests
On April 23, 2008, the Parent Company and Ashmore executed a Share Purchase Agreement under the terms of which the Parent Company agreed to sell and Ashmore agreed to buy 245,000,000 shares or 49% of the outstanding shares of stock of PPC. The sale brought down to 51% the total number of shares owned and controlled by the Parent Company, the consideration received for which was equal to the minority interest disposed.

On July 22, 2009, the Parent Company acquired the shares from Ashmore, for US$3,571 (or ₱172,704). With the acquisition, PPC is now a wholly owned subsidiary of the Parent Company.

The increase in minority interest in 2008 resulted from the acquisition of 33.04% of FEP by PPC that brought to 61.46% the percentage owned and controlled by the Parent Company including the 28.42% interest in FEP held by FEC (see Note 4).

As of December 31, 2009 and 2008, minority interests consist of the following:

	Percentage of Ownership		December 31	
	2009	2008	**2009**	2008 (Restated, Note 4)
Minority interests on net assets of:				
SMECI and subsidiary	**11.4%**	–	**₱368,592**	₱–
FEP and subsidiaries	**50.1%**	68.8%	**227,306**	315,188
FEC	**49.3%**	49.3%	**104,352**	111,171
PPC	**–**	49.0%	**–**	214,240
Lascogon	**31.1%**	31.1%	**–**	–
PGPI	**19.0%**	19.0%	**–**	–
PGI	**19.0%**	19.0%	**–**	–
			₱700,250	₱640,599

24. Share-based Payments

Parent Company Stock Option Plan
On June 23, 2006, the Parent Company's stockholders approved and ratified the stock option plan of the Parent Company as approved by the Parent Company's BOD on March 31, 2006. Among the salient terms and features of the stock option plan are as follows:

i. Participants: directors, officers, managers and key consultants of the Parent Company and its significantly-owned subsidiaries;

ii. Number of shares: up to 3% of the Parent Company's issued and outstanding shares;

iii. Term: Five years from adoption date;

iv. Exercise price: Average stock price during the last 20 trading days prior to the date of grant multiplied by a factor of 0.8, but in no case below par value; and

v. Vesting period: Up to 16.67% in six months from grant date; up to 33.33% in 1 year from grant date; up to 50% in 1.5 years from grant date; up to 66.67% in 2 years from grant date; up to 83.35% in 2.5 years from grant date; and up to 100% in 3 years from grant date.

On March 8, 2007, the stock option plan was approved by the Philippine SEC.

A total of two confirmed new grants for 15,000,000 shares were awarded on June 24 and December 7, 2009.

The following table shows the movements in 2009 and 2008 on stock option plan of the Parent Company:

	Number of Options		Weighted Average Exercise Price	
	2009	2008	**2009**	2008
January 1	**70,634,675**	72,915,750	**₱3.09**	₱3.43
Granted	**29,300,007**	28,728,825	**3.63**	2.85
Exercised	**(46,454,875)**	(21,286,100)	**2.63**	2.41
Forfeited	**(7,827,575)**	(9,723,800)	**3.08**	2.56
December 31	**45,652,232**	70,634,675	**₱5.57**	₱3.09

The number of unexercised vested stock options as of December 31, 2009 and 2008 are 10,738,898 and 17,972,087, respectively.

The Parent Company uses the Customized Binomial Lattice Model to compute for the fair value of the options together with the following assumptions:

	June 24, 2009	December 7, 2009
Spot price per share	₱6.50	₱15.50
Time to maturity	5 years	5 years
Volatility*	57.42%	57.35%
Dividend yield	4.51%	1.92%
Suboptimal exercise behavior multiple	1.5	1.5
Forfeiture rate	2%	2%

**Volatility is calculated using historical stock prices and their corresponding logarithmic returns.*

PGI Stock Option Plan
PGI has a stock option plan that provides for the granting of options to certain directors, officers and employees of the Group offering them the choice to either purchase common shares or exercise share appreciation rights ("SARs," or collectively referred to as "tandem options" or "awards"). The SARs allow plan participants to receive common shares or cash, at PGI's option, equal to the difference between the exercise price of an option and the weighted average trading price for the common shares for the five trading days prior to the date the SAR is exercised. Any such tandem option will have an exercise price equal to the closing price on the day the option is granted and will vest over three years, with one third vesting each year, and must be exercised within five years from the date of grant.

PGI's stock option plan was amended in 2001 to comply with the requirements of the TSX Ventures Exchange in Canada following PGI's move to that exchange. Tandem options issued prior to the 2001 plan amendment must be exercised within 10 years from the date of grant.

