PHILEX
MINING CORPORATION

ANNUAL REPORT 2010

Putting The Future First

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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 extracted and processed from start of operation to 2010 aggregate to 349.8 million tonnes producing 928.9 million kilograms of copper (2,050 million pounds), 170.1 million grams of gold (5,471.1 thousand ounces) and 185.6 million grams of silver (5,981.5 thousand ounces).

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 Company. 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 business. The Company and PPC effectively control 64.45% of Forum Energy plc (FEP), a UK-based company listed at 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 northwestern Palawan.

ABOUT THE COVER

Over the last 53 years, the Company has demonstrated what the consequences of responsible mining are: more efficient operations, greener environment, and empowered communities. The more we derive value from resource development, the more we deliver value to our stakeholders. Mining the right way, by putting the future first – that is the Philex Mining's way of doing business.

VISION STATEMENT

A socially responsible Filipino company striving for excellence in mining.

MISSION STATEMENT

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.

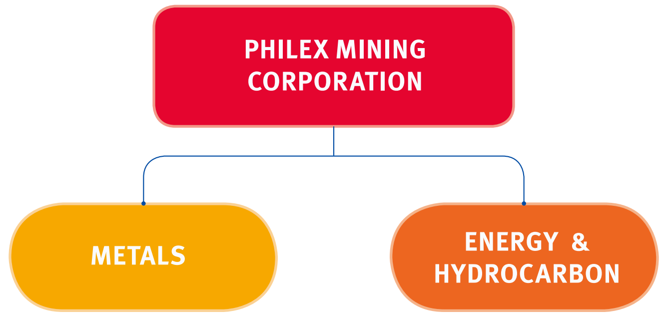
In all our activities, we will aim for excellence which means doing everything in the best possible way, striving to be the best we can be.

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

ENVIRONMENTAL POLICY

Philex, as a socially and environmentally responsible Filipino 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.

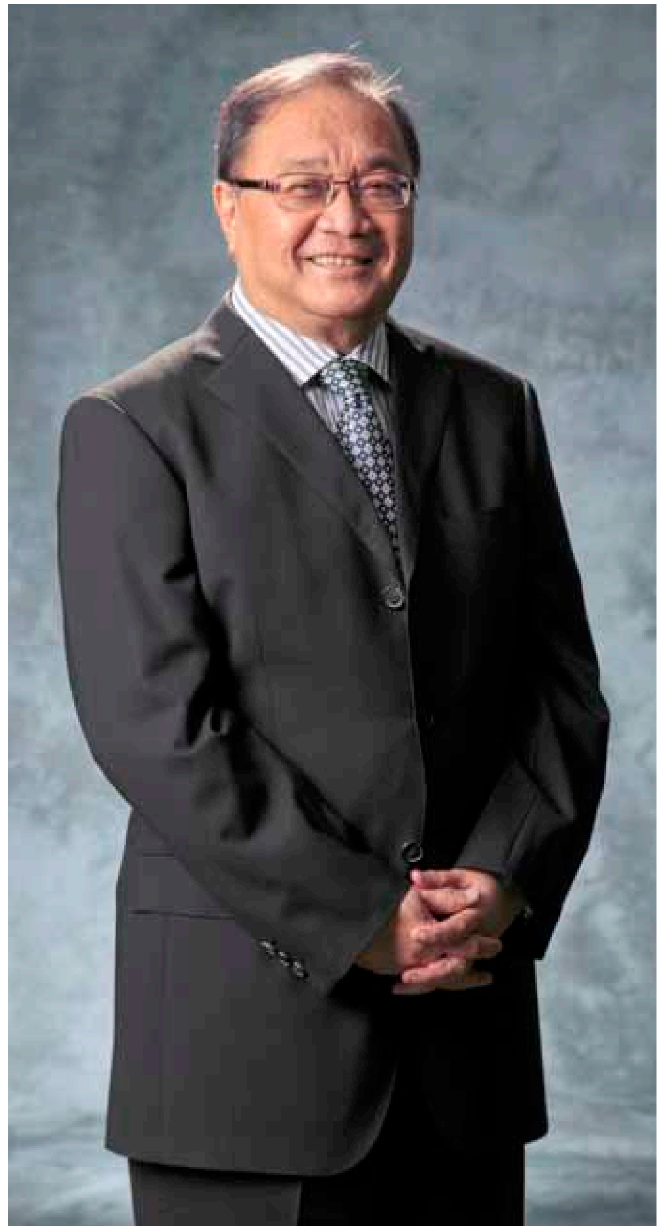
BUSINESS STRUCTURE



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

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

Last year was a buoyant year for the Philippine mining industry, as gold and copper prices reached all-time highs. Correspondingly, large-scale mining companies invested more, expanded production and increased tax payments to the Philippine Government by 296% to PhP1.8 billion in 2010. Your Company's contribution alone to the National Government revenue increased 39% to PhP464.5 million in 2010. In fact, by adhering to the philosophy of doing business the right way, with the future of our stakeholders in mind, your Company took the lead in resource development as we continued to deliver strong results with respect to the triple bottom-line: financial and operating performance, environmental stewardship and empowerment of communities.



Business Performance

Philex Mining Corporation achieved 124% growth in Core Net Income from PhP 1.8 billion in 2009 to PhP4.2 billion in 2010. Consolidated operating revenue, almost all of which were provided by the Parent Company, amounted to PhP13.4 billion in 2010, the highest revenue level in the Company's 55 years operating history to date, compared with the PhP9.1 billion revenue in 2009 and the PhP9.7 billion revenue in 2008, the fifth and fourth highest, respectively.

Gold revenue, comprising 54% of total revenue, rose to PhP7.2 billion this year from PhP5.1 billion in 2009 and PhP5.4 billion in 2008. Copper revenue, accounting for 43% of the total, also improved to PhP5.7 billion this year compared to PhP3.7 billion in 2009 and PhP4.3 billion in 2008. Revenue from silver, coal and petroleum provided the remaining 3%.

Reported Net Income of PhP3.9 billion in 2010 was higher by 44% compared with PhP2.7 billion in 2009. Total costs and expenses increased to PhP6.6 billion in 2010 from PhP6.0 billion in 2009 and PhP5.4 billion in 2008. Income from operations increased almost three-fold at PhP6.1 billion in 2010 from the operating income of PhP2.4 billion in 2009.

A higher net income before tax of PhP5.7 billion was achieved in 2010 compared with PhP3.5 billion in 2009, requiring a higher provision for income tax of PhP1.8 billion for the year compared with PhP766.6 million in the previous year. With the three years income tax holiday granted by the Board of Investments having ended in 2008, the full statutory income tax rate became applicable again to the Company in 2009.

Starting 2010, the Company's Board of Directors adopted a policy to declare cash dividend at 25% of the Company's Core Net Income should the circumstances allow for its declaration. Previously, the policy was based on 25% of annual cash flow before debt service. In 2010, the Company declared cash dividends of PhP 0.09 per share equivalent to 25% of 2009 core net income with a record date of May 12, 2010 and PhP0.05 per share at 25% of first half 2010 core net income, with a record date of August 18, 2010.

Environmental Stewardship

Philex is one of the few mining companies that have delivered on their environmental commitments, above and beyond what are required by law and regulation. Our first tailings pond was constructed in 1967, long before the Pollution Control Law in 1976 required it. Our community-based reforestation program was started in the 1970s, long before the Man and Biosphere Program of the UNESCO was adopted. Our materials recovery facility was put up in 1998, long before Republic Act 9003 or the Ecological Solid Waste Management Act of 2001. On top of it all, Philex was the first mining company in the country to have achieved, and continue to sustain, its ISO 14001 certification for environmental management system since 2002, long before the Department of Environment and Natural Resources (DENR) issued its Administrative Order on Self-Regulation towards Improved Environmental Performance.

The care of the environment has been our utmost priority at every stage of the mine life. In 2010, Philex spent PhP271.7 million for environmental stewardship, which includes reforestation and watershed management programs as well as best practice and cost-effective methodologies to protecting ecology where we operate. Averaging at 5.7% of the mine and milling cost annually, our environmental management expenditures have been well above the 3.5% requirement of the Philippine Mining Act.

The Company's leadership in environmental management is reflected in the recognition that Government agencies and industry associations consistently confer on Philex. In 2010, your Company's reforestation programs at the Padcal mine site and at the Silangan Project placed first runner-up and third runner-up, respectively, in the Best Mining Forest Awards of the DENR-Mines and Geosciences Bureau. In November, the Silangan Project received a citation from the Philippine Mine Safety and Environment Association for overall excellence in environmental, safety, and health management.

Community Development and Empowerment

Our operations at the Padcal mine site has delivered PhP36.7 million of value in health, education, livelihood and infrastructure projects under the Social Development and Management Program (SDMP). For 2010 alone, the Company's SDMP delivered better healthcare to 7,144 people, afforded quality education to 611 students, and improved 2,300 meters of farm-to-market roads, among other initiatives implemented for, and with, the communities where we operate.

And, just as important as providing the infrastructures in developing communities, Philex goes the extra mile and ensures the capacity of the communities to survive long after the mine has gone.

As early as now, we are preparing the community with a local economy that is based on providing goods and services to the mine but designed for further expansion and diversification to provide the same to the community, the province and, eventually, the region. After the launch of the Community Business Technology Center (CBTC) for Meat Processing in 2009, more CBTCs were started for development in 2010, all of which are expected to be on-stream in 2011.

Outlook

Our business priorities for 2011 will focus on extending the mine life in Padcal and advancing the Silangan Project in Surigao del Norte to pre-feasibility stage. Evaluation of the drilling results in Bayugo orebody is being done to upgrade the status of the resource estimates to Measured and Indicated categories for integration to the Boyongan resource estimates. New prospect areas like Magpayang and NE Boyongan located south and northeast of Silangan Project, respectively, will be explored for upside potential, while the mothballed Bulawan Gold Mine in Negros Occidental, is also being studied for the possibility of being reopened.

Meanwhile, consolidation and further development of our coal operations, oil and gas prospects are on track to deliver enhanced value to Philex in the future. The plan is to spin-off all the energy assets into a subsidiary company, called Philex Petroleum. A listing in the Philippine Stock Exchange for Philex Petroleum is contemplated.

With the promising results from these prospects, I am confident about further increased value for our stakeholders. I thank our officers and employees for their record performance this year, our Board for their continued support, our host and neighboring communities for the strong partnerships, and our shareholders for their steadfast trust and confidence on Philex as the country's leader in resource development.

Most cordially

MANUEL V. PANGILINAN
Chairman and Chief Executive Officer

In 2010 copper and gold prices reached new highs, enabling the Company to earn PhP 3.9 billion, the 2nd highest income in its 53 years of operations. During the year the price of gold reached a high of $1,421 per ounce and averaged $1,224 for the year, up from the 2009 average of $974. The price of copper went as high as $4.41 per pound and averaged $3.42, up from the 2009 average of $2.34 per pound.

The second half of 2010 saw the Padcal mine's full recovery from the operating setbacks that started in 2008, such as the watery and clayey material that caused dilution in ore grades as well as interruptions in the ore conveyor belt. The outcome of Padcal management's perseverance and creativity was the highest annual ore tonnage delivered to the mill since 1987: 9.4 million tonnes in 2010, 14% better than the 8.2 million tonnes in 2009. The copper grade in the mill feed averaged 0.210%Cu, the lowest in six years and 8.6% below the 2009 grade of 0.228%Cu.

The Company produced 134,000 ounces of gold and 35.6 million pounds of copper in 2010. These compare favorably with the 119,000 ounces and the 33.8 million pounds in 2009. The realized average metal prices were $1,217 per ounce gold and $3.63 per pound of copper, which were 29% and 62% higher, respectively, than the $946 per ounce and $2.24 per pound in 2009. These realized prices resulted in the PhP 4.1 billion core earnings contribution of Padcal to PMC's 2010 corporate earnings of PhP 3.9 billion.

A consequence of the record high prices is that some of what used to be less-than-economic resources may now be considered ore. Our technical staff in Padcal is now re-evaluating the present mineral resources to see if more of it could be classified as ore reserves, and justify the investment in the development work needed to extend the mine life beyond 2017.

At the Silangan Project in Surigao del Norte, our technical staff and the external consultants all agree that we have a viable project, subject to the results of an exploration ramp that will allow us to test the strength and the mining characteristics of the country rock, the cover material and the mineralized zones. The construction of this ramp, which will eventually be the main access to the ore body, will be completed around the end of 2012. During this period of time, the Company will do the detailed engineering studies for the mine, the mill and concentrator, the power, electrical installations, tailings storage facilities, concentrate handling system, camp infra-structure and other things that are necessary for a definitive feasibility study.

At this point, I would like to give the rank and file, the supervisors, the managers of Padcal and the support services in the corporate office a commendatory "pat on the back" for achieving costs of production that surely must be among the lowest in the world today. In 2010 our operating cost for gold, net of by-product credits, is $92 per ounce, significantly lower than the $404 per ounce in 2009. While we take no credit for the record copper and silver prices, the PMC employees must be recognized for efficiently and profitably operating one of the world's lowest grade underground gold (or copper) mines.

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

COMPARATIVE FINANCIAL HIGHLIGHTS

(In Thousands except Per Share Data and Metal Prices)

	2010	2009	2008	2007	2006	2005
GROSS REVENUES						
Gold	**₱7,208,532**	₱5,108,322	₱5,363,774	₱4,935,735	₱3,544,723	₱1,925,899
Copper	**5,721,373**	3,741,625	4,259,135	7,191,720	6,347,798	3,431,524
Silver	**134,553**	82,939	85,128	89,317	67,478	35,125
Petroleum	**298,449**	85,074	9,330	–	–	–
Coal	**31,062**	37,024	–	–	–	–
Total	**13,393,969**	9,054,983	9,717,367	12,216,771	9,959,999	5,392,547
Dollars Generated (1)	**$277,183**	$188,283	$201,477	$244,025	$167,097	$82,723
EXPENSES						
Cost of Mine Products Sold (2)	**₱5,741,399**	₱5,065,889	₱4,808,330	₱4,697,369	₱4,539,124	₱3,670,042
General and Administrative Expenses (2)	**664,698**	848,930	537,027	402,037	216,891	143,896
Petroleum Production Costs	**189,471**	75,725	15,973	–	–	–
Cost of sales–Coal	**19,422**	22,392	–	–	–	–
INCOME (LOSS)						
From Operations	**6,064,961**	2,365,046	3,686,825	6,131,229	3,736,317	725,326
Other Income (Loss)	**(380,899)**	1,136,935	(416,605)	(509,979)	(164,510)	(97,085)
Core Net Income	**4,150,544**	1,849,253	3,055,057	5,204,285	3,038,015	314,554
EBITDA	**6,565,695**	4,158,526	3,875,540	6,388,871	4,429,974	1,371,985
Net Income (Loss) (after Tax)	**3,944,629**	2,735,369	2,800,393	5,005,649	3,086,668	409,136
Earnings (Loss) per Share	**0.806**	0.581	0.666	1.690	1.044	0.138
TAXES:						
Excise Tax	**253,254**	164,745	211,033	213,508	170,752	98,218
Income Tax	**1,739,433**	766,612	469,827	615,601	485,142	175,950
Total Taxes, Direct and Indirect	**2,309,214**	947,230	335,072	884,882	665,536	383,376
DIVIDENDS:						
Cash Dividends Declared	**688,072**	–	–	1,333,691	442,131	–
Stock Dividends Issued	**–**	972,902	890,994	–	–	–
FINANCIAL CONDITION						
Current Assets	**7,750,941**	5,022,269	12,544,048	5,651,000	3,558,066	2,008,643
Current Liabilities	**2,311,670**	1,153,725	5,878,088	1,608,304	1,713,474	2,352,651
Property, Plant and Equipment						
Net Book Value	**5,095,029**	4,668,892	4,066,257	3,843,909	3,725,816	3,843,171
Additions	**1,397,949**	1,480,152	968,259	1,269,842	584,010	1,065,868
Total Assets (2)	**25,652,720**	21,378,413	19,398,482	10,904,605	8,016,069	6,421,892
Stockholders' Equity	**20,757,970**	17,683,535	12,528,011	8,441,980	5,067,078	2,158,059
Book Value per Share	**4.224**	3.633	3.873	2.851	1.713	0.730
METAL PRICES						
Copper – USc/lb.	**362.59**	224.39	221.93	347.26	322.68	176.35
Gold – US$/oz.	**1,217.14**	945.87	787.79	708.16	609.96	430.47
Silver – US$/oz.	**23.17**	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

2010 HIGHLIGHTS Operations

	2010	2009
Production		
Tonnes Milled	9,363,966	8,196,864
Concentrate Produced (Tonnes)	65,340	62,458
% Copper in Mill Feed	0.210	0.228
Gold in Mill Feed (Grams/ Tonne)	0.552	0.567
% Copper Recovery	82.19	82.14
% Gold Recovery	80.32	79.70
Copper Produced (Kilograms)	16,157,335	15,341,234
(Pounds)	35,620,784	33,821,592
Gold Produced (Grams)	4,152,816	3,706,620
(Ounces)	133,516	119,171
Sliver Produced (Grams)	4,100,944	3,640,581
(Ounces)	131,848	117,047
Sales		
Concentrate (Tonnes)	65,090	65,059
Copper (Kilograms)	16,082,319	15,953,559
(Pounds)	35,455,403	35,171,535
Gold (Grams)	4,138,576	3,891,350
(Ounces)	133,058	125,110
Silver (Grams)	4,072,347	3,779,722
(Ounces)	130,929	121,521

PADCAL OPERATIONS

Mining Operations

Tonnage mined in 2010 totaled 9.364 million tonnes, 14% higher than last year's production of 8.197 million tonnes due to improved ore transport system and acquisition of additional 6 units of LHD (load-haul-dump) equipment at the underground. These boosted the mine production enabling the Padcal Operations to surpass the 2010 budgeted tonnage. This laudable performance is also attributed foremost to the improved productivity of Padcal employees as they joined hands in attaining last year's objectives. Absenteeism was successfully reduced if not controlled.

This year's gold grade averaged 0.55 gram per tonne, 3% lower than the average grade of 0.57 gram per tonne in 2009 while the average copper grade of 0.21% is lower by 8% compared to last year's copper grade of 0.23%.

Development works were focused on the commissioning of draw points at the South Block of 908-ML (meter level) and at the 840-ML Sub-Level Caving Project.

A total of 66 draw points was commissioned at the 908-ML South Block exceeding the year's schedule of 52 draw points by 27%. To service these new draw points, 3 breaker stations and 6 ventilation raises were constructed at the block.

At the 840-ML Sub-Level Caving Project, 9 production drifts were commissioned at elevation 840-ML while 8 production drifts were commissioned at elevation 867-ML as sources of higher grade ore. A new breaker station was constructed at the 840-ML to service these production drifts.

At the Central Block of 782-ML, preparatory works, such as concrete lining of draw points, shotcreting and driving of undercut level, have been implemented and are still on-going to prepare 28 draw points that are proposed for commissioning after the 840-ML Sub-Level Caving Project is mined-out.

Milling Operations

Ore milled in 2010 averaged 0.552 gram gold per tonne production, lower than the 0.567 gram gold per tonne average ore grade in 2009 and 0.643 gram gold per tonne average ore grade in 2008. Copper grade of 0.210% in 2010 was likewise lower than the 0.228% average grade in 2009 and 0.257% average grade in 2008.

With higher tonnage of 9.364 million tonnes mined in 2010 from 8.197 million tonnes in 2009 and 8.913 million tonnes in 2008, concentrate production was consequently higher at 65,340 dry metric tons this year compared to 62,458 dry metric tons last year but lower compared to 77,920 dry metric tons in 2008.

The total tonnage milled for the whole year of 2010 actually reflects the highest level achieved in over the past ten years of Padcal's operation. Metal production were 134 thousand ounces gold and 35.6 million pounds copper in 2010, 119 thousand ounces gold and 33.8 million pounds copper in 2009 and 145 thousand ounces gold and 41.2 million pounds copper in 2008.

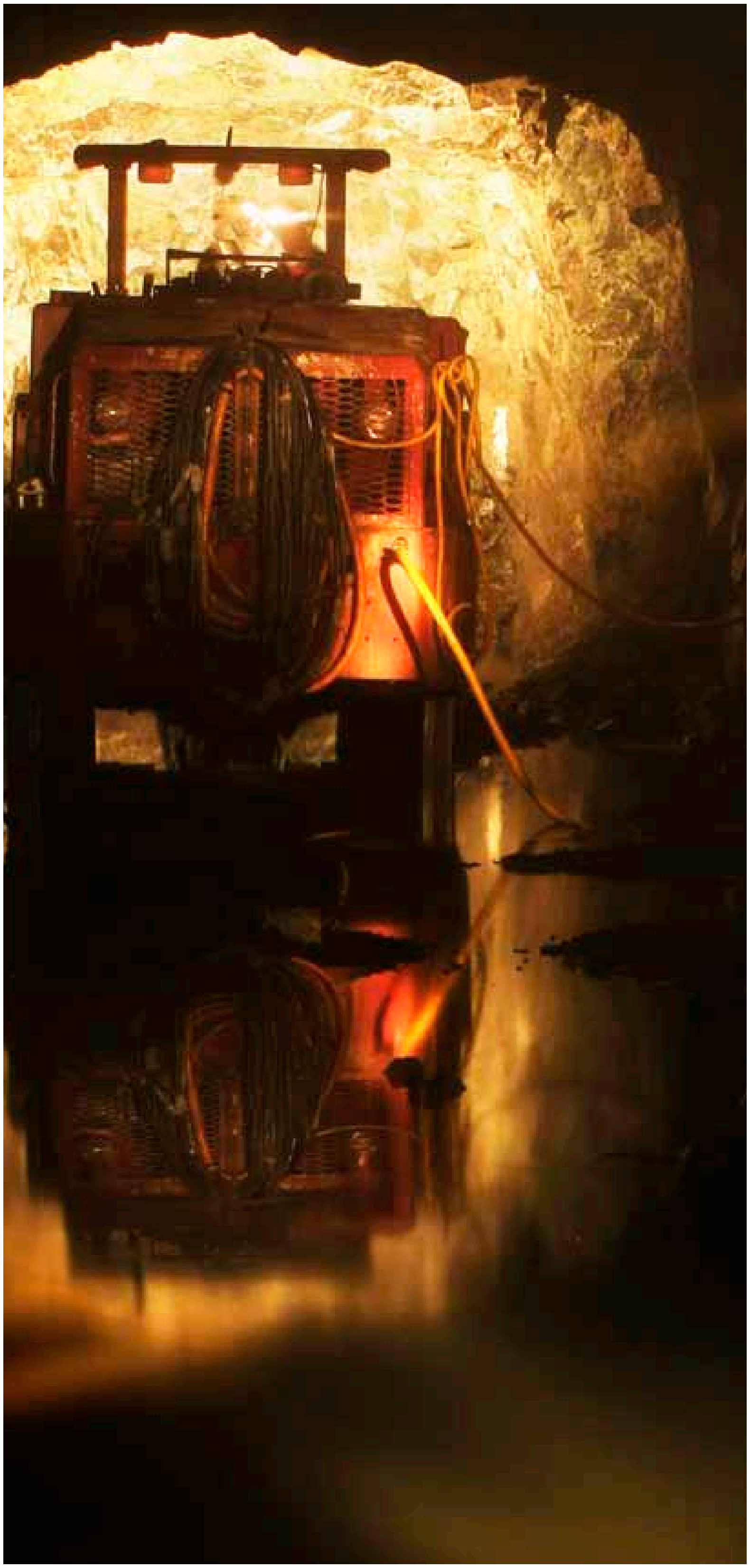
The Mill Operations reaped the benefits of the installation of WEMCO Smart cell as it increased the flotation capacity and retention time, thus contributing to the increased metal recovery by lowering the tails grade.

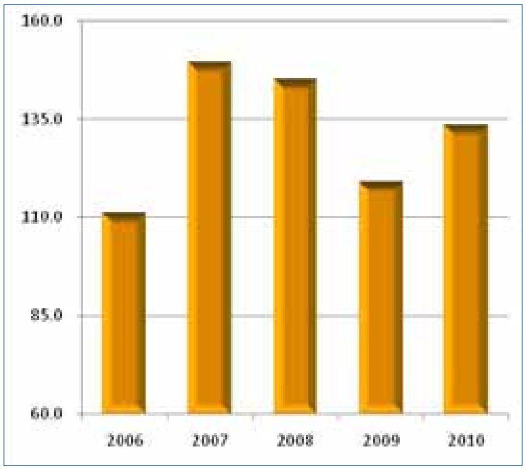
Major projects for the year were as follows:

- Installation of JCI double deck vibrating scalper to replace the 5' x 16' Hewitt Robins double deck scalper in July 10, 2010.
- Installation of one unit Metso C100 Jaw Crusher to replace the old Pioneer Oro Jaw Crusher in August 20, 2010.

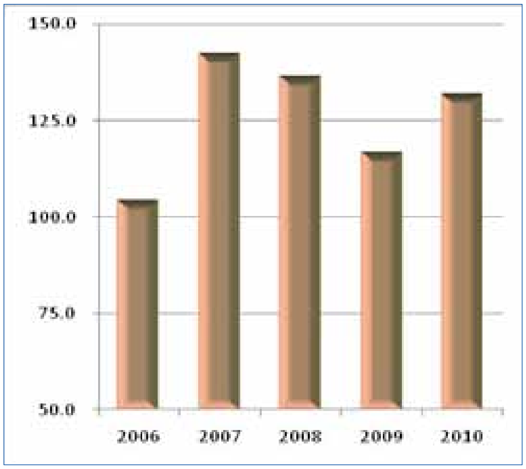
These improvements increased the mechanical availability and efficiency of operation in the primary crushing section of the mill plant.

There were 13 shipments lifted during the year for a total of 65.09 thousand tonnes of copper concentrates containing 133,058 ounces gold, 35.46 million pounds copper, and 130,929 ounces of silver.

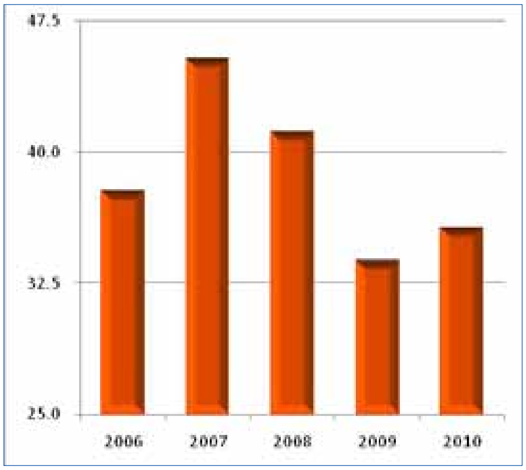




Gold Produced
(In Thousand Ounces)



Silver Produced
(In Thousand Ounces)



Copper Produced
(In Million Pounds)

SUMMARY OF MINERAL RESOURCES AND ORE RESERVES

As of December 31, 2010

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	0.30	Measured	55,000	0.25	0.54	300,000	1,000,000
782 ML	0.30	Measured	94,000	0.24	0.47	500,000	1,400,000
Total Resources (1)		**Measured**	**149,000**	**0.24**	**0.49**	**800,000**	**2,400,000**

** CuEq = %Cu + 0.43 x g/t Au; Metal Prices: US$ 3.00/lb Cu, US$ 1,000/oz; Metal Recoveries: 82% Cu, 73% Au.*

This resource statement was prepared by Mr. Noel C. Oliveros, Exploration Division 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	0.246	Proved	25,400	0.21	0.43	93,700	259,000
782 ML	0.246	Proved	35,000	0.23	0.46	144,500	394,000
798 ML	0.246	Proved	29,800	0.20	0.32	108,300	204,000
Total Reserves		**Proved**	**90,200**	**0.21**	**0.41**	**346,500**	**857,000**

** CuEq = %Cu + 0.43 x g/t Au; Metal Prices: US$ 3.00/lb Cu, US$ 1,000/oz; Metal Recoveries: 82% Cu, 73% Au.*

This estimate was prepared by Engr. Eulalio B. Austin, Jr. (BSEM), Senior Vice President for Operations and Padcal Resident Manager of Philex Mining Corporation. 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 Division 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.

(*) As of December 31, 2009 pending release of resource estimate from independent consultant.

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 Division 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.

2010 HIGHLIGHTS Exploration

Project	Tonnage	Grade	
	('000)	*% Cu*	*Grams/ Tonne*
Padcal / Sto. Tomas II	149,000	0.24	0.49
Boyongan*	105,400	0.8	0.98
Bayugo*	85,700	0.88	0.73
Bulawan	17,500		2.25
Sibutad	17,100		0.84

**as of December 2009*

Padcal and Vicinity

15 holes were drilled, covering an aggregate distance of **8,085** meters within the Sto. Tomas II orebody.

5 holes drilled, covering **2** meters within the Bumulo prospect.

Silangan, Surigao del Norte

142 drill holes with an aggregate length of **81,820** meters for further delineation of the Bayugo deposit, as well as exploratory drilling on nearby prospects, and for rock and groundwater studies.

Bulog, Negros Occidental

6 drillholes, covering a total of **1,551** meters intersected porphyry style mineralization at depth.

Sibutad, Zamboanga del Norte

23 shallow drillholes with an aggregate length of **567** meters to study the feasibility of the silica deposits above the Lalab Gold Deposit and to re-evaluate the gold resource model.

PHILEX MINING CORPORATION

Padcal and Vicinity

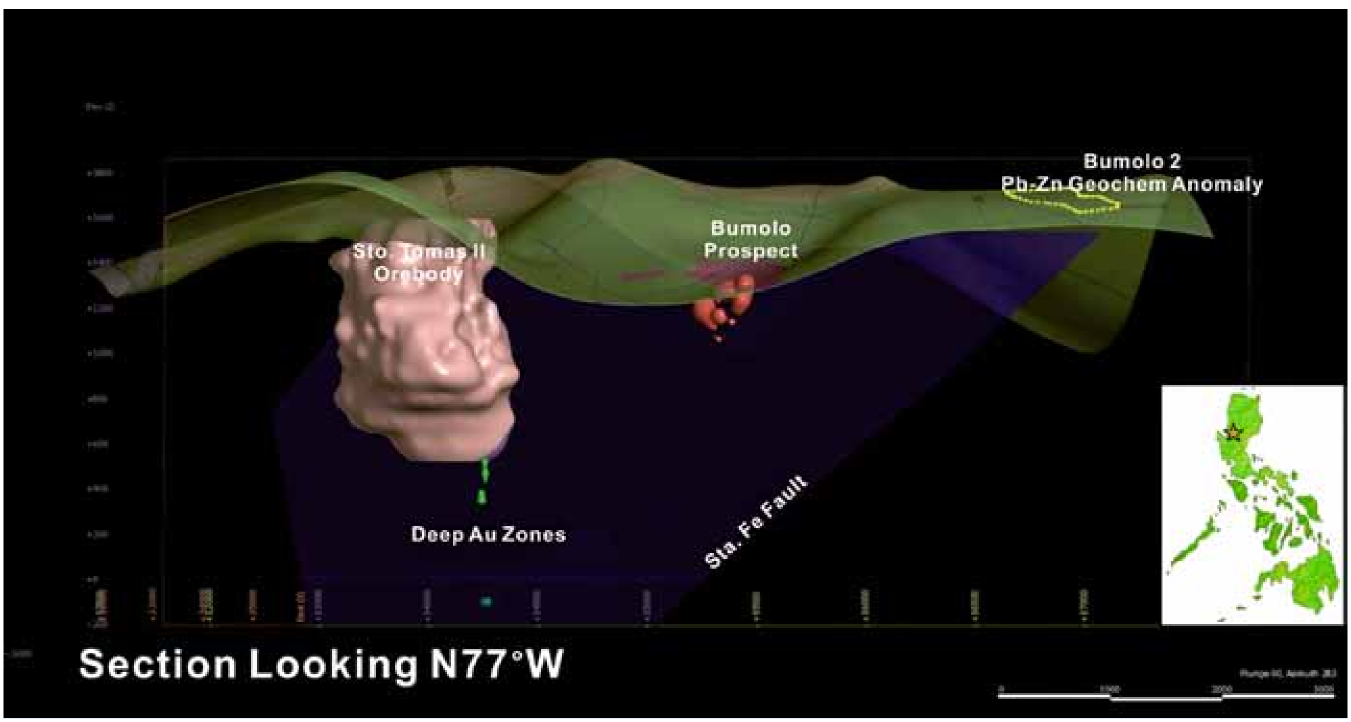
Exploration in Padcal and its vicinity was pursued in two areas underground in 2010: the Sto. Tomas II orebody at 773ML covered by MPSA-276-2009-CAR and Bumolo prospect within MPSA-156-2000-CAR. Within the Sto. Tomas II orebody, diamond drilling continued at 773ML to explore possible extensions of the orebody below the lowest mining level, 782ML. Fifteen holes were completed for an aggregate distance of 8,085.30 meters. These holes delineated a zone of copper and gold mineralization with grades averaging 0.26% copper and 0.28 gram per tonne gold just below 782ML.

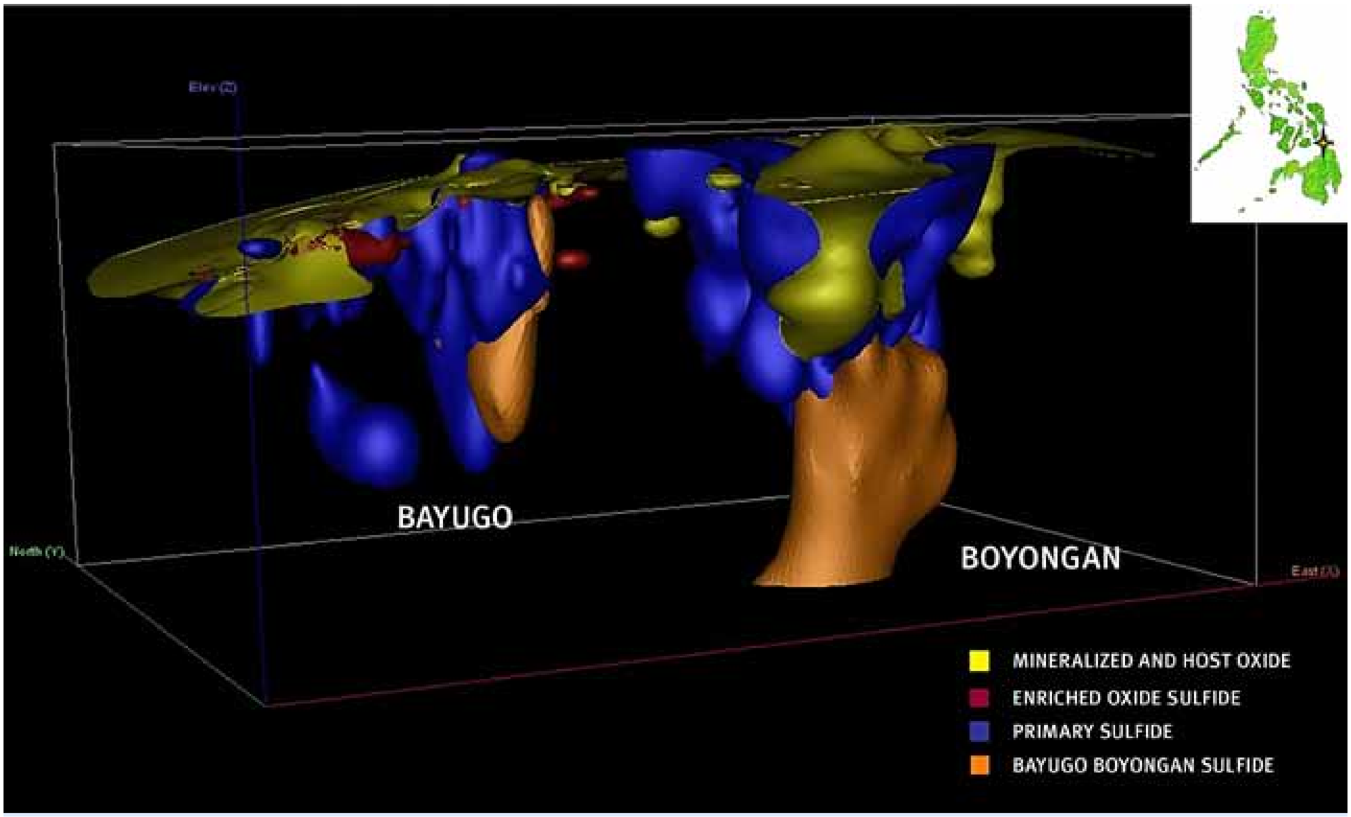
Follow-up drilling of the deep gold zone in the northeast block of 773 ML indicates a 40-meter wide mineralized zone within northeast trending Santa Fe fault with average gold value of 2.0 gram per tonne but very low copper values. This deep-seated mineralized zone is located at 450ML or 330m below the current mining level of 782ML. Nevertheless, exploration is now focused on finding a similar gold mineralization at shallower levels along the strike of Sta. Fe fault and beyond the Sto. Tomas II orebody. Hence a drilling program for 2011 shall be undertaken at Bumolo 2 prospect located northeast of the Sto. Tomas II orebody once access to the site is obtained.