In 2006, PGI recognized an income relating to this share-based compensation and a related entry to equity amounting to about ₱12,403 (US$253) representing the value of forfeited and expired options of ₱14,640 (US$299), net of the ₱2,237 (US$46) 2006 expense. In 2005, an expense amounting to about ₱992 (US$18) was recognized. No share-based compensation expense or income from forfeited and expired options were recognized in 2007. The following table illustrates the number of weighted average exercise of, movements in, and weighted average exercise price in Canadian dollars (Cdn$) of share options:

Outstanding stock options with SARS:

	2009		2008		2007	
	Number of Tandem Options	**Weighted Average Exercise Price**	Number of Tandem Options	Weighted Average Exercise Price	Number of Tandem Options	Weighted Average Exercise Price
January 1	**100,000**	**Cdn$0.60**	171,500	Cdn$0.78	460,875	Cdn$0.85
Exercised	**–**	**–**	–	–	(75,000)	0.60
Forfeited	**(100,000)**	**Cdn$0.60**	(71,500)	1.02	(214,375)	0.99
December 31	**–**	**–**	100,000	Cdn$0.60	171,500	Cdn$0.78
Exercisable	**–**	**–**	100,000	Cdn$0.60	171,500	Cdn$0.78

During 2007, 75,000 tandem options were exercised.

In calculating the fair value of the options at grant date, the Black-Scholes valuation model is used with the following assumptions:

Risk-free interest rate	Ranging from 4% - 5 %
Expected:	
Dividend yield	NIL
Life	Ranging from 3 to 7 years
Volatility	Ranging from 100% - 153%

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. Also, the expected volatility used reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

As of December 31, 2009, all stock options were forfeited.

No share options were granted in 2008 and 2007. There were 475,000 options granted in 2004. The share options were granted on the same terms and conditions as those granted to other employees. The outstanding number of share options granted to directors and officers of PGPI and PGI were nil, 100,000 and 371,500 as of December 31, 2009, 2008 and 2007, respectively.

FEP Share Option Plan
FEP has a share option plan which the Parent Company's management believes is not significant to the consolidated financial statements of the Group as of December 31, 2009 and 2008.

25. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share are computed as follows:

	2009	2008	2007
Net income attributable to equity holders of the Parent Company	**₱2,830,309**	₱2,892,887	₱5,004,991
Divided by weighted average number of common shares outstanding during year	**4,867,306,154**	3,473,800,508	2,961,195,781
Basic earnings per share	**₱0.581**	₱0.833	₱1.690

Diluted earnings per share amounts are calculated as follows:

	2009	2008	2007
Net income attributable to equity holders of the Parent Company	**₱2,830,309**	₱2,892,887	₱5,004,991
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	**4,878,045,052**	3,491,772,595	2,965,369,031
Diluted earnings per share	**₱0.580**	₱0.828	₱1.688
Weighted average number of common shares for basic earnings per share	**4,867,306,154**	3,473,800,508	2,961,195,781
Effect of exercise of stock options	**10,738,898**	7,972,087	4,173,250
Weighted average number of common shares adjusted for the effect of exercise of stock options	**4,878,045,052**	3,491,772,595	2,965,369,031

In 2009 and 2008, the Parent Company considered the effect of its potentially dilutive stock options outstanding as of December 31, 2009 and 2008 (see Note 24). The assumed exercise of these stock options would have resulted in additional 10,738,898, 17,972,087 and 4,173,250 common shares in 2009, 2008 and 2007, respectively.

26. Joint Ventures with Anglo

In order to accelerate exploration, the Parent Company and PGPI entered into separate joint ventures with Anglo covering the Parent Company's Baguio District and PGPI's Surigao del Norte mineral tenements, respectively. Shareholders Agreements were executed on September 2, 1999, pursuant to which Anglo is to fund all exploration costs up to feasibility studies, if warranted, in return for equity in the tenements. Minimum annual expenditures totaling US$8,000 for the Baguio District and US$2,200 for the Surigao del Norte tenements over a five-year period are required for the respective joint ventures to continue, failing which the tenements would revert at no cost to the Parent Company or to PGPI.

The exploration work of Anglo led to the discovery of the Boyongan copper-gold deposit in August 2000. In 2001, Anglo exceeded the US$2,200 threshold of expenditures and earned a 40% equity interest in the Surigao del Norte tenements, now referred to as the Silangan Project. If the project is carried through to the completion of a bankable feasibility study at Anglo's cost, Anglo would be entitled to additional 30% equity interest in the project, which will bring its equity interest to 70%, and to manage mine development and operations. Anglo would provide full guarantees for non-recourse project financing while PGPI would need to raise its pro-rata share of the equity.