In Bumolo prospect, also located northeast but closer to Sto. Tomas II than Bumolo 2, five (5) holes with 1.695m advance were drilled underground. The soil geochemical anomaly defined in the diorite intrusive bodies was the target of drilling. A mineralized horizon between 1200ML and 1300ML at the northern part of the anomalous zone and between 1100ML to 1200ML at the southwestern side were encountered. The average copper and gold values from these two zones range from 0.15% to 0.27% copper and 0.10 gram per tonne to 0.49 gram per tonne gold. The geology of the area suggests widespread dilution of originally good grade deposit as a result of the intrusion of a series of late and essentially barren diorite and microdiorite porphyries. Nevertheless, a possible low tonnage deposit with marginal copper and gold grades could be realized in Bumolo as additional feed to the mill.

The other prospects lined-up for 2010 were not yet pursued namely, Clifton, located west of the Sto. Tomas II, and Bumolo 2. In Clifton, an FPIC is still in progress while there is an ongoing negotiation with the surface owners at Bumolo 2.

For 2011, other areas are lined-up for exploration within Padcal and vicinity as new interpretations of the drill cores warrant follow-up drilling and or tunneling in these areas. Driving of a 100-meter tunnel/adit at 908ML was started in December 2010 to explore other potential





areas close to the existing Sto. Tomas II orebody. As of this writing, the adit has advance of 125 meters.

Bulog Project (Negros Occidental)

Six additional holes were drilled in the Parcel 2 of EP-04-VI with a total of 1,551 meters. This brings total drilling length to 6,163 meters accomplished in 12 months, producing a total of 3,141 pulp samples for gold and base metal assays in 25 batches. The geochemical and geological data revealed that the mineralization in the Bulog area consists of two parts: (1) a higher level of disseminated gold in advanced argillic zone with significant samples averaging 0.73 g/t Au; and (2) a deeper level of porphyry style mineralization in phyllic altered andesite and diorite with samples averaging 0.28% Cu, 0.17g/t Au. Further drilling was suspended pending resolution of surface access issues.

After the suspension of drilling program at Bulog Parcel 2, a semi-detailed scale (1:10,000 m) stream geochemical survey of Parcel 1 was embarked on. The program aims to cover the entire tenement area of about 1,200 hectares. Parcel 1 is located approximately 6 aerial km north of Bulog and within the Municipalities of Cauayan and Sipalay. The main objectives of the survey are to determine the secondary dispersion pattern of gold and base metals Cu, Mo, Pb, Zn, Sb at the surface and to delineate potential areas for further exploration work.

SILANGAN MINDANAO MINING CO., INC.

Silangan Project (Surigao del Norte)

The Silangan Project comprising the Boyongan and Bayugo deposits is covered by MPSA-149-99-XIII and EP-XIII-03 located in the province of Surigao del Norte. Exploration of Philex in Silangan Project in 2010 focused on the definition and infill drilling at the Bayugo deposit, exploratory drilling in the vicinity of the Boyongan and Bayugo deposits and the geotechnical and hydrogeological drilling within the deposits and at the proposed tailings storage facility site.

The 2010 drilling program of Silangan Project was a continuation of the fast-paced drilling that commenced in February 2009. The extensive definition and in-fill drilling program at the Bayugo deposit, which was separated to West Bayugo and East Bayugo, is aimed to attain resource estimates at Measured and Indicated categories that will be integrated to Boyongan resource estimates which are necessary to advance the project to pre-feasibility and feasibility study stages. Higher grade copper-gold mineralization from the Supergene

Oxide and Enriched Zones are intersected at West Bayugo as against the Hypogene Sulfide dominated East Bayugo. Mineralization thickness, however, reached 500 meters in length at the East Bayugo compared with 300 meters at West Bayugo. Drilling at Bayugo was completed in June 2010.

By the second half of 2010, drilling shifted its focus on the infill drilling at the Exotic Zone, the exploratory and condemnation drilling covering NE Boyongan, Buhangin and Mt. Torre prospects, the geotechnical and hydrogeological drilling within the Bayugo and Boyongan deposits and the geotechnical and condemnation drilling at the tailings storage facility site at Guinub-an.

Exotic Zone is located between Boyongan and Bayugo deposits. Based on mineralogic logging, the Exotic Zone has laterally expanded to the northeast and to the southwest. Its original tadpole-shape has become rounded with its northwest tail already integrated with the expanded East Bayugo orebody; its southeast end has extended to overlap with the Boyongan orebody. Practically the Exotic Zone has now bridged spatially to the East Bayugo and Boyongan orebodies. Mineral zonations for the Exotic Zone are dominated by Enriched Oxide-Sulfide and Hypogene Sulfide zones.

Drilling at NE Boyongan prospect intersected a thinning Quaternary cover overlying basaltic rock units. A few holes encountered quartz veins containing sulphide minerals suggestive of epithermal system. The drilling program in this prospect is still incomplete.

Both Mt Torre and Buhangin prospects to the west of the Boyongan and Bayugo deposits are covered by thick Quaternary cover which ranges from 700 to 900m in thickness. The paleosurface is composed of poorly mineralized Bird's Eye Porphyry rock suggesting that mineralization does not extend toward these areas.

Several holes were drilled within the Bayugo and Boyongan deposits and at the Guinub-an area that were able to provide high quality information to advance the understanding of geotechnical and hydrogeological conditions at the site to aid the on-going mine design as part of Silangan project's pre-feasibility studies.

The Silangan Project drilling campaign for 2010 completed 81,820 meters from a total of 142 holes.

As of this writing, advanced exploration activities are being undertaken in Boyongan which will be developed first by the Company. An exploration ramp will be driven in Boyongan as part of its exploration program and pre-feasibility studies.

Cayas Project (Negros Occidental)

The Cayas exploration project is covered by Exploration Permit No. 08-2010-VI granted last July 9, 2010. Lying immediate north of the Vista Alegre Project, Cayas Project covers a total area of 4,381 hectares under the jurisdiction of seven barangays of Sipalay City. After several months of preparatory community relations work, exploration commenced on September 2010 with stream sediment sampling and semi-detailed geologic mapping. Within the prospect, artisanal gold panning activities are observed near outcrops with porphyry-style mineralization.

PHILEX GOLD PHILIPPINES INC.

Vista Alegre Project (Negros Occidental)

After terminating its 2009 drilling program in Nagtalay and in some parts of Vista Alegre, the company undertook detailed mapping and geochemical survey of the surrounding areas. The early results reveal several promising areas worthy of closer investigation. More recent results highlight two more anomalies: (1) near the western side of the Bulawan deposit (Skid-6 area); and (2) near the southwestern part of the Korokan deposit (Skid-8 area). The proximity of these anomalies to former mines makes these more attractive as there are no previous drillings on these sites. More studies are underway to confirm all the anomalies so far uncovered.

Sibutad Project (Zamboanga del Norte)

Exploration work within MPSA-063-97-IX during the year 2010 concentrated on the re-evaluation of the Lalab area and surface mapping and sampling of Calube, Minlasag, and Nanca Prospects. Re-evaluation of the Lalab block was proposed in January with the release of a new geologic model of the Larayan-Lalab areas. Detailed surface mapping and review of old drill holes were conducted to verify the new model, and in turn aid in generating a new resource estimate for the Larayan-Lalab prospect.

Simultaneously, the company examined the possibility of exploiting the massive silica rocks overlying the Lalab Gold deposit as additive to the cement-producing plants in the region. For this purpose, a reverse circulation drilling program was conducted using the company's old tractor-mounted Edson drill rig. 23 holes were drilled with a total length of 567 meters. The drilling program was terminated in November after results show indications of low volume for the silica deposit.

PHILEX PETROLEUM CORPORATION

On September 24, 2010, the Company transferred to its wholly-owned subsidiary, Philex Petroleum Corporation (Philex Petroleum) its shares of stock in Pitkin Petroleum Corporation, FEC Resources and Brixton Energy & Mining Corporation. The transfers were pursuant to an internal reorganization whereby all of the Company's energy-related assets are to be held through Philex Petroleum. The Company further obtained the approval of the Department of Energy for the transfer from the Company to Philex Petroleum of the Company's interests in Service Contract (SC) 6 Cadlao and SC 6A Octon.

Philex Petroleum's energy-related asset portfolio now includes:

Brixton Energy & Mining Corp.	100.00%
FEC Resources	51.24%
Forum Energy Plc	38.82%
Pitkin Petroleum Plc	18.46%
PetroEnergy Resources Corp.	10.31%
SC 6A Octon	5.56%
SC 6 Cadlao	1.65%*

**overriding royalty interest*

Brixton Energy & Mining Corporation

Brixton Energy & Mining Corporation (BEMC) is 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 Zamboanga Sibugay, the ore reserves on which cannot yet be disclosed pending issuance of a technical report by a competent person as required under the Philippine Mineral Reporting Code.

In November 2008, BEMC obtained the Environmental Compliance Certificate for the advancement of the coal project to development stage in 2009. In 2010, BEMC accomplished the construction of major infrastructures to support the coal production from the underground. Infrastructures such as the power supply, hauling and loading systems, ventilation of the underground mine, and offices were completed within the industrial area in preparation for production. Development of various underground openings and production panels were achieved to gain access to the coal seam. With the major infrastructures in place and underground opening development being implemented, first coal slicing or commissioning of the first production panel has started in October 2010 wherein an initial production rate of 100 tons per day as a debugging phase was achieved.

FEC Resources, Inc.

FEC Resources, Inc. (FEC) is a Canada-based independent investment company engaged in the acquisition, exploration, and development of natural resources and mineral properties. The principal investment of FEC is a 25.63% stake in FEP.

Forum Energy Plc

Forum Energy Plc (FEP) is a UK-based company listed at 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, including Service Contract 72 located offshore west of Palawan.

SC 72 contains the Sampaguita gas discovery with mean GIP of 3.4TCF and a number of additional leads. In 2008, a joint venture ("JV") was formed with Monte Oro Resources and Energy, Inc. ("MORE"), which qualified the JV for the Filipino participation incentive allowance granted under Philippine law. Through a 30% farm-out to MORE, the JV will receive 7.5% of any gross revenues, prior to sharing revenues with the government.

In November 2010, Forum executed a US$10,000,000 Facility Agreement with the Company. The loan facility will be available for a three-year period and funds can be borrowed at an interest rate of US LIBOR + 4.5%. The loan facility will enable Forum to fund its 70% share of the SC 72 work program in 2011 and 2012.

In addition to moving ahead with the approved work program, Forum continues to have discussions with potential strategic partners for the purpose of accelerating the SC 72.

Pitkin Petroleum Plc

Pitkin Petroleum Plc (Pitkin) is a U.K.-based upstream oil and gas company, with interests in exploration assets offshore Peru (Block Z-38) and onshore Peru (Block XXVIII – awaiting government final approval), offshore Vietnam (Block 07/03) and offshore and onshore the Philippines (SC 71 - Cuyo and SC53 - Mindoro Island). It also has a re-development project for a previously producing field offshore northwest of Palawan (SC 14C-2 - West Linapacan) and interests in small scale production in a number of oil and gas wells in Louisiana and Oklahoma in the United States. Its key assets are located in areas that have or are close to proven hydrocarbon systems and further exploration, including drilling in Peru, Vietnam and the Philippines, is planned over the next few years. Drilling in Peru is expected to begin by early 2012. In Vietnam, drilling of an appraisal well is expected in first quarter 2011 on the Ca Rong Do (Red Emperor) discovery made in June 2009. An appraisal well is planned in 2012 for SC 14C-2 in order to take advantage of the opportunity to re-develop the West Linapacan A field offshore Philippines. Success of planned exploratory or appraisal wells could both capture immediate value and further derisk the potential of the company's asset base.

PetroEnergy Resources Corporation

PetroEnergy Resources Corporation (PERC) is an upstream oil exploration and development company listed in the Philippine Stock Exchange. Present revenues are derived largely from PERC's 2.525% share of producing offshore oil fields in Gabon West Africa. Apart for this, PERC has interests in other upstream oil and renewable energy projects in the Philippines such as the SC 6A Octon (16.67%), SC 14C2 W. Linapacan (4.14%), SC 47 Offshore Mindoro (2%), SC 51 Central Visayas (4.01%), and the Maibarara Geothermal Project (65%) in Laguna and Batangas.

Service Contract 6 Cadlao

The Cadlao field came on stream in 1981 and produced around 11 million barrels of oil before production ceased in 1991. Blade Petroleum, the current operator, believes the field has a potential to produce a further six million barrels of oil (2P estimate) and is planning the redevelopment of the Cadlao field.

The Company's 1.65% overriding royalty interest under Service Contract 6 is held through Philex Petroleum.

Service Contract 6A Octon

The Octon field was discovered in January 1991 and successfully appraised in April 1992. The field is estimated to contain both oil and gas resources, with a potential for a low cost development. In June 2009, the DOE approved a fifteen-year extension of the production term of the Octon Block.

A subsurface modeling of the Octon field was completed in September 2010 following reprocessing and seismic inversion of the pre-stack depth migration seismic data in 2009. The consortium is currently implementing further reprocessing of seismic data over a 400 square kilometer area in the northern part of the block.

The consortium also continues to have discussions with farm-in partners for the purpose of accelerating the development of the block. A development option being considered is a development in conjunction with the proposed Phase 2 of the Galoc Field Development.

2010 HIGHLIGHTS

Environment & Community Relations

Reforestation

742,174 seedlings planted
83 hectares reforested

Health

6,858 patients served at the Sto. Nino Hospital
53 cleft palate operations in Surigao City

Education

46 college and **79** high school scholars in Padcal
362 fully-subsidized elementary and high school students in Padcal
78 scholars in Surigao

Public Infrastructure

2.3 kilometers farm-to-market roads around Padcal Mine

PADCAL MINE

Environmental Management

The Padcal Mine's Environmental Management System (EMS) sustained its ISO 14001 Certification, showcasing the Company's advocacy for responsible mining. The confirmation of the Continued Certification was based on the successful audit results of the Second Surveillance Audit by the Certification International (CI) last June 2010. Since 2002, the Company has maintained its ISO 14001 Certification, a testimony to its firm commitment to operate and mine responsibly.

The Padcal Mine was awarded First Runner-Up in the 2010 Best Mining Forest Contest (Metallic Category) nationwide under the Mining Forest Program during the 57th Philippine Mine Safety & Environment Association's (PMSEA) Annual Mine Safety and Environment Conference held in Baguio City on November 17-20, 2010. Since the launching of the contest in 1989 calling for the rehabilitation of areas disturbed by mining activities, the Padcal Mine has been a consistent winner, declared as champion for the years 1991, 1994, 2000-2002, 2004, 2007 and 2008.

During the year, 294,178 seedlings of various tree species were planted in the reforestation areas, of which 100,185 seedlings were planted on newly established plantation areas covering 60 hectares and 189,443 assorted forest tree seedlings were planted on the existing 345 hectares of the previously established plantation areas for enhancement. To date, about 2,000 hectares have been successfully reforested with more than 7 million seedlings of various tree species, which the Company continues to maintain and protect throughout the year. In addition, as part of the Company's social commitment, it has also provided 8,923 planting stocks/seedlings to various civic organizations, LGUs, small-scale mining associations, schools, private Individuals, and other government agencies for their tree planting programs.

The Company also participated in the Fire Prevention Month activities in March 2010, World Water Day Celebration on March 22, 2010, Earth Day Celebration on April 22, 2010, Arbor Day Celebration on June 25, 2010 and the International Coastal Clean-up Day on September 24, 2010.

Community Development

Philex continues to be a strategic partner to its host communities towards economic development through the Company's Social Development and Management Program (SDMP), which serves as a vehicle to attain self-reliance and sustain continuity of growth.

In 2010, the Company spent a total of PhP36.7 million for the continued implementation of its H.E.L.P. Program (Health, Education, Livelihood and Public Infrastructure).

Under its health care program, the Company's Sto. Niño Hospital provided free basic medical and health services to 6,858 patients from the local communities. There were 2 medical missions implemented in the locality which benefited additional 144 underprivileged patients. Programs and lectures on health awareness, proper sanitation, emergency and disaster preparedness are regularly conducted every year among the local residents. In 2010, the health awareness seminar of the Company adopted the theme "Living a Healthy Life is a Thanksgiving unto Him".