On April 10, 2000 and December 29, 1999, final government approval of the Parent Company and PGPI's respective mining tenements in the form of Mineral Production Sharing Agreements (MPSA) were granted. To implement the terms of the Baguio District joint venture, two companies, namely MECI (60%-owned by the Parent Company and 40%-owned by Anglo) and NLEMCI, were organized in 1999. For the Surigao del Norte joint venture, SMECI (60%-owned by PGPI and 40%-owned by Anglo) and SMMCI (then wholly owned by SMECI) were organized in 1999 and 2000, respectively. In 2000, the Parent Company and PGPI transferred their respective rights and interest in the MPSAs to NLEMCI and SMMCI. All costs incurred by the Parent Company and PGPI arising from their acquisition of ownership interests in MECI and SMECI, respectively, were reimbursed by Anglo. The Parent Company's and PGPI's respective investments in MECI and SMECI are included in the "Investments in shares of stock" account in the consolidated balance sheets in 2008 (see Note 11). SMECI started to be consolidated in 2009.

In December 2001, Anglo purchased from PGPI an effective 10% equity interest in SMMCI for US$20,000, plus additional payments of up to US$5,000 should there be an increase in metal content of the deposit or from any subsequent discovery within the surrounding tenements on the basis of feasibility studies. Benefits from subsequent discovery of minerals by SMMCI that will increase the value of its shares will inure to Anglo. Conversely, the risk of decrease in the value of SMMCI shares will be suffered by Anglo.

Anglo completed its pre-feasibility study of the Boyongan deposit in December 2007 which concluded that a mining operation based on the currently defined resources, proposed mining and processing methods, assumed long-term copper and gold prices, and estimated capital and operating costs would not provide an acceptable rate of the return on the project investment. The Parent Company, however, had differing points of view from Anglo on a number of assumptions and conclusions made in the feasibility study. The Parent Company thus asserted its position that given the results of the study, as provided for under the terms of the joint venture agreements, Anglo should return the Boyongan property to the Parent Company, which Anglo contested.

Anglo claimed that other mineralized centers have been discovered in the vicinity, currently the subject of intensive exploration and delineation drilling program which Anglo wanted to continue throughout 2008. Anglo also reported that there was geologic evidence for two additional porphyry copper-gold targets within two kilometers of Boyongan which Anglo plans to test over the next six months. These recent discoveries and their impact were not included in the Boyongan pre-feasibility study.

On September 25, 2008, the Board approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from Anglo American Exploration Philippines B.V. (Anglo). The acquisition, which was consummated on February 6, 2009, was executed through a share and asset purchase agreement for a total consideration of US$55,000 (or ₱2,619,375), US$24,695 (or ₱1,176,114) for the shares, US$43 (or ₱2,020) for the project properties, US$27,053 (or ₱1,288,416) for the receivables and US$3,209 (or ₱152,825) for the payment of loans of Anglo in joint venture companies. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.

27. Long-Term Gold and Copper Concentrates Sales Agreement

On March 11, 2004, the Parent Company entered into a Long-Term Gold and Copper Concentrates Sales Agreement (Sales Agreement) with Pan Pacific covering the copper concentrates produced at the Padcal mine (Concentrates) pursuant to which the Parent Company shall sell its concentrate production to Pan Pacific as follows:

a. During the Contract Year starting on April 1, 2004, 75% of the total concentrates production.

b. From the Contract Year 2005 (starting on April 1, 2005) through the Contract Year 2008 (starting on April 1, 2008), whichever is higher of 60,000 DMT or total production less 10,000 DMT of Concentrates for each Contract Year, provided that such quantity shall be the entire Concentrates production if the Padcal Mine produces less than 60,000 DMT of Concentrates during any Contract Year.

c. Contract Year 2009 (starting on April 1, 2009 and ending March 31, 2010) onwards, 60% of the total concentrate production but not less than at least 50,000 DMT during each Contract Year.

The Sales Agreement shall be effective until the date of the closure of the Padcal Mine, unless terminated earlier in accordance with the terms. Further, if the Parent Company or its affiliate, as defined in the Sales Agreement, develops other mines which produce sulfide floatation copper concentrates, then the Parent Company or its affiliates shall discuss the sale of such copper concentrates with Pan Pacific before offering to sell to others.

28. Other Matters

a. The Parent Company's Padcal Operations is registered with the Board of Investments (BOI) on a non-pioneer status. As a BOI-registered enterprise, the Parent Company was entitled to tax and non-tax incentives under the provisions of the Omnibus Investments Code of 1987, availment of which is limited to a period of five to ten years from the date of registration. The registration with the BOI requires the Parent Company to adhere to certain project timetables, production and sales schedule, to reinvest in exploration projects and to address cyclical downturns in mineral prices through hedging contracts, gold loans, development of other mines and minimization of operating costs through mechanization. Its registration with the BOI also qualifies the Parent Company to avail of automatic zero VAT rating on local purchases of goods and services. The Parent Company's registration with BOI expired on December 31, 2008.

b. The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and its legal counsel on an annual basis reassesses it estimates to consider new relevant information. During the year, payments were made for a total of ₱81,145, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation and an additional ₱41,000 provision. Total provision for losses amounted to ₱561,628 and ₱715,758 as of December 31, 2009 and 2008, respectively.