One of the Company's flagship programs is the college and secondary educational scholarship which aims to give

opportunities to deserving underprivileged students from the host communities to pursue better lives. For SY 2009-2010, 46 students benefitted from the college scholarship, and 7 out of them successfully finished their studies. At present, 79 high school students enjoy full scholarship at the Saint Louis High School-Philex. In addition, the Company also subsidized 333 high school and elementary students at the Philex Mines Elementary School and Saint Louis High School-Philex. In 2010, the Company participated in the Alternative Learning System of the Department of Education (DepEd) to improve the reading and writing skills of local residents. The first batch produced 31 learners who successfully passed the DepEd national examination and were given secondary education diploma. Eighteen out-of-school youths were granted vocational scholarships by the Company to study at the Baguio School of Business and Technology College and the Philippine Institute of Mining and Quarrying.

As part of its social commitment, the Company continues to implement the Livelihood and Employment Enhancement Program with the vision of building self-reliant communities. Sixty fresh college graduates from the host and neighboring communities underwent the Work Appreciation Program at the Padcal Mine offices to gain work experience. Technical and financial supports were also provided to eight local cooperatives and livelihood associations for agroforestry, greenhouse farming, root crops production and livestock-raising projects.

Under the Company's Public infrastructure Program, financial assistance was extended during the year for concreting an aggregate of 2.3 kilometers farm-to-market roads and construction of water systems in the host communities. In addition, the Company contributed financially in building more schools, churches and other communal structures.

Philex continues to progress in developing the various components of its Community

Business Technology Centers (CBTC) launched in 2009 which aims to socially uplift its employees, their families, and the Company's host and neighboring communities and enable them to achieve not only individual but also collective self-reliance. The Company recognizes that sustainable community-based business ventures and enterprises are critical factors in achieving this vision. The CBTC aims to help families become economically productive and able to send their children to good schools, build their own homes, support their health and leisure requirements, among their other basic needs.

The Livestock CBTC has started its operation with the establishment of the Gene Transfer Center. A total of 2 high quality boars and 15 gilts as starter breeders were already provided by the Company. Additional 100 piglets are now being raised for dispersal to would-be hog raisers/cooperators.

The Meat Processing CBTC is now in full-swing and currently producing an average of 2,000 kilograms per month of processed meat food being sold to the local communities.

Under the Coffee CBTC, a total of 1,200 robusta coffee and 300 golden shower seedlings have already been planted and currently being maintained by the local residents.

For the Aquaculture CBTC, the construction of aquaculture and sedimentation ponds is on-going.

In recognition of the Company's CSR accomplishments, the Padcal Mine was given the 2010 Establishment with the Best Family Welfare Practices at the Workplace (Cordillera Administrative Region) Award by the Department of Labor & Employment (DOLE).

Tailings Pond

About 9.3 million tons of mill tailings were impounded at Tailings Storage Facility No. 3 in 2010, now with a total of 149.7 million tons containment since the start of impoundment in 1992. The dam embankment of Tailings Storage Facility No. 3 is continuously being built up maintaining a freeboard of not less than five meters at any given time. The actual freeboard as of December 2010 is 6.1 meters.

Tailings Storage Facilities 1 and 2 which were already decommissioned continue to undergo rehabilitation. The buttressing of Tailings Pond No. 2 Toe Dam to further enhance its stability is already completed. Likewise, the construction of Check Dam No. 2 at Tailings Pond No. 3 for silt control purposes was also completed.

All the Tailings Storage Facilities are regularly monitored by the Multi-Partite Monitoring Team (MMT) composed of representatives from the LGU, government agencies, and local community.

SILANGAN PROJECT

Anchored on the principle of partnership building, the Silangan Project of the Silangan Mindanao Mining Corporation, Inc. (SMMCI) continues to implement its Community-Based Development and Environmental Management Program in close coordination with the local government units (LGUs), cooperatives and social groups of the local community.

As a testament of its social commitment, SMMCI was bestowed the 2010 Presidential Mineral Industry Environment Award (Mineral Exploration Category) for outstanding performance in environmental management and community development.

Environmental Management

The Company, as part of its responsibility to the protection of the environment, actively supports the operation and activities of the Community Technical Working Group (CTWG). The CTWG regularly monitors the drilling activities in the exploration sites to check the Company's compliance to its Environmental Work Program. No serious complaint was raised by the CTWG during the year evidencing the Company's efforts to effect mitigating measures over the impacts of the exploration to the environment.

Under the Company's rehabilitation and reforestation program, SMMCI continues to maintain nursery sites located in Barangays Timamana and Anislagan for the mass production of various tree seedlings.

Community Development

The Information, Education and Communication (IEC) campaign of SMMCI is continuously being implemented in the host and neighboring communities to discuss the Company's social development policies and updates on the exploration project through community immersion, courtesy calls, sit-in at regular LGU sessions, dialogues with local group leaders and focused group discussions with various sectors such as the academe, religious groups, and non-governmental organizations (NGOs).

Under the Education Assistance Program, SMMCI has 78 scholars. The Company provides them with free school uniforms, school supplies, and financial support for various school fees and expenses. Among the scholars are 26 Indigenous People (IP) belonging to the Mamanwa Tribe. The Company continues to support out-of-school youth's training on Masonry and Carpentry at the Technical Education & Skills Development Authority (TESDA). The trainees do actual work in the construction of some infrastructure projects of the local community

as part of their practicum. Financial assistance was also extended to support local educational programs such as trainings and seminars for public school teachers, annual science fairs, and computer literacy trainings for students.

Among the organization recipients of technical and financial assistance from the Company are the San Isidro Capayahan Timamana Livelihood Association (SICATILA), *Kababaihan sa Timamana Alang sa Hiniusa Ug Madasigon* (KATAHUM), Association of Rice and Coconut Producers in Anislagan (ARCOFA), *Panaghiusa Alang sa Kalambuan sa Anislagan* (PANAKAN), and *Kabatan-unan Alang sa Kabag-uhan sa Anislagan* (KALAKASAN). During the year, SMMCI also launched the Agricultural Technology Development Center (ATDEC) in Barangay Anislagan, Placer with the mission of developing sustainable livelihood for the community through fund sourcing, capability building and management training.

Nine barangays from the Municipality of Tubod, two barangays from the Municipality of Placer, and several public schools of the host communities were granted financial and supplies assistance for infrastructure projects. These include, among others, donations to schools, construction projects, repairs and painting of purok centers, gravelling of provincial roads, and the improvement of potable drinking water systems.

The Company, together with Rotary Club of Metro Surigao and local government units, conducted Operation Smile (cleft palate operation) in Surigao City which benefited 53 afflicted patients. SMMCI, likewise, financed the annual accident insurance premium of 180 local volunteer workers in 3 host barangays.

In addition, SMMCI actively supports community affairs through financial assistance during sports activities, fiesta celebrations and other major cultural activities in the Municipality of Tubod and its barangays.

PHILEX GOLD PHILIPPINES, INC.

BULAWAN

Environmental Management

During the year, PGPI has planted 33,000 various species of tree seedlings and maintained 23 hectares of tree plantations as part of the Company's thrust for environmental protection and enhancement. The Company continues to maintain and protect the additional 10 hectares for the Assisted Natural Regeneration (ANR) Project duly accredited by the Forest Management Bureau and Mines & Geosciences Bureau.

For the abandoned and completed drill sites, the Company regularly conducts environmental inspection, monitoring and rehabilitation activities, and implementation of various environmental erosion control measures to ensure stability and safety of the sites.

Community Development

PGPI actively participates and supports projects for community infrastructure improvements through counterparting scheme where the Company provides construction materials and supplies while the LGUs and the local community implement the project(s) and provide the labor and management. This scheme creates a sense of responsibility to the local community and pride among the local residents once the construction projects are finished.

Some of the joint infrastructure projects implemented in 2010 were:

- Construction of water intake box at Sitio Patag, Manlucahoc;
- Construction of water tank at Sitio Buyog, Nabulao, Sipalay;
- Repair of access road at Sitio SPUR 3, Bacuyangan, Hinobaan;
- Repair and renovation of vermin-shed at Sitio Patag, Manlucahoc;
- Renovation/improvement of teacher cottages at Vista Alegre and Patag Magbanua Elementary Schools;
- Donation of electrical wires and supplies for the electrification line of Barangay Damutan.

The Company sponsored feeding programs to 645 pupils of four public schools in the host communities and provided assistance in the form of school supplies (uniforms, chairs, books, teaching aids), computer and printer, and construction materials for the improvement of school facilities.

A medical mission was sponsored by PGPI, in partnership with the LGU, which benefitted 2,510 patients from the six host communities.

The Company continues to participate and provide financial assistance and material donations for livelihood projects, local cultural celebrations and sports competitions for its host and neighboring communities.

SIBUTAD

Environmental Management

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

During the year, 9,200 Acacia Auri and 10,067 seedlings of various plant and tree species were planted in new and established plantations. To date, the Company has planted a total of 414,456 seedlings covering an area of 114.8 hectares in the area.

Community Development

As part of PGPI-Sibutad's continuous Information, Education and Communication (IEC) program, the Company accommodates various visitors and stakeholders for mine visits in the area. Sibutad has been a showcase for best mining rehabilitation practices in Mindanao. For this reason, it has now become an attraction frequented by visitors and tourists.

To keep the stakeholders informed on the status of operations and social development projects, the Company conducted courtesy calls, presentation of Exploration Work Program to LGUs, sit-in during regular LGU sessions, dialogues with local groups and landowners.

The Company likewise contributed to the community projects, improvement of school facilities and structures, church activities, and local celebrations.

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, 2010 and 2009. 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 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 parent 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

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

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

The Stockholders and the Board of Directors
Philex Mining Corporation

We have audited the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information. 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% of the related consolidated totals as of December 31, 2009, 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 as of and for the years ended December 31, 2009 and 2008.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors in 2009 and 2008 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 in 2009 and 2008, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010, 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

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Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-1
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641530, January 3, 2011, Makati City

February 23, 2011

CONSOLIDATED BALANCE SHEETS

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

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱3,782,248**	₱2,881,115
Accounts receivable (Notes 7 and 21)	**2,180,432**	517,115
Inventories (Note 8)	**1,093,636**	1,146,219
Derivative assets (Note 18)	**–**	19,975
Other current assets (Note 9)	**694,625**	457,845
Total Current Assets	**7,750,941**	5,022,269
Noncurrent Assets		
Property, plant and equipment (Note 10)	**5,095,029**	4,668,892
Available-for-sale (AFS) financial assets (Note 11)	**886,737**	756,948
Investments in shares of stock (Notes 11 and 26)	**833,355**	1,136,755
Goodwill (Note 4)	**258,593**	258,593
Deferred income tax assets - net (Note 22)	**–**	43
Deferred exploration costs and other noncurrent assets (Notes 1, 12 and 16)	**10,828,065**	9,534,913
Total Noncurrent Assets	**17,901,779**	16,356,144
TOTAL ASSETS	**₱25,652,720**	₱21,378,413
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term bank loan (Note 13)	**₱150,000**	₱–
Accounts payable and accrued liabilities (Note 14)	**968,506**	866,890
Income tax payable	**856,954**	2,243
Dividends payable (Note 23)	**207,875**	168,856
Provisions and subscriptions payable (Notes 11 and 28)	**128,335**	115,736
Total Current Liabilities	**2,311,670**	1,153,725
Noncurrent Liabilities		
Provision for mine rehabilitation costs (Note 10)	**31,709**	33,700
Net retirement benefits liability (Note 16)	**–**	30,324
Provision for losses (Note 28)	**538,141**	500,808
Deferred income tax liabilities - net (Notes 4 and 22)	**2,013,230**	1,976,321
Total Noncurrent Liabilities	**2,583,080**	2,541,153
Total Liabilities	**4,894,750**	3,694,878
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (held by 45,607 and 46,055 equity holders in 2010 and 2009, respectively) (Note 23)	**₱4,922,131**	₱4,900,605
Additional paid-in capital	**812,378**	774,494
Retained earnings (Note 23)	**12,716,722**	9,441,593
Net unrealized gain on AFS financial assets (net of related deferred income tax of ₱158,181 and ₱169,113 in 2010 and 2009, respectively) (Notes 11 and 22)	**419,404**	445,277
Cumulative translation adjustments (net of related deferred income tax of ₱32,002 and ₱145,085 in 2010 and 2009, respectively) (Notes 18 and 22)	**(66,174)**	(231,617)
Net revaluation surplus (Note 4)	**1,611,397**	1,611,397
Effect of transactions with non-controlling interests (Note 2)	**106,027**	41,536
	20,521,885	16,983,285
Non-controlling Interests (Note 23)	**236,085**	700,250
Total Equity	**20,757,970**	17,683,535
TOTAL LIABILITIES AND EQUITY	**₱25,652,720**	₱21,378,413

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2010	2009	2008
REVENUE (Notes 7, 18 and 27)			
Gold	**₱7,208,532**	₱5,108,322	₱5,363,774
Copper	**5,721,373**	3,741,625	4,259,135
Silver	**134,553**	82,939	85,128
	13,064,458	8,932,886	9,708,037
Less marketing charges	**714,018**	677,002	669,212
	12,350,440	8,255,884	9,038,825
Petroleum	**298,449**	85,074	9,330
Coal	**31,062**	37,024	–
	12,679,951	8,377,982	9,048,155
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 15)	**4,966,704**	4,524,193	4,164,353
Mine products taxes and royalties (Note 15)	**712,536**	487,225	578,062
General and administrative expenses (Note 15)	**664,698**	848,930	537,027
Petroleum production costs	**189,471**	75,725	15,973
Handling, hauling and storage	**62,159**	54,471	65,915
Cost of coal sales	**19,422**	22,392	–
	6,614,990	6,012,936	5,361,330
OTHER INCOME (CHARGES)			
Loss on dilution of interest in an associate (Note 11)	**(119,804)**	–	–
Foreign exchange gains (losses) - net	**(96,485)**	(68,875)	238,430
Equity in net earnings (losses) of associates - net (Note 11)	**(37,594)**	(72,624)	10,113
Interest income (Note 6)	**27,133**	188,124	153,850
Interest expense (Notes 10 and 13)	**(20,898)**	(108,047)	(53,543)
Gain (loss) on disposal of property and equipment (Note 10)	**(2,009)**	(1,698)	5,656
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	**–**	765,897	–
Gain on disposal of AFS financial assets (Note 11)	**–**	126	84,565
Others - net (Notes 11, 12, 18 and 28)	**(131,242)**	434,032	(855,676)
	(380,899)	1,136,935	(416,605)
INCOME BEFORE INCOME TAX	**5,684,062**	3,501,981	3,270,220
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)			
Current	**₱1,804,632**	₱457,514	₱491,376
Deferred	**(65,199)**	309,098	(21,549)
	1,739,433	766,612	469,827
NET INCOME	**₱3,944,629**	₱2,735,369	₱2,800,393
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱3,963,201**	₱2,830,309	₱2,892,887
Non-controlling interests (Note 23)	**(18,572)**	(94,940)	(92,494)
	₱3,944,629	₱2,735,369	₱2,800,393
BASIC EARNINGS PER SHARE (Note 25)	**₱0.806**	₱0.581	₱0.666
DILUTED EARNINGS PER SHARE (Note 25)	**₱0.805**	₱0.581	₱0.665

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱3,944,629**	₱2,735,369	₱2,800,393
OTHER COMPREHENSIVE INCOME (LOSS)			
Realized loss (gain) on fair value of hedging instruments transferred to the consolidated statements of income (Note 18)	**263,756**	(3,242)	175,198
Gain (loss) on translation of foreign subsidiaries	**(186,466)**	71,738	35,072
Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)	**(25,873)**	433,937	(46,144)
Revaluation surplus from acquisition of subsidiaries (Note 4)	**–**	1,572,385	39,012
Realized loss (gain) on disposal of AFS financial assets transferred to the consolidated statements of income (Note 11)	**–**	9,613	(127,247)
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
	51,417	2,084,431	(798,110)
TOTAL COMPREHENSIVE INCOME	**₱3,996,046**	₱4,819,800	₱2,002,283
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱4,102,771**	₱4,914,740	₱2,999,494
Non-controlling interests (Note 23)	**(106,725)**	(94,940)	(997,211)
	₱3,996,046	₱4,819,800	₱2,002,283

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(For the Years Ended December 31, 2010, 2009 and 2008)
(Amounts in Thousands, Except Par Value Per Share)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings (Note 23)	Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11 and 22)	Cumulative Translation Adjustments (Notes 18 and 22	Net Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Non-controlling Interests (Note 2)	Subtotal	Non-controlling Interests (Note 23)	Total
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**
Net income (loss)	–	–	2,892,887	–	–	–	–	–	2,892,887	(92,494)	2,800,393
Other comprehensive income (loss):											
Realized loss on fair value of hedging instruments transferred to the consolidated statement of income (Note 18)	–	–	–	–	175,198	–	–	–	175,198	–	175,198
Gain on translation of foreign subsidiaries	–	–	–	–	35,072	–	–	–	35,072	–	35,072
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	(46,144)	–	–	–	–	(46,144)	–	(46,144)
Revaluation surplus from acquisition of subsidiaries (Note 4)	–	–	–	–	–	39,012	–	–	39,012	–	39,012
Realized gain on disposal of AFS financial assets transferred to the consolidated statement of income (Note 11)	–	–	–	(127,247)	–	–	–	–	(127,247)	–	(127,247)
Adjustments on fair valuation of subsidiaries' net assets (Note 4)	–	–	–	–	–	–	–	–	–	(904,717)	(904,717)
Unrealized loss on AFS financial asset, net of related deferred income tax, removed from equity and transferred to the consolidated statement of income (Note 11)	–	–	–	30,716	–	–	–	–	30,716	–	30,716
Total comprehensive income (loss)	–	–	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 stock option plan (Note 23)	–	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
Increase in non-controlling interests (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**
Net income (loss)	–	–	2,830,309	–	–	–	–	–	2,830,309	(94,940)	2,735,369
Other comprehensive income (loss):											
Realized gain on fair value of hedging instruments transferred to the consolidated statement of income (Note 18)	–	–	–	–	(3,242)	–	–	–	(3,242)	–	(3,242)
Gain on translation of foreign subsidiaries	–	–	–	–	71,738	–	–	–	71,738	–	71,738
Unrealized gain on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	433,937	–	–	–	–	433,937	–	433,937

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(For the Years Ended December 31, 2010, 2009 and 2008)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings (Note 23)	Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11 and 22)	Cumulative Translation Adjustments (Notes 18 and 22	Net Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Non-controlling Interests (Note 2)	Subtotal	Non-controlling Interests (Note 23)	Total
Revaluation surplus from acquisition of subsidiaries (Note 4)	–	–	–	–	–	1,572,385	–	–	1,572,385	–	1,572,385
Realized loss on disposal of AFS financial assets transferred to the consolidated statement of income (Note 11)	–	–	–	9,613	–	–	–	–	9,613	–	9,613
Total comprehensive income (loss)	–	–	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	64,080	–	–	–	–	–	–	110,932	–	110,932
Increase in additional paid-in capital due to stock option plan (Note 23)	–	28,665	–	–	–	–	–	–	28,665	–	28,665
Declaration of 25% stock dividend during the year (Note 23)	972,902	–	(972,902)	–	–	–	–	–	–	–	–
Increase in non-controlling interests (Note 23)	–	–	–	–	–	–	–	–	–	154,591	154,591
Acquisition of shares of stock of non-controlling interest in a subsidiary (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**
Net income (loss)	–	–	3,963,201	–	–	–	–	–	3,963,201	(18,572)	3,944,629
Other comprehensive income (loss):											
Realized loss on fair value of hedging instruments transferred to the consolidated statement of income (Note 18)	–	–	–	–	263,756	–	–	–	263,756	–	263,756
Loss on translation of foreign subsidiaries	–	–	–	–	(98,313)	–	–	–	(98,313)	(88,153)	(186,466)
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	(25,873)	–	–	–	–	(25,873)	–	(25,873)
Total comprehensive income (loss)	–	–	3,963,201	(25,873)	165,443	–	–	–	4,102,771	(106,725)	3,996,046
Increase in additional paid-in capital due to exercise of stock option (Note 23)	21,526	35,841	–	–	–	–	–	–	57,367	–	57,367
Increase in additional paid-in capital due to stock option plan (Note 23)	–	2,043	–	–	–	–	–	–	2,043	–	2,043
Declaration of ₱0.14 per share cash dividend during the year (Note 23)	–	–	(688,072)	–	–	–	–	–	(688,072)	–	(688,072)
Acquisitions of shares of stock of non-controlling interests in subsidiaries (Note 2)	–	–	–	–	–	–	–	(256,039)	(256,039)	(36,910)	(292,949)
Deemed acquisitions of shares of stock of non-controlling interests in subsidiaries (Note 2)	–	–	–	–	–	–	–	320,530	320,530	(320,530)	–
BALANCES AT DECEMBER 31, 2010	**₱4,922,131**	**₱812,378**	**₱12,716,722**	**₱419,404**	**(₱66,174)**	**₱1,611,397**	**₱–**	**₱106,027**	**₱20,521,885**	**₱236,085**	**₱20,757,970**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,684,062**	₱3,501,981	₱3,270,220
Adjustments for:			
Depletion and depreciation (Notes 10, 15 and 29)	**887,868**	736,622	705,627
Unrealized foreign exchange losses (gains) and others - net	**470,194**	(531,919)	539,375
Loss on dilution of interest in an associate (Note 11)	**119,804**	–	–
Provision for net retirement benefits cost (Note 16)	**65,268**	88,172	86,179
Equity in net losses (earnings) of associates - net (Note 11)	**37,594**	72,624	(10,113)
Interest income (Note 6)	**(27,133)**	(188,124)	(153,850)
Interest expense (Notes 10 and 13)	**20,898**	108,047	53,543
Dividend income	**(2,823)**	–	–
Stock-based compensation expense	**2,043**	28,665	43,190
Loss (gain) on disposal of property and equipment	**2,009**	1,698	(5,656)
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	**–**	(765,897)	–
Gain on disposal of AFS financial assets (Note 11)	**–**	(126)	(84,565)
Impairment loss on AFS financial assets (Note 11)	**–**	–	226,979
Operating income before working capital changes	**7,259,784**	3,051,743	4,670,929
Decrease (increase) in:			
Accounts receivable	**(1,762,965)**	(135,711)	1,761,860
Inventories	**50,106**	116,199	(358,467)
Derivative assets	**19,975**	(19,975)	–
Other current assets	**(215,369)**	228,160	(90,829)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**190,488**	(243,290)	81,188
Derivative liabilities	**–**	(478,836)	16,450
Cash generated from operations	**5,542,019**	2,518,290	6,081,131
Income taxes paid	**(949,921)**	(357,067)	(507,401)
Retirement benefits contributions (Note 16)	**(96,000)**	(138,000)	(132,000)
Interest received	**29,142**	225,635	103,812
Interest paid	**(18,417)**	(116,170)	(52,273)
Net cash from operating activities	**4,506,823**	2,132,688	5,493,269
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Note 10)	**(1,397,949)**	(1,480,152)	(968,259)
AFS financial assets	**(24,664)**	(170,500)	(100,327)
Investments in shares of stock (Note 11)	**(775)**	(742,686)	(100,327)
Increase in deferred exploration costs and other noncurrent assets	**(1,223,377)**	(841,417)	(426,059)
Acquisition of additional interests in the following subsidiaries:			
Philex Gold Inc. (Note 2)	**(256,039)**	–	–
Forum Energy plc (Note 2)	**(36,910)**	–	–
Philex Petroleum Corporation (Note 2)	**–**	(172,704)	–
Payment of subscriptions payable (Note 11)	**(32,921)**	–	(28,524)
Net proceeds from sales of:			
Property, plant and equipment	**8,195**	596	50,487
Investments in shares of stock	**–**	–	248,138
AFS financial assets	**–**	–	103,116
Dividends received	**8,468**	5,645	–
Purchase of receivables from Anglo American Exploration (Philippines) B.V. (Note 4)	**–**	(1,288,416)	–
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 (Note 4)	**–**	–	(393,480)
Net cash used in investing activities	**(2,955,972)**	(5,865,748)	(1,762,654)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of short-term bank loans (Note 13)	**1,527,845**	711,703	4,042,596
Exercise of stock options (Note 23)	**57,367**	110,932	53,384
Reissuance of treasury shares (Note 23)	**–**	–	6,126,450
Payments of:			
Short-term bank loans (Note 13)	**(1,377,845)**	(4,750,903)	(268,028)
Dividends (Note 23)	**(649,053)**	(4,445)	(44,496)
Payments for buyback of treasury shares (Note 23)	**–**	–	(5,621,956)
Net cash from (used in) financing activities	**(441,686)**	(3,932,713)	4,287,950
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(208,032)**	(166,218)	64,233
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**901,133**	(7,831,991)	8,082,798
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,881,115**	10,713,106	2,630,308
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱3,782,248**	₱2,881,115	₱10,713,106

See accompanying Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)

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

Corporate Information

Philex Mining Corporation and its subsidiaries are organized into two main business groupings: the mining business under Philex Mining Corporation, and the oil and gas business under Philex Petroleum Corporation.

Philex Mining Corporation (the Parent Company) was incorporated in the Philippines and is listed in the Philippine Stock Exchange. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary through a holding company and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary through a holding company and PGPI, and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co., Inc. (SMMCI) 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 SMMCI, owns the Silangan Project covering the Boyongan and Bayugo deposits which are currently under the prefeasibility stage.

Philex Petroleum Corporation (PPC, a wholly-owned subsidiary of the Parent Company and incorporated in the Philippines) and its subsidiaries: Forum Energy plc (FEP, 64.5% owned subsidiary and registered in England and Wales) and its subsidiaries, and FEC Resources, Inc. (FEC, 51.2% owned subsidiary and incorporated in Canada) are engaged primarily in oil and gas operation and exploration activities, all of whom hold participations in oil and gas production and exploration activities through their investee companies. A wholly-owned subsidiary of PPC incorporated in the Philippines, Brixton Energy & Mining Corporation (BEMC), is a coal operation in the debugging stage but has engaged in coal trading since 2008.

The foregoing companies are collectively referred to as the “Group” (see Note 2) whose income is derived mainly from the Padcal Mine. Income from petroleum and coal and other sources are 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 53rd year of operation producing gold, copper and silver as principal products.

BEMC

Developmental work for the mining activities of BEMC in its coal property in Zamboanga Sibugay started in 2009 and is currently in the debugging stage prior to commercial operation. BEMC purchases coal from small-scale miners who are permitted to operate within its mine site and, in turn, sells these coal to generate revenue.

SMECI

SMECI, through SMMCI, conducted exploration activities in the Boyongan and Bayugo copper-gold deposits (referred to as the Silangan Project) since 2000 through Anglo American Exploration Philippines B.V. (Anglo), whose interest in the project was subsequently acquired by the Parent Company in 2009.

PGPI

PGPI previously operated the Bulawan mine in Negros Occidental and developed the Sibutad Project in Zamboanga del Norte. It currently holds 50% of SMMCI through SMECI, and 60% of Lascogon Mining Corporation (LMC).

FEP

FEP’s principal asset is a 70% interest in Service Contract (SC) 72 converted on February 15, 2010 from Geophysical Survey Exploration Contract (GSEC) 101, an 8,800 square kilometers offshore petroleum license situated west of Palawan Island in the South China Sea where the Sampaguita natural gas deposit is located.

The Group’s ability to realize its deferred mine and oil exploration costs amounting to ₱10,789,502 and ₱9,474,214 as of December 31, 2010 and 2009, respectively (see Note 12), depends on the success of exploration and 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) on February 23, 2011.

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 and materials and supplies that are measured at net realizable value (NRV), and for AFS financial assets and derivative financial instruments that are measured at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional and reporting currency, rounded to the nearest thousand, 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 Philippine Securities and Exchange Commission (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, 2010:

- PFRS 3, *Business Combinations (Revised)*, and Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements (Amended)*, introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect 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. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

- PAS 27 (Amended) 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. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a 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 PFRS 3 (Revised) must be applied prospectively and PAS 27 (Amended) must be applied retrospectively with a few exceptions.

- Starting January 1, 2010, total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

- PFRS 8, *Operating Segments*, 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.

- As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 5.

Adoption of the following changes in PFRS, PAS 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.

- PFRS 2, *Share-based Payments (Amendment) - Group Cash-settled Share-based Payment Transactions*

- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

Improvement to PFRS

In May 2008 and April 2009, the International Accounting Standards Board (IASB) issued omnibus amendments to the following standards, primarily with a view of removing inconsistencies and clarify wording. The adoption of the following amendments resulted in changes to accounting policies but did not have significant impact on the financial position and performance of the Group.

Issued in May 2008

PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*

Issued in April 2009
PFRS 2, *Share-based Payment*
PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
PAS 1, *Presentation of Financial Statements*

PAS 7, *Statement of Cash Flows*
PAS 17, *Leases*
PAS 36, *Impairment of Assets*
PAS 38, *Intangible Assets*
PAS 39, *Financial Instruments: Recognition and Measurement*
Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

Summary of Significant Accounting Policies

Basis of Consolidation
Basis of consolidation starting January 1, 2010
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 are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally have 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 of acquisition, being the date on which the Parent Company or the Group obtains control, directly or through the holding companies, and continue to be consolidated until the date that such control ceases. 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, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, carrying amount of any non-controlling interest (including any attributable components of other comprehensive income recorded in equity), and recognizes the fair value of the consideration received, fair value of any investment retained, and any surplus or deficit recognized in the consolidated statement of income. The Group also reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Basis of consolidation prior to January 1, 2010
The above-mentioned requirements were applied on a prospective basis. The difference, however, is carried forward in certain instances from the previous basis of consolidation. Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interests and the equity holders of the Parent Company.

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 Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owns 100% of the outstanding shares of PGPI effective April 27, 2010.
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 previously owns 100% of the outstanding shares of PGPI.
PGPI	Incorporated in the Philippines as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both now on care and maintenance status. Currently owns 50% effective interest in SMMCI through SMECI.

Subsidiaries	Nature of Business
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; 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 in 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.
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 Parent Company over the foregoing companies in 2010 and 2009 is summarized as follows:

As of December 31, 2010:

	Percentages of Ownership	
	Direct	Indirect
PGHI	100.0	–
PGMC-BV	–	100.0
PGI	–	100.0
PGPI	–	100.0
LMC	–	60.0
SMECI	–	60.0
SMMCI	–	83.3
PPC	100.0	–
BEMC	–	100.0
FEP	–	38.8
FEC	–	51.2
LMC	–	40.0
FEP	–	25.6
SMECI	40.0	–
SMMCI	16.7	–
FSTI	100.0	–
PLI	100.0	–
PIAI	100.0	–

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	–

Acquisition of additional shares of stock in FEC
On January 7, 2010, the Parent Company acquired additional 5,000,000 shares of FEC at a purchase price of United States (US) $2,500 (or ₱116,063). Following the acquisition, the Parent Company has sole ownership of and control over 225,000,000 shares of FEC, representing 51.24% of the issued and outstanding shares of FEC as of January 7, 2010.

The difference between the acquisition cost and the book value of the interest acquired amounting to ₱56,200 was recognized as "Effect of transactions with non-controlling interests" in the equity section of the consolidated balance sheets.

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 ₱185,158). On September 23, 2008, PPC completed the purchase of additional 5,935,311 shares of FEP for £2,849 (or ₱251,481). 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 required 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 holds a total of 36.77% of the outstanding shares of FEP as of December 31, 2009.

On February 24, 2010, PPC acquired additional 786,259 shares at a purchase price of £511 (or ₱36,910) representing 2.37% equity interest in FEP. As a result of the additional acquisition, PPC holds 39.14% of the issued and outstanding shares of the investee. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱4,981 was recognized as "Effect of transactions with non-controlling interests" in the equity section of the consolidated balance sheets.

On May 26, 2010, the interest of PPC over FEP was reduced to 38.82% due to the effect of dilution from exercise of options. The number of shares owned and controlled by the Parent Company, thereafter, totaled to 21,503,704 shares (64.45%), including the 25.63% interest of FEC. The interest of FEC over FEP was also reduced to 25.63% due to the effect of dilution from exercise of options. "Effect of transactions with non-controlling interests" amounting to ₱3,266 was recognized as a result of the dilution of interest in FEP.

Acquisition of non-controlling interest of PGI
On April 27, 2010, PGHI's acquisition of the non-controlling interests in PGI consisting of 7,726,310 shares representing the remaining 19% equity interest of PGI at US$0.75 per common share (a total of US$5,795 or ₱256,039) was completed (see Note 23).

As at the date of purchase, the non-controlling interest of PGI is carried at zero net book value in the consolidated balance sheet. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱256,039 was recognized as "Effect of transactions with non-controlling interests" in the equity section of the consolidated balance sheets.

As a result of the acquisition of the non-controlling interests of PGI, SMECI and SMMCI became wholly-owned subsidiaries of the Parent Company directly and indirectly through holding companies (see Note 23). The carrying values of the non-controlling interests deemed acquired amounting to ₱368,483 were recognized as "Effect of transactions with non-controlling interests."

Sale of PGPI to PGHI
On April 27, 2010, PGI sold all of its investment in the shares of stock of PGPI to PGHI, which consisted of 500,000,000 shares at a price of Canadian (Cdn) $20,460 (or ₱893,054). PGI also transferred to PGHI its deposit for future stock subscription in PGPI at a price of Cdn$61,940 (or ₱2,703,632).

Sale of FEC and BEMC to PPC
On September 24, 2010, pursuant to an internal reorganization whereby all of the energy assets of the Parent Company are to be held by PPC, the Parent Company transferred all of its investment in shares of stock representing 51.24% of FEC at a purchase price of ₱342,338.

The Parent Company also transferred to PPC all of its investments in shares of stock representing 100% of BEMC at a purchase price of 45,000.

Acquisition of Boyongan copper-gold porphyry property
On September 25, 2008, the BOD approved the Parent Company's pursuit of the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from 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) broken down as follows: 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, at that time, owns the other 50% interest, control over the property.

Sale and acquisition of non-controlling 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 represented 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 non-controlling interest disposed.

On July 22, 2009, the Parent Company acquired the 245,000,000 shares of stock of PPC from Ashmore, which represented 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 transactions with non-controlling interests" in the equity section of the 2009 consolidated balance sheet. With the acquisition, PPC became a wholly-owned subsidiary of the Parent Company.

Non-controlling Interest
Non-controlling interest represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of other comprehensive income (loss) are attributed to the equity holders of the Parent Company and to the non-controlling interest. Total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

Non-controlling interest represents the portion of profit or loss and the net assets not held by the Group. Transactions with non-controlling interest are accounted for as an equity transaction.

Investments in Associates
Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 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 changes in other comprehensive income is recognized in the consolidated statement of comprehensive income. 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.

The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31, *Interests in Joint Ventures*. On the loss of significant influence, the Group measures at fair value any investment that the Group retains in the former associate. The Group recognizes in the consolidated statement of income any difference between:

a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
b. the carrying amount of the investment at the date when significant influence is lost.

When an investment ceases to be an associate and is accounted for in accordance with PAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with PAS 39.

Investments in Joint Venture Entities

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 investment in the shares of stock of a joint venture entity, 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, 2010 (see Notes 11 and 26).

Business Combination and Goodwill

Business combinations starting January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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 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.

Business combinations prior to January 1, 2010
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.

Foreign Currency Translation of Foreign Operations

Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statements of each subsidiary 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 profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

a. assets and liabilities for each 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 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 in the consolidated statement of comprehensive income.

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, 2010 and 2009, the Group's financial assets and financial liabilities consist of derivative instruments designated as cash flow hedges, 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.

Fair value measurements are 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.

Day 1 difference
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 difference) 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" difference amount.

Derivatives and Hedging
The Group 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 Group formally designates and documents the hedge relationship to which the Group 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.