   The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, only a general description is provided.

29. Events After the Balance Sheet Date

a. On January 7, 2010, pursuant to a subscription agreement, the Parent Company acquired additional 5,000,000 shares of FEC at a purchase price of US$2,500 (or ₱114,575). The acquisition represents 1.14% of the issued and outstanding shares of FEC as of January 7, 2010.

   Following the acquisition, the Parent Company has sole ownership of and control over 225,000,000 shares of FEC, representing 51.2% of the issued and outstanding shares of FEC as of January 7, 2010.

b. On February 15, 2010, FEP was awarded Service Contract 72 relating to its previous GSEC 101 license by the Department of Energy. The GSEC 101 license in which FEP has a 70% interest is the principal asset of FEP. FEP has a minimum commitment for its 70% share of the first sub-phase of US$3,000 (or ₱138,600).

c. On February 24, 2010, PPC has acquired additional 786,259 shares at a purchase price of £511 (or ₱36,686) representing 2.4% equity interest in FEP. As a result of the additional acquisition, PPC now holds 39.1% of the issued and outstanding shares of the investee.

d. On February 26, 2010, the Parent Company entered into a definitive arrangement agreement with PGI whereby the Parent Company would indirectly acquire all of the outstanding common shares of PGI from its existing minority shareholders for US$0.75 per share. As part of the transaction, PGI would also transfer all of the PGPI shares to PGHI in exchange for the amount of Can$82,400.

30. Note to Cash Flow Statement

a. In 2009, the Parent Company sold to PPC its deferred oil exploration costs in various oil exploration projects amounting to ₱86,567. The transaction was recorded by PPC as an advance from the Parent Company and the actual and full payment was made in January 2010.

b. Also in 2009, total capitalized depreciation expense that were transferred to deferred exploration cost by BEMC, SMECI, PGPI and LMC amounted to ₱115,914.

Directors, Officers and Staff

BOARD OF DIRECTORS

Manuel V. Pangilinan
Chairman

Thelmo Y. Cunanan
Vice Chairman

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Albert F. Del Rosario (2)
Oscar J. Hilado (2)
Romulo L. Neri
Robert C. Nicholson
Sergio R. Ortiz-Luis, Jr. (3)
Edward A. Tortorici (2)
Marilyn A. Victorio-Aquino (2)
Jose Ernesto C. Villaluna, Jr.

Walter W. Brown (4)
Reynaldo G. David (4)
Leonardo L. Leonida (5)
Roberto V. Ongpin (4)
Eric O. Recto (4)

OFFICERS

Manuel V. Pangilinan
Chairman of the Board &
Chief Executive Officer (2)

Thelmo Y. Cunanan
Vice Chairman

Albert Awad
Vice Chairman Emeritus

Jose Ernesto C. Villaluna, Jr.
President & Chief Operating Officer

Renato N. Migriño
Treasurer,
Chief Financial Officer &
Vice President for Finance

Barbara Anne C. Migallos
Corporate Secretary

Eulalio B. Austin, Jr.
Vice President & Resident Manager
for Padcal Operations

Redempta P. Baluda
Vice President for Exploration

Edgardo C. Crisostomo
Vice President for Administration &
Materials Management

Victor A. Francisco
Vice President for Environment
& Community Relations

Denis Ricardo G. Lucindo
Vice President for Business Development

Enrique C. Rodriguez, Jr.
Vice President for Legal

Guadaflor C. Malonzo
Assistant Corporate Secretary

CONSULTANT

Rogelio G. Laraya, PhD
Senior Adviser

STAFF

PASIG HEAD OFFICE

Elisa R. Dungca
Division Manager - Information
Technology & Investor Relations

Paraluman M. Navarro
Division Manager – Corporate Finance

Victor B. Maglambayan
Group Manager – Exploration

Noel C. Oliveros
Group Manager – Exploration

Eileen C. Rodriguez
Group Manager – Corporate Treasury

PADCAL OPERATIONS

Eduardo M. Aratas
Division Manager – Legal

Edgar L. Prangan
Division Manager- Mine

Libby R. Ricafort
Division Manager - Mill

Vergel T. Agatep
Group Manager – Mine Mechanical

Carmelita B. Catacutan
Group Manager – Assay & Poro Installation

Roy P. Mangali
Group Manager – Mine Operations

Anselmo T. Ranges
Group Manager – Mechanical &
Electrical Services

Reynold V. Yabes
Group Manager - Mill Operations &
Maintenance

Albert B. Yen (6)
Security Director

(1) *From March 5, 2010*
(2) *From December 7, 2009*
(3) *From June 24, 2009*
(4) *Up to December 7, 2009*
(5) *Up to November 13, 2009*
(6) *Up to January 31, 2010*