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.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, 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, 2010 and 2009, included under loans and receivables are the Group's cash and cash equivalents excluding cash on hand, and accounts receivable.

AFS Financial Assets
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 financial assets 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 (loss) 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 "Dividend 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, 2010 and 2009.

Other Financial Liabilities
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 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, 2010 and 2009, included in other financial liabilities are the Group's short-term bank loan, accounts payable and accrued liabilities, dividends payable and subscriptions payable.

Offsetting Financial Instruments
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 a 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. When 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 the consolidated statement of income 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, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If subsequently, the fair value of a debt instrument increases and that 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.

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.

Costs of mine products include all mine and milling costs incurred in the production of copper concentrates. Costs of mine products are recognized in the year they are incurred.

Costs of coal include all mining and mine-related costs and cost of purchased coal from small-scale miners. These costs are aggregated to come up with the total coal inventory cost. Unit cost is determined using the moving average method.

Costs of materials and supplies comprise all costs of purchase and other costs incurred in bringing the materials and supplies to their present location and condition. The purchase cost is determined on a moving average basis.

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. 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 liabilities of the Group upon approval by the Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depletion and depreciation and accumulated impairment in value, if any. Land is stated at cost less any accumulated impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation to that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

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 recognized 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, 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 Parent Company's Padcal Mine and BEMC's Coal 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 nor 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 or when the project is abandoned, the deferred oil and mine exploration costs associated with the project and the related impairment provisions 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 Group. 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 they are incurred.

Impairment of Noncurrent Non-financial Assets

The Group's noncurrent non-financial assets include property, plant and equipment, investments in shares of stock and other noncurrent assets. The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. If any 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.

Provision for Mine Rehabilitation Costs

The Group records the present value of estimated costs of legal and constructive obligations required to restore the mine site upon termination of the mine operations. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and settling ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment is disturbed at the mine site. When the liability is initially recognized, the present value of the estimated cost is capitalized as part of the carrying amount of the related mining assets.

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

Cash and property dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company. Stock dividends are treated as transfers from retained earnings to capital stock.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Treasury Stock
Own equity instruments, which are reacquired (treasury stock), 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.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

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 for marketing charges to reflect the NRV 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, on the date of shipment to customers when the coal is loaded into the Group's or customers' loading facilities.

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

Cost and Expense Recognition
Costs and expenses are recognized in the consolidated statement of income in the year they are incurred. The following specific cost and expense recognition criteria must also be met before costs and expenses are recognized:

Mining and milling costs
Mining and milling costs, which include all direct materials, power and labor costs and other costs related to the mining and milling operations, are expensed as incurred.

Mine product taxes and royalties
Mine product taxes pertain to the excise taxes paid or accrued by the Parent Company for its legal obligation arising from the production of copper concentrates. Also, the Parent Company is paying for royalties which are due to the claim owners of the land where the mine site operations were located. These mine product taxes and royalties are expensed as incurred.

General and administrative expenses
General and administrative expenses constitute the costs of administering the business and are expensed as incurred.

Retirement Benefits Costs
Retirement benefits costs are 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 net retirement 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 such aggregate is negative, the net retirement plan assets are measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, 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 at 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 profit or loss, 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, 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 but are disclosed in the notes to the consolidated financial statements 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.

Basic 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.

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, 2010. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have any significant impact on its consolidated financial statements.

Effective in 2011

- PAS 24, *Related Party Disclosures (Amendment)*, clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities.

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issue,* amends the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*, an interpretation of PAS 19, *Employee Benefits,* provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in the consolidated statement of income.

Improvements to PFRS
In May 2010, the IASB issued omnibus of amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording.

- PFRS 3, *Business Combinations (Revised)*, clarifies that the amendments to PFRS 7, PAS 32 and PAS 39 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3.

- PFRS 7, *Financial Instruments: Disclosures (Amendment)*, emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments which should be applied retrospectively.

- PAS 1, *Presentation of Financial Statements (Amendment)*, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements.

- PAS 27, *Consolidated and Separate Financial Statements (Amendment)*, clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures*, apply prospectively for annual periods beginning on or after July 1, 2010 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (Amendment)*, clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

Effective in 2012

- PFRS 7, *Financial Instruments: Disclosures (Amendments) - Transfers of Financial Assets*, allows users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*, provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*, 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.

Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in the middle of 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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 any 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.

Judgments

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, 2010 and 2009, deferred income tax assets recognized in the consolidated balance sheets amounted to ₱371,146 and ₱464,504, 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 sheet.

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

Accounting Estimates and Assumptions

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 revenue
Mine products revenue is 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 mine products 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 products revenue, gross of marketing charges, amounted to ₱13,064,458, ₱8,932,886 and ₱9,708,037 in 2010, 2009 and 2008, respectively.

Impairment of loans and receivables
The Group maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectibility of its loans and receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

The Group did not assess its loans and receivables for collective impairment due to the few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. 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 ₱5,962,680 and ₱3,398,230 as of December 31, 2010 and 2009, respectively (see Note 17). Allowance for impairment on these financial assets as of December 31, 2010 and 2009 amounted to ₱2,303 and ₱2,446, 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. There were no impairment losses on AFS financial assets in 2010 and 2009 (see Note 11). As of December 31, 2010 and 2009, the carrying value of AFS financial assets amounted to ₱886,737 and ₱756,948, 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. Where an indicator exists, impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. 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 2010 and 2009 and the carrying value of goodwill as of December 31, 2010 and 2009 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, which can be derived 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, 2010 and 2009 amounted to ₱169,104 and ₱136,217, 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
The Group carries material and supplies inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence or other causes. When it is evident that the NRV is lower than its cost based on physical appearance and condition of materials and supplies, an allowance for inventory obsolescence is provided. Inventory write-down amounting to ₱59,730 was recognized in 2010 and nil in 2009. The carrying value of materials and supplies inventories amounted to ₱909,906 and ₱1,008,326 as of December 31, 2010 and 2009, respectively (see Note 8).

Estimation of fair value of identifiable net assets of an acquiree in a business combination
The Group applies the acquisition 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 depreciable property, plant and equipment, except for mine and mining properties, based on internal technical evaluation and experience. These estimated useful lives 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. For mine and mining properties which were depreciated based on units-of production, the Group estimates and periodically reviews the remaining recoverable reserves to ensure that remaining reserves are reflective of the current condition of the mine and mining properties. The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2.

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 and concentration of mineral resource. The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of the mine, 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.

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 ₱31,709 and ₱33,700 as of December 31, 2010 and 2009, respectively (see Note 10).

Impairment of noncurrent non-financial assets
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. The Group assesses whether there are indications of impairment on its noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and

operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. No impairment losses were recognized in 2010 and 2009 in view of the significantly improved profitability of the Group. As of December 31, 2010 and 2009, the carrying value of noncurrent non-financial assets amounted to ₱16,756,449 and ₱15,340,560, respectively (see Notes 10, 11 and 12).

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 equity 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 is recognized in the consolidated statements of income and in the consolidated statements of comprehensive income.

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. In 2010 and 2009, payments were made for a total of ₱27,380 and ₱81,145, respectively, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation in 2009 and nil in 2010. Additional provision in 2010 and 2009 amounted to ₱75,000 and ₱41,000, respectively. Total provision for losses amounted to ₱644,481 and ₱561,628 as of December 31, 2010 and 2009, respectively (see Note 28).

Estimation of net retirement benefits liability (plan assets) and costs
The Group's net retirement benefits costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Group's net retirement plan asset which is recorded as part of "Deferred exploration costs and other noncurrent assets" amounted to ₱408 as of December 31, 2010 (see Note 12), while the Group's net retirement benefits liability amounted to ₱30,324 as of December 31, 2009. The related net retirement benefits costs amounted to ₱65,268, ₱88,172 and ₱86,179 for the years ended December 31, 2010, 2009 and 2008, 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 SMECI and SMMCI, the companies holding the Silangan Project at that time, 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
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, including the 28.42% interest of FEC, brought the total number of shares owned and controlled by the Group to 61.46%, 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	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 liabilities	12,427	12,427
Contingent liability	387,374	–
Other payables	183,817	183,817
	583,618	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 non-controlling 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 net income (loss) for the year, earnings before interest, taxes and depreciation and depletion (EBITDA), and core net income (loss).

Net income (loss) for the year is measured consistent with consolidated net income (loss) in the consolidated statements of income. EBITDA is measured as net income excluding interest expense, interest income, provision for (benefit from) income tax, and depreciation and depletion of property, plant and equipment.

The Group started using core net income (loss) in evaluating total performance in 2009. Core income is the performance of operating segments based on a measure of recurring profit. This measurement basis is determined as profit attributable to equity holders of the Parent Company excluding the effects of non-recurring items, net of their tax effects. Non-recurring items represent gains (losses) that, through occurrence or size, are not considered usual operating items, such as foreign exchange gains (losses), gains (losses) on derivative instruments, gains (losses) on disposal of investments, and other non-recurring gains (losses).

The Group added the disclosure on core net income in 2009 and the disclosure on EBITDA in 2009 and 2008.

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

December 31, 2010:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱12,350,440	₱329,511	₱–	₱–	₱12,679,951
Inter-segment	–	–	–	–	–
Consolidated revenue	12,350,440	329,511	–	–	12,679,951
Results					
EBITDA	₱6,797,743	(₱186,280)	(₱24)	(₱45,744)	₱6,565,695
Interest income (expense) - net	8,905	(2,821)	151	–	6,235
Income tax expense	(1,734,459)	(4,974)	–	–	(1,739,433)
Depreciation and depletion	(885,612)	(2,256)	–	–	(887,868)
Consolidated net income (loss)	**₱4,186,577**	**(₱196,331)**	**₱127**	**(₱45,744)**	**₱3,944,629**
Core net income (loss)	**₱4,229,586**	**(₱54,106)**	**₱127**	**(₱25,063)**	**₱4,150,544**
Consolidated total assets	**₱25,811,615**	**₱4,803,679**	**₱6,035**	**(₱4,968,609)**	**₱25,652,720**
Consolidated total liabilities	**₱8,573,620**	**₱1,577,946**	**₱47**	**(₱5,256,863)**	**₱4,894,750**
Other Segment Information					
Capital expenditures	₱2,506,548	₱114,778	₱–	₱–	₱2,621,326
Investments in shares of stocks	4,275,755	1,950,006	–	(5,392,406)	833,355
Equity in net losses of associates	–	(37,594)	–	–	(37,594)
Non-cash expenses other than depletion and depreciation	420,845	119,804	–	–	540,649

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					
EBITDA	₱3,601,395	(₱248,360)	(₱426)	₱805,917	₱4,158,526
Interest income - net	79,145	742	190	–	80,077
Income tax benefit (expense)	(769,280)	2,668	–	–	(766,612)
Depreciation and depletion	(633,564)	(103,058)	–	–	(736,622)
Consolidated net income (loss)	₱2,277,696	(₱348,008)	(₱236)	₱805,917	₱2,735,369
Core net income (loss)	₱1,989,425	(₱180,780)	(₱766,133)	₱806,741	₱1,849,253
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					
Capital expenditures	₱1,209,843	₱1,111,726	₱–	₱–	₱2,321,569
Investments in shares of stocks	4,983,176	1,035,317	–	(4,881,738)	1,136,755
Equity in net losses of associates	–	(72,624)	–	–	(72,624)
Non-cash expenses other than depletion and depreciation	53,465	–	–	–	53,465

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					
EBITDA	₱3,958,049	(₱88,000)	(₱283)	₱5,774	₱3,875,540
Interest income - net	97,364	2,813	130	–	100,307
Income tax expense	(466,513)	(3,314)	–	–	(469,827)
Depreciation and depletion	(639,214)	(66,413)	–	–	(705,627)
Consolidated net income (loss)	₱2,949,686	(₱154,914)	(₱153)	₱5,774	₱2,800,393
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					
Capital expenditures	₱1,255,582	₱138,736	₱–	₱–	₱1,394,318
Investments in shares of stocks	1,231,362	1,028,926	–	(2,000,000)	260,288
Equity in net earnings of associates	–	10,113	–	–	10,113
Non-cash expenses other than depletion and depreciation	1,319,938	–	–	–	1,319,938

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2010 and 2009.

	2010	2009
Core net income	**₱4,150,544**	₱1,849,253
Non-recurring gains (losses):		
Loss on dilution of interest in an associate	**(119,804)**	–
Foreign exchange losses	**(96,485)**	(68,875)
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination	**–**	765,897
Mark-to-market gain on derivative instruments	**–**	470,102
Loss on disposal of investment in shares of stocks	**–**	(63,000)
Net tax effect of aforementioned adjustments	**28,946**	(123,068)
Net income attributable to equity holders of the Parent Company	**3,963,201**	2,830,309
Net income attributable to non-controlling interests	**(18,572)**	(94,940)
Consolidated net income	**₱3,944,629**	₱2,735,369

Pan Pacific Copper Co., Ltd. (Pan Pacific) is the main customer in the mining segment of the Group. Gross revenue from Pan Pacific amounted to ₱10,394,702, ₱9,065,805 and ₱8,288,289 in 2010, 2009 and 2008, respectively.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash on hand and in banks	**₱270,568**	₱2,122,499
Short-term deposits	**3,511,680**	758,616
	₱3,782,248	₱2,881,115

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 ₱27,133, ₱188,124 and ₱153,850 in 2010, 2009 and 2008, respectively.

7. Accounts Receivable

Accounts receivable consist of:

	2010	2009
Trade - net of allowance for doubtful accounts of ₱628 and ₱771 as of December 31, 2010 and 2009, respectively	**₱2,095,625**	₱409,192
Accrued interest	**10,248**	12,257
Others - net of allowance for doubtful accounts of ₱1,675 as of December 31, 2010 and 2009	**74,559**	95,666
	₱2,180,432	₱517,115

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.

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

Other receivables include advances to officers and employees, and other non-trade receivables.

The following table is a rollforward analysis of the allowance for doubtful accounts recognized on accounts receivable:

	2010	2009
January 1		
Trade	₱771	₱–
Others	1,675	628
Provisions during the year		
Trade	–	771
Others	–	1,047
Reversals during the year		
Trade	(143)	–
Others	–	–
December 31	₱2,303	₱2,446

The impaired receivables were specifically identified as of December 31, 2010 and 2009.

8. Inventories

Inventories consist of:

	2010	2009
Mine products - at NRV	₱169,104	₱136,217
Coal - at cost	14,626	1,676
Materials and supplies:		
On hand:		
At cost	827,557	836,729
At NRV	29,839	71,660
In transit - at cost	52,510	99,937
	₱1,093,636	₱1,146,219

As of December 31, 2010 and 2009, the cost of materials and supplies inventories on hand that are carried at NRV amounted to ₱224,940 and ₱207,031, respectively. Related allowance for inventory obsolescence amounted to ₱195,101 and ₱135,371 as of December 31, 2010 and 2009, respectively. Materials and supplies recognized as expense amounted to ₱1,679,576 and ₱1,528,097 for the years ended December 31, 2010 and 2009, respectively (see Note 15).

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:

	2010	2009
Cost	₱137,096	₱137,427
NRV	29,839	34,328

9. Other Current Assets

Other current assets consist of:

	2010	2009
Input tax recoverable - net of allowance for probable loss of ₱154,842 as of December 31, 2010 and 2009	₱660,092	₱389,012
Prepaid expenses and others	34,533	68,833
	₱694,625	₱457,845

10. Property, Plant and Equipment

Property, plant and equipment consist of:

As of December 31, 2010:

	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	₱7,163,560	₱258,212	₱5,585,163	₱99,779	₱261,505	₱2,197,683	₱15,565,902
Additions	635,091	31,083	674,519	11,429	113,576	–	1,465,698
Disposals	–	–	(170,066)	–	–	–	(170,066)
Reclassifications within the "Property, plant and equipment" account	39,534	–	290,144	414	(330,092)	–	–
December 31	7,838,185	289,295	6,379,760	111,622	44,989	2,197,683	16,861,534
Accumulated Depletion and Depreciation							
January 1	4,933,946	212,128	3,463,126	90,127	–	2,197,683	10,897,010
Depletion and depreciation for the year (Note 15)	586,527	3,082	437,045	2,703	–	–	1,029,357
Disposals	–	–	(159,862)	–	–	–	(159,862)
December 31	5,520,473	215,210	3,740,309	92,830	–	2,197,683	11,766,505
Net Book Values	₱2,317,712	₱74,085	₱2,639,451	₱18,792	₱44,989	₱–	₱5,095,029

* *Cost of land amounts to ₱58,735. This also includes capitalized costs of mine rehabilitation of ₱18,687 and related accumulated amortization of ₱9,232. In 2010, the Mine Rehabilitation and Decommissioning Plan costs of BEMC was updated for the change in discount rate, which resulted to a decrease of ₱4,373.*

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 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 ₱31,787. This also includes capitalized costs of mine rehabilitation of ₱23,060 and related accumulated amortization of ₱7,837. In 2009, the mine life of the Parent Company's Padcal Mine was extended from 2014 to 2017, which resulted to a decrease in Mine Rehabilitation and Decommissioning Plan costs of ₱1,573.*

Mine and mining properties as of December 31, 2010 and 2009 include mine development cost of the 782 Meter Level project amounting to ₱846,229 and ₱663,340, respectively. In 2009, the estimated mine life of the Parent Company's Padcal Mine 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 ₱141,489 and ₱115,914 in 2010 and 2009, respectively, are capitalized under deferred exploration costs which relate to projects that are currently ongoing for BEMC, SMMCI, PGPI and LMC.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to ₱8,900 and ₱10,293 as of December 31, 2010 and 2009, 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 ₱12,942 and ₱10,640 as of December 31, 2010 and 2009, respectively.

In 2010, BEMC transferred the deferred mine exploration and development costs amounting to ₱72,122 to mine and mining properties under the "Property, plant and equipment" account. Included in the mine and mining properties is the present value of the BEMC's mine rehabilitation costs amounting to ₱557 and ₱4,930 as of December 31, 2010 and 2009, respectively (see Note 29). Discount rate of 14% was used to compute the present value of mine rehabilitation costs as of December 31, 2010. Accretion of interest totaled ₱80 in 2010 and nil in 2009. Accordingly, the provision for mine rehabilitation costs amounted to ₱637 and ₱4,930 as of December 31, 2010 and 2009, 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:

	2010	2009
Investments in quoted shares of stock of:		
Indophil Resources NL (Indophil)	**₱644,001**	₱685,696
PetroEnergy Resources Corporation (PERC)	**170,771**	–
Philippine Realty & Holdings Corporation (PRHC)	**50,060**	50,746
The Philodrill Corporation (Philodrill)	**4,163**	4,163
Other quoted equity investments	**3,182**	1,783
	872,177	742,388
Investments in unquoted shares of stock of:		
Philippine Associated Smelting and Refining Corporation	**14,055**	14,055
Other unquoted equity investments	**505**	505
	14,560	14,560
	₱886,737	₱756,948

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 reliable valuation as of balance sheet date.

As of December 31, 2010 and 2009, the cumulative increase in value of AFS financial assets amounted to ₱577,585 and ₱614,390, respectively, net of deferred income tax liability of ₱158,181 and ₱169,113 as of December 31, 2010 and 2009, respectively. 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.

Dilution of interest in PERC
The investment in the shares of stock of PERC was previously recognized as investment in associate and was accounted for using the equity method.

On June 2, 2010, PERC issued a 1:1 stock rights offer to its stockholders at an offer price of ₱5.00 per share. The offer period commenced on June 28, 2010 and ended on July 2, 2010. PPC did not avail of the stock rights offering of PERC, thus reducing its ownership interest from 20.62% to 10.31% on July 2, 2010. The management assessed that PPC ceased to have significant influence over PERC. The fair value of the investment in shares of PERC as at the date of loss of significant influence amounting to ₱141,132 was reclassified as AFS financial assets.

The difference amounting to ₱119,804 between the fair value and the carrying value of the investment in shares of stock of PERC as at the date of loss of significant influence was recognized as "Loss on dilution of interest in an associate" in the consolidated statement of income.

The following are the summarized financial information of PERC as of December 31, 2009 whose financial statements are stated in US dollar 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 income statement accounts in 2009:

	2009
Total assets	**₱1,020,778**
Total liabilities	**41,483**
Revenue	**413,613**
Net income	**80,634**

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 tables summarize 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 Asset	Proceeds from Sale	Gain on Sale of AFS Financial Asset
Philodrill	₱18,551	₱103,116	₱84,565

Unrealized loss on decrease in fair value amounting to 2,312 in 2009 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 shares that were disposed, were also transferred from equity to consolidated statement of income in 2009.

The following table shows the movements of the "Net unrealized gain (loss) on AFS financial assets" account:

	2010	2009	2008
January 1	**₱445,277**	₱1,727	₱144,402
Net increase (decrease) in value of AFS financial assets	**(25,873)**	433,937	(46,144)
Realized loss on disposal of AFS financial assets	**–**	9,613	(127,247)
Unrealized loss on AFS financial asset, removed from equity and transferred to the consolidated statement of income	**–**	–	30,716
December 31	**₱419,404**	₱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:

	2010	2009
Acquisition Costs		
January 1	**₱1,213,378**	₱258,642
Additional acquisition during the year	**775**	742,686
Deemed disposal of investment in an associate - PERC	**(255,173)**	–
Reclassification - Pitkin Petroleum Plc (Pitkin)	**–**	212,050
December 31	**958,980**	1,213,378
(Forward)		
Accumulated Equity in Net Losses		
January 1	**(76,623)**	1,646
Equity in net losses for the year	**(37,594)**	(72,624)
Deemed disposal of investment in an associate - PERC	**(5,763)**	–
Dividends received	**(5,645)**	(5,645)
December 31	**(125,625)**	(76,623)
	₱833,355	₱1,136,755

Investments in Joint Ventures

As of December 31, 2010, investments in joint ventures include investments in shares of stock of MECI (see Note 26) that are accounted for at equity.

The Group's proportionate ownership interests in MECI and its subsidiary as of December 31, 2010 and 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 following are the summarized consolidated financial information of MECI and its subsidiary as of December 31:

	2010	2009
Current assets	**₱52**	₱52
Noncurrent assets	**89,035**	87,800
Current liabilities	**89,021**	87,095
Equity	**66**	757
Net loss	**691**	341

The joint venture has no contingent liabilities or capital commitments as of December 31, 2010 and 2009.

Investments in Associates

Investments in associates pertain to the Group's investments in the shares of stock of Pitkin. Pitkin is a UK-based oil and gas exploration and production company registered in England and Wales. As of December 31, 2010 and 2009, the Group holds 21.00% ownership interest in Pitkin. The investment was accounted for using the equity method as of December 31, 2010 and 2009.

Acquisition of additional 7.3% in Pitkin

On March 17, 2009, the Parent Company subscribed to additional 14,000,000 shares of Pitkin for the aggregate amount of US$14,000 (or ₱679,601). The subscription brings the total holdings of the Parent Company to 18,000,000 shares. PPC also holds 6,000,000 shares in Pitkin, bringing the total holdings of the Group to 24,000,000 shares, or 21.00% ownership interest. The investment in Pitkin was reclassified from AFS financial asset to investment in associate and was accounted for under the equity method.

Sale of Parent Company's investment in shares of stock of Pitkin to PPC
On September 24, 2010, PPC purchased from the Parent Company all of its investment in shares of stock of Pitkin, which consists of 18,000,000 shares at a purchase price of ₱766,346.

The following are the summarized financial information of Pitkin as of December 31, 2010 and 2009, respectively. Pitkin's financial statements are stated in US dollar and translated at the closing rate of US$1:₱43.84 and US$1:₱46.20 as of December 31, 2010 and 2009, respectively, for balance sheet accounts, and average rate of US$1:₱45.12 and US$1:₱47.64 for the income statement accounts in 2010 and 2009, respectively.

	2010	2009
Total assets	**₱813,986**	₱972,577
Total liabilities	**34,643**	70,700
Total equity	**779,343**	901,877
Revenue	**171,077**	30,754
Net loss	**88,121**	201,515

Subscriptions Payable

Subscriptions payable which is included as part of "Provisions and subscription payable" in the consolidated balance sheets as of December 31, 2010 and 2009 is related to the investments in shares of stock of PRHC and Philodrill amounting to ₱21,995 and ₱54,916, respectively.

12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

	2010	2009
Deferred mine exploration costs (Note 4)	**₱10,757,136**	₱9,423,316
Less allowance for unrecoverable portion	**888,060**	888,060
	9,869,076	8,535,256
Deferred oil exploration costs (Note 4)	**1,006,993**	1,025,525
Less allowance for unrecoverable portion	**86,567**	86,567
	920,426	938,958
Others	**85,998**	108,134
Less allowance for unrecoverable portion	**47,435**	47,435
	38,563	60,699
	₱10,828,065	₱9,534,913

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 the "Advances to related parties". 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 has not yet become a subsidiary of the Parent Company 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 pertain 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 two to three years.

b. Included in "Others" are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (RA) 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, 2010 and 2009, the Parent Company's MRF amounted to ₱5,769 and ₱5,685, respectively, while PGPI's MRF amounted to ₱6,449 and ₱6,440, respectively.

c. Included in "Others" is the Group's net retirement plan assets amounting to ₱408 as of December 31, 2010, which is the aggregate of the fair value of plan assets and unrecognized past service cost, reduced by the present value of the defined benefits obligation and unrecognized actuarial gains and losses (see Note 16).

13. Short-term Bank Loan

Short-term bank loan as of December 31, 2010 consists of BEMC's six-month, with Parent Company guarantee, interest-bearing promissory note obtained from the Bank of the Philippine Islands amounting to ₱150,000. The proceeds of the note were used to partially pay the advances of the Parent Company to BEMC. Initially, the note matured on December 26, 2010 but it was renewed for another six months. With the renewal of the promissory note, the note matures on June 24, 2011. The interest rate of the note was initially fixed at 5% but it is subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. Interest expense arising from the short-term bank loan amounted to ₱3,749 in 2010.

The Parent Company also obtained unsecured US dollar-denominated short-term bank loans from various local banks in 2010 and 2009. These bank loans were repriced every 30 to 120 days, with interest rates ranging from 2.5% to 2.85%, and 3.30% to 6.40% in 2010 and 2009, respectively. As of December 31, 2010 and 2009, all of the Parent Company's bank loans have been fully paid. Interest expense arising from short-term bank loans amounted to ₱14,457 and ₱105,916 in 2010 and 2009, respectively.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2010	2009
Trade	**₱386,072**	₱302,754
Accrued royalties and excise taxes	**254,413**	109,656
Accrued expenses	**161,007**	243,819
Withholding taxes	**41,739**	52,023
Accrued interest	**99**	–
Trust receipts and acceptances	**–**	59,354
Other nontrade liabilities	**125,176**	99,284
	₱968,506	₱866,890

Accrued expenses consist primarily of accrued contracted services and other outside services. Other nontrade liabilities include payroll-related liabilities.

15. Costs and Expenses

Costs and expenses include the following:

	2010	2009	2008
Mining and milling costs:			
Materials and supplies	**₱1,668,675**	₱1,500,571	₱1,309,586
Communications, light and water	**1,036,347**	989,110	889,569
Depletion and depreciation (Note 10)	**871,340**	724,838	696,174
Personnel (Note 16)	**815,590**	810,162	788,163
Contracted services	**473,919**	390,544	374,698
Others	**100,833**	108,968	106,163
	₱4,966,704	₱4,524,193	₱4,164,353
General and administrative expenses:			
Contracted services	**₱187,677**	₱101,344	₱25,405
Personnel (Note 16)	**176,472**	172,195	158,077
Taxes and licenses	**117,250**	233,435	44,606
Travel and transportation	**38,008**	8,411	11,317
Depreciation (Note 10)	**16,528**	11,784	9,453
Communications, light and water	**12,669**	7,560	5,972
Donations	**10,168**	27,337	37,216
Office supplies	**6,415**	4,029	13,107
Repairs and maintenance	**6,377**	6,905	6,740
Representation	**5,586**	629	6,842
Exploration supplies	**4,486**	23,497	11,350
Others	**83,062**	251,804	206,942
	₱664,698	₱848,930	₱537,027
Mine products taxes and royalties:			
Royalties	**₱459,282**	₱322,480	₱367,029
Excise taxes	**253,254**	164,745	211,033
	₱712,536	₱487,225	₱578,062

Other general and administrative expenses include security, janitorial and other outside services, and general miscellaneous expenses.

16. Retirement Benefits

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 retirement benefits costs recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets:

Net retirement benefits costs:

	2010	2009	2008
Current service cost	₱51,352	₱47,790	₱49,902
Interest cost on defined benefits obligation	70,776	58,711	52,542
Expected return on plan assets	(62,802)	(41,709)	(46,943)
Amortization of past service cost	5,942	5,942	5,942
Net actuarial loss recognized during the year	–	17,438	24,736
	₱65,268	₱88,172	₱86,179
Portions recognized in:			
Mining and milling costs (Note 15)	56,130	75,828	74,114
General and administrative expenses (Note 15)	9,138	12,344	12,065
	₱65,268	₱88,172	₱86,179
Actual return (loss) on plan assets	₱126,974	₱103,697	(₱151)

Net retirement benefits liability (plan assets):

	2010	2009
Defined benefits obligation	₱1,085,575	₱943,686
Fair value of plan assets	(1,054,479)	(897,172)
	31,096	46,514
Unrecognized net actuarial losses	(25,562)	(4,306)
Unrecognized past service cost	(5,942)	(11,884)
	(₱408)	₱30,324

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 benefits obligation are as follows:

	2010	2009
January 1	₱943,686	₱939,377
Current service cost	51,352	47,790
Interest cost on defined benefits obligation	70,776	58,711
Benefits paid	(65,667)	(39,673)
Actuarial losses (gains) on obligation	85,428	(62,519)
December 31	₱1,085,575	₱943,686

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

	2010	2009
January 1	₱897,172	₱695,148
Expected return on plan assets	62,802	41,709
Actuarial gains on plan assets	64,172	61,988
Actual contributions to the plan	96,000	138,000
Benefits paid	(65,667)	(39,673)
December 31	₱1,054,479	₱897,172

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

	2010	2009
Cash and cash equivalents	3%	1%
Investments in debt securities	80%	95%
Investments in equity securities	15%	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 actuarial funding requirement in 2011 is nil, however, the intention is to continue regular contributions to the fund.

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

	January 1		
	2010	2009	2008
Number of employees	**2,235**	2,196	2,221
Discount rate per annum	**7.5%**	6.25%	5.66%
Expected annual rate of return on plan assets	**7%**	6%	8%
Future annual increase in salary	**10%**	10%	10%

The latest actuarial valuation is as of December 31, 2010. The discount rate used was 4.85%.

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

	2010	2009	2008	2007	2006
Defined benefits obligation	**(₱1,085,575)**	(₱943,686)	(₱939,377)	(₱928,311)	(₱895,965)
Plan assets	**1,054,479**	897,172	695,148	586,790	478,542
Deficit	**(31,096)**	(46,514)	(244,229)	(341,521)	(417,423)
Experience adjustment on plan liabilities	**(57,887)**	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, 2010		December 31, 2009	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**₱270,568**	**₱270,568**	₱2,122,499	₱2,122,499
Short-term deposits	**3,511,680**	**3,511,680**	758,616	758,616
Accounts receivable:				
Trade	**2,095,625**	**2,095,625**	409,192	409,192
Accrued interest	**10,248**	**10,248**	12,257	12,257
Others	**74,559**	**74,559**	95,666	95,666
Derivative assets	**–**	**–**	19,975	19,975
AFS financial assets:				
Quoted equity investments	**872,177**	**872,177**	742,388	742,388
Unquoted equity investments	**14,560**	**14,560**	14,560	14,560
Total	**₱6,849,417**	**₱6,849,417**	₱4,175,153	₱4,175,153

(Forward)

	December 31, 2010		December 31, 2009	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Liabilities				
Short-term bank loan	**₱150,000**	**₱150,000**	₱–	–
Accounts payable and accrued liabilities:				
Trade	**386,072**	**386,072**	302,754	302,754
Accrued expenses	**161,007**	**161,007**	243,819	243,819
Accrued interest	**99**	**99**	–	–
Trust receipts and acceptances	**–**	**–**	59,354	59,354
Other nontrade liabilities	**106,729**	**106,729**	82,340	82,340
Dividends payable	**207,875**	**207,875**	168,856	168,856
Subscriptions payable	**21,995**	**21,995**	54,916	54,916
Total	**₱1,033,777**	**₱1,033,777**	₱912,039	₱912,039

The carrying values of cash and cash equivalents, accounts receivable, short-term bank loan, 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 based on observable market data.

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

The fair value hierarchy of the financial assets as of December 31, 2010 and 2009 are presented below:

December 31, 2010:

	Level 1	Level 2	Level 3	Total
AFS quoted financial assets	**₱872,177**	**₱–**	**₱–**	**₱872,177**

December 31, 2009:

	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 years ended December 31, 2010 and 2009, there were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

Categories of Financial Assets:

	December 31, 2010	December 31, 2009
Cash on hand	**₱3,061**	₱2,454
Loans and receivables:		
Cash and cash equivalents:		
Cash in banks	**267,507**	2,120,045
Short-term deposits	**3,511,680**	758,616
Accounts receivable:		
Trade	**2,095,625**	409,192
Accrued interest	**10,248**	12,257
Others	**74,559**	95,666
	5,959,619	3,395,776
AFS financial assets:		
Quoted equity investments	**872,177**	742,388
Unquoted equity investments	**14,560**	14,560
	886,737	756,948
Derivatives designated as cash flow hedges - derivative assets	**–**	19,975
	₱6,849,417	₱4,175,153

All financial liabilities of the Group as of December 31, 2010 and 2009 are categorized as "Other financial liabilities".

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, accounts receivable, AFS financial assets, short-term bank loan 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 and approval of the 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, interest rate risk, equity price risk and commodity price risk. The BOD reviews and approves the policies for managing these risks and they are summarized as follows:

Credit and concentration risks

Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade 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 (see Note 7) with whom the Parent Company has a long-term sales agreement. Related discussion on the sale of the Parent Company's mine products to Pan Pacific is in Note 27. This agreement is effective until the end of the Padcal mine life currently declared as 2017 but with possibility of future extension. The balance of the Parent Company's annual mineral products sales is with Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) which is covered by a long-term sales agreement up to April 1, 2012.

Credit risk may also arise from the Group's other financial assets, 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, 2010 and 2009:

	2010	2009
Cash and cash equivalents, excluding cash on hand:		
Cash in banks	**₱267,507**	₱2,120,045
Short-term deposits	**3,511,680**	758,616
Accounts receivable:		
Trade	**2,095,625**	409,192
Accrued interest	**10,248**	12,257
Others	**74,559**	95,666
AFS financial assets:		
Quoted equity investments	**872,177**	742,388
Unquoted equity investments	**14,560**	14,560
Derivative assets	**–**	19,975
Gross maximum credit risk exposure	**₱6,846,356**	₱4,172,699

The following tables show the credit quality of the Group's financial assets by class as of December 31, 2010 and 2009 based on the Group's credit evaluation process:

As of December 31, 2010:

	Neither past due nor impaired		Past due and individually impaired	
	High-Grade	Standard		Total
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	**₱267,507**	**₱–**	**₱–**	**₱267,507**
Short-term deposits	**3,511,680**	**–**	**–**	**3,511,680**

(Forward)

	Neither past due nor impaired		Past due and individually impaired	Total
	High-Grade	Standard		
Accounts receivable:				
Trade	**2,095,625**	**–**	**628**	**2,096,253**
Accrued interest	**10,248**	**–**	**–**	**10,248**
Others	**74,559**	**–**	**1,675**	**76,234**
AFS financial assets:				
Quoted equity investments	**–**	**872,177**	**–**	**872,177**
Unquoted equity investments	**–**	**14,560**	**–**	**14,560**
Total	**₱5,959,619**	**₱886,737**	**₱2,303**	**₱6,848,659**

As of December 31, 2009:

	Neither past due nor impaired		Past due and individually impaired	Total
	High-Grade	Standard		
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
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

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

High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Standard-grade credit quality financial asset includes quoted and 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, 2010 and 2009.

Liquidity risk

Liquidity risk is the risk where the Group becomes unable to meet its 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 tables below summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contracted undiscounted repayment obligations (including interest) as of December 31, 2010 and 2009, respectively:

As of December 31, 2010:

	On demand	Within 1 year	More than 1 year	Total
Cash and cash equivalents	**₱3,782,248**	**₱–**	**₱–**	**₱3,782,248**
Accounts receivable:				
Trade	**–**	**2,095,625**	**–**	**2,095,625**
Accrued interest	**–**	**10,248**	**–**	**10,248**

(Forward)

	On demand	Within 1 year	More than 1 year	Total
Others	–	74,559	–	74,559
AFS financial assets:				
Quoted equity investments	–	–	872,177	872,177
Unquoted equity investments	–	–	14,560	14,560
Total undiscounted financial assets	₱3,782,248	₱2,180,432	₱886,737	₱6,849,417
Short-term bank loan	₱–	₱150,099	₱–	₱150,099
Accounts payable and accrued liabilities	–	653,808	–	653,808
Dividends payable	207,875	–	–	207,875
Subscriptions payable	21,995	–	–	21,995
Total undiscounted financial liabilities	₱229,870	₱803,907	₱–	₱1,033,777

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 assets:				
Quoted equity investments	–	–	742,388	742,388
Unquoted equity investments	–	–	14,560	14,560
Derivative assets	–	19,975	–	19,975
Total undiscounted financial assets	₱2,881,115	₱537,090	₱756,948	₱4,175,153
Accounts payable and accrued liabilities	₱–	₱688,267	₱–	₱688,267
Dividends payable	168,856	–	–	168,856
Subscriptions payable	54,916	–	–	54,916
Total undiscounted financial liabilities	₱223,772	₱688,267	₱–	₱912,039

Market risks

Foreign currency risk

Foreign currency risk is the 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 dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US dollar-denominated cash and cash equivalents, and trade receivables. For the years ended December 31, 2010, 2009 and 2008, the Parent Company recognized net foreign exchange gains (losses) of (₱63,589), (₱55,459) and ₱313,511, 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 tables summarize the impact on income before income tax of reasonably possible changes in the exchange rates of US dollar against the Peso. The reasonable movement in exchange rates was determined using 1-year historical data.

Year ended December 31, 2010:

US$ Appreciate (Depreciate)	**Effect on income before income tax**
7%	**₱364,187**
(7%)	**(364,187)**

Year ended December 31, 2009:

US$ Appreciate (Depreciate)	Effect on income before income tax
1%	₱5,368
(1%)	(5,368)

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

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, 2010, the Group's exposure to the risk in changes in market interest rates relates primarily to BEMC's short-term bank loan. In 2009, the Parent Company 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 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.

The following table illustrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's 2010 income before income tax. The change in market interest rates is based on the annualized volatility of the 6-month benchmark rate:

Year ended December 31, 2010:

Change in market rate of interest	Effect on income before income tax
Decrease by 1.0%	₱1,500
Decrease by 0.5%	750
Increase by 1.0%	(1,500)
Increase by 0.5%	(750)

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

Equity price risk

Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or 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 and PPC, which are classified in the consolidated balance sheets as AFS financial assets (see Note 11). As of December 31, 2010 and 2009, investments totaling ₱872,177 and ₱742,388 represent 3.40% and 3.47% of the total assets of the Group, respectively. Reasonable possible changes were based on technical stock analyses focusing on the support and resistance price levels of each underlying stock and evaluation of data statistics using 1-year historical stock price data.

The effect on equity, as a result of a possible change in the fair value of the Group's equity instruments held as AFS financial assets as at December 31, 2010 and 2009 that could be brought by changes in equity indices with all other variables held constant are as follows:

As of December 31, 2010:

Currency	Change in quoted prices of investments carried at fair value	**Effect on equity**
Australian dollar (AU$)	Increase by 20%	**₱90,160**
	Decrease by 40%	**(180,320)**
Peso	Increase by 20%	**45,635**
	Increase by 10%	**22,818**
	Decrease by 20%	**(45,635)**
	Decrease by 10%	**(22,818)**

As of December 31, 2009:

Currency	Change in quoted prices of investments carried at fair value	Effect on equity
AU$	Increase by 10%	₱48,208
	Increase by 5%	24,104
	Decrease by 10%	(48,208)
	Decrease by 5%	(24,104)
Peso	Increase by 10%	5,669
	Increase by 5%	2,835
	Decrease by 10%	(5,669)
	Decrease by 5%	(2,835)

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 following table 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, 2010 and 2009. The change in metal prices is based on 1-year historical price movements.

Year ended December 31, 2010:

Change in metal prices (Gold)	**Effect on income before income tax**
Increase by 17%	**₱17,408**
Decrease by 17%	**(17,408)**

Change in metal prices (Copper)	**Effect on income before income tax**
Increase by 28%	**₱18,184**
Decrease by 28%	**(18,184)**

Year ended December 31, 2009:

	Effect on income before income tax	
Change in metal prices	Gold	Copper
Increase by 10%	₱7,983	₱5,541
Decrease by 10%	(7,983)	(5,541)

The table below shows the effect on equity should the change in the prices of gold occur based on the gold derivatives of the Parent Company as of December 31, 2010 and 2009:

Change in metal prices	2010	2009
Increase by 10%	₱–	₱1,997
Decrease by 10%	–	(1,997)

Derivative Financial Instruments

The table below provides information about the Parent Company's derivative financial instruments outstanding as of December 31, 2010 and 2009, and the related fair values:

Derivative asset	2010	2009
Gold options	₱–	₱19,975

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 US$610 per ounce while the sold call options provide the counterparty the option to buy the same number of ounces at strike prices of US$800 per ounce.

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 US$700 and US$750 per ounce while call strikes were at US$1,000 and US$1,006 per ounce.

On October 7, 2009, the Parent Company pre-terminated its gold collars with 1,000 ounces monthly notional amount covering October 2009 to March 2011 deliveries and 1,500 ounces monthly notional amount covering October 2009 to April 2011 deliveries and paid a total unwinding fee of US$12,334 (or ₱573,013), US$11,845 (or ₱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. These transactions would have matured in early part of 2011. 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 will be transferred to profit or loss upon occurrence of the forecasted transaction. The unwinding cost will be amortized monthly until April 2011 based on contractual monthly notional amount of the collars. Total amortization in 2010 and 2009 amounted to ₱355,577 and ₱88,894, respectively.

During the fourth quarter of 2009, the Parent Company entered into long gold put options intended to protect the Parent Company against the risk of decreasing gold prices, with strike prices of US$802 and US$861 per ounce with total premium payments of ₱41,237. The put options have a total notional amount of 6,500 ounces monthly from January to September 2010, and 5,000 ounces monthly from October to December 2010. These options were designated as cash flow hedges.

During 2010, the Parent Company entered into three new long gold put options with strike prices of US$912.25, US$915.25, and US$1,039 per ounce with total premium payments of ₱23,604. The put options have a total notional amount of 3,500 ounces monthly from February to September 2010, and 1,500 ounces monthly from October to December 2010. These long put options were designated as cash flow hedges.

As of December 31, 2010, all purchased gold put options have already expired. As of December 31, 2009, the outstanding gold put options have a positive fair value of ₱19,975.

Copper Put Options

On January 15, 2010, the Parent Company entered into long copper put options with a strike price of US$3 per pound with total premium payments of ₱236,046. These put options designated as cash flow hedges have monthly notional amounts of 2,866,006 pounds from February to December 2010.

As of December 31, 2010, the copper options had already expired. There were no outstanding copper put options as of December 31, 2009.

Dollar Forwards and Collars

In August 2010, the Parent Company entered into dollar forwards with an agreed forward rate averaging ₱45.44 covering a total notional amount of US$8 million. The settlement rate for August 2010 amounted to ₱45.16 resulting in a total gain from dollar forwards of ₱2,200.

The Parent Company also entered into dollar collars with a put strike of ₱45.50 and call strike of ₱46.23. The collar has a monthly notional amount of US$2 million covering the months of September, October and November 2010 with settlement rates of ₱43.91, ₱43.24, and ₱44.23, respectively. For 2010, total gain from these dollar collars amounted to ₱10,248.

As of December 31, 2010, all dollar forwards and collars had already expired.

Embedded derivatives
As of December 31, 2010 and 2009, the Parent Company had embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Note 27). Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated balance sheets. 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, 2010 amounted to a gain of ₱269,532, which is included under revenue and adjusted against receivables. The fair value adjustment for 2009 was not material.

Fair value changes on derivatives
Fair value changes of derivatives that are not designated as accounting hedges flow directly to the consolidated statements 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, 2010 and 2009 are as follows:

	2010	2009
January 1	**₱19,975**	(₱948,937)
Net changes in fair values of derivatives:		
Designated as accounting hedges	**266,566**	(275,909)
(Forward)		
Not designated as accounting hedges	**12,448**	27,811
	298,989	(1,197,035)
Fair value of settled instruments	**(298,989)**	1,217,010
December 31	**₱–**	₱19,975

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, 2010 and 2009:

	2010	2009
January 1	**₱338,427**	₱335,185
Changes in fair value of cash flow hedges	**272,709**	546,980
Transferred to consolidated statements of income	**(649,548)**	(542,304)
Tax effects of items taken directly to or transferred from equity	**113,083**	(1,434)
December 31	**₱74,671**	₱338,427

As of December 31, 2010 and 2009, 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:

	2010	2009
Capital stock	**₱4,922,131**	₱4,900,605
Additional paid-in capital	**812,378**	774,494
Retained earnings	**12,716,722**	9,441,593
	₱18,451,231	₱15,116,692

20. Foreign Currency-Denominated Monetary Assets

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

	2010		2009	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Cash and cash equivalents	**$72,136**	**₱3,162,442**	$6,036	₱278,863
Trade receivables	**46,538**	**2,040,226**	5,146	237,745
	$118,674	**₱5,202,668**	$11,182	₱516,608

As of December 31, 2010 and 2009, the exchange rates of the Peso to the US dollar were ₱43.84 to US$1 and ₱46.20 to US$1, respectively. As of February 23, 2011, the exchange rate is ₱43.57 to US$1.

21. Related Party Transactions

The following are the significant transactions with related parties:

a. On November 24, 2010, the Parent Company, as lender, entered into a US$10,000 loan facility agreement with Forum Philippines Holdings Ltd. (FPHL), a wholly-owned subsidiary of FEP. The facility agreement will be available for a three-year period and funds can be borrowed at an interest rate of US LIBOR + 4.5%. The facility agreement will enable FPHL to fund its 70% share of a first sub-phase work programme over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEP's or FPHL's ordinary shares but are guaranteed by FEP for repayment to the Parent Company. As of December 31, 2010, FEP or FPHL have not yet made any drawdown on the facility. The first drawdown of the facility is expected to occur in March 2011 in the amount of US$1,000.

b. On September 25, 2008, the BOD approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from 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) broken down as follows: 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.

c. 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 non-interest-bearing, unguaranteed cash advances to SMMCI and SMECI. As of December 31, 2010 and 2009, the outstanding cash advances to SMMCI and SMECI amounted to ₱3,335,141 and ₱2,021,948, respectively. These advances are payable on demand and will be settled through cash payment by SMMCI and SMECI.

d. The Parent Company advances PGPI's working capital and capital expenditure requirements which amounted to ₱932,737 and ₱878,985 as of December 31, 2010 and 2009, 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. The mining assets are fully depreciated as of December 31, 2010 and 2009.

e. 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, 2010 and 2009, total reimbursements made by Anglo for the Parent Company's and PGPI's advances amounted to ₱1,263 and ₱7,141, respectively. These reimbursements, which are non-interest-bearing, unguaranteed and reimbursable on demand, are presented as part of "Others" under "Accounts receivable" account in the consolidated balance sheets (see Note 7).

f. The Parent Company made cash advances to be used as additional working capital of PPC, and for the acquisition of investment in shares of stock. These advances are non-interest-bearing, unguaranteed and payable on demand through cash. As of December 31, 2010 and 2009, cash advances from the Parent Company amounted to ₱635,929 and ₱573,281, respectively.

g. In April 2010, the Parent Company sold US$20,000 to First Pacific Company Limited, Inc. (FPC), a stockholder, at the forward rate of ₱45.03 per US dollar in converting part of the Parent Company's dollar fund for routine working capital requirement.

h. The Parent Company provided cash advances to BEMC for the funding of its exploration and development activities. These advances are non-interest-bearing and payable on demand through cash. As of December 31, 2010 and 2009, total advances amounted to ₱139,242 and ₱119,787, respectively.

For the years ended December 31, 2010, 2009 and 2008, 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.

Compensations of Key Management Personnel

Compensations of the members of key management personnel follow:

	2010	2009	2008
Short-term employee benefits	**₱64,413**	₱69,824	₱58,869
Retirement benefits	**3,032**	4,942	4,831
Share-based payments	**1,619**	5,325	11,613
	₱69,064	₱80,091	₱75,313

22. Income Taxes

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

	2010	2009	2008
Parent Company - RCIT	**₱1,804,393**	₱455,314	₱490,656
BEMC*	**239**	2,196	667
LMC - RCIT	**–**	4	–
PGPI - MCIT	**–**	–	53
	₱1,804,632	₱457,514	₱491,376

**BEMC's provision for current income represents MCIT for the year ended December 31, 2010 and RCIT for the years ended December 31, 2009 and 2008, respectively.*

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

	2010	2009
Deferred income tax assets on:		
Unamortized past service costs	**₱86,256**	₱86,924
Impairment loss on AFS financial assets	**68,094**	68,094
Provisions	**49,459**	33,196
Allowances for:		
Losses on input VAT	**43,739**	43,739
Probable losses on other noncurrent assets	**14,231**	14,231

(Forward)

	2010	2009
Materials and supplies obsolescence	**26,353**	9,682
Unrecoverable deferred mine and oil exploration costs	**8,868**	8,868
Doubtful accounts	**410**	410
Unrealized foreign exchange losses - net	**35,082**	39,635
Cumulative translation adjustment on hedging instruments	**32,002**	145,085
Accumulated accretion of interest on provision for mine rehabilitation costs	**3,883**	3,192
Accumulated amortization of mine rehabilitation cost	**2,769**	2,351
Net retirement benefits liability	**–**	9,097
Total deferred income tax assets	**371,146**	464,504
Deferred income tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	**(1,665,513)**	(1,665,513)
Accelerated depreciation	**(489,013)**	(442,360)
(Forward)		
Unrealized gain on AFS financial assets	**(158,181)**	(169,113)
Measurement of mine products inventory at NRV	**(33,003)**	(23,956)
Loss on termination of gold hedging contracts	**(32,002)**	(138,675)
Unrealized foreign exchange gain	**(6,542)**	(1,208)
Net retirement plan assets	**(122)**	–
Total deferred income tax liabilities	**(2,384,376)**	(2,440,825)
Net deferred income tax assets (liabilities)	**(₱2,013,230)**	(₱1,976,321)

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

	December 31, 2010		December 31, 2009	
	Net deferred income tax assets	**Net deferred income tax liabilities**	Net deferred income tax assets	Net deferred income tax liabilities
SMMCI	**₱–**	**₱1,665,513**	₱–	₱1,665,513
Parent Company	**–**	**341,175**	–	309,600
PPC	**–**	**4,692**	–	–
LMC	**–**	**1,850**	–	1,208
BEMC	**–**	**–**	43	–
	₱–	**₱2,013,230**	₱43	₱1,976,321

c. Deferred income tax liability amounting to ₱1,850 and ₱1,208 as of December 31, 2010 and 2009, 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 as of December 31, 2010 and 2009.

d. Deferred income tax liability amounting to ₱4,692 as of December 31, 2010 pertains to the tax effect of the unrealized foreign exchange gain of PPC.

e. As of December 31, 2010 and 2009, PGPI's deductible temporary differences, NOLCO and excess MCIT for which deferred income tax assets have not been recognized are as follows:

	2010	2009
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	**107,256**	103,099
Input VAT	**9,045**	9,045
Doubtful accounts	**628**	628
NOLCO	**136,255**	121,635
Deductible temporary difference relating to depreciation of non-operating property and equipment	**9,551**	9,551
Provision for losses	**2,100**	2,100
Excess MCIT	**53**	70

f. As of December 31, 2010, PGPI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income and used as deductions from future RCIT, respectively, are as follows:

		NOLCO		Excess
Year Incurred	Available Until	Amount	Tax Effect	MCIT
2008	2011	₱31,915	₱9,575	₱53
2009	2012	60,121	18,036	–
2010	2013	44,219	13,266	–
		₱136,255	₱40,877	₱53

The following are the movements of PGPI's NOLCO and excess MCIT for the years ended December 31, 2010 and 2009:

	NOLCO		Excess MCIT	
	2010	2009	**2010**	2009
Beginning balance	**₱121,635**	₱80,263	**₱70**	₱381
Additions	**44,219**	60,121	**–**	–
Expirations	**(29,599)**	(18,749)	**(17)**	(311)
Ending balance	**₱136,255**	₱121,635	**₱53**	₱70

g. As of December 31, 2010, PPC's NOLCO that can be claimed as deduction from future taxable income and used as deductions from future RCIT, respectively, are as follows:

		NOLCO	
Year Incurred	Available Until	Amount	Tax Effect
2008	2011	₱52,313	₱15,694
2009	2012	20,017	6,005
2010	2013	78,826	23,648
		₱151,156	₱45,347

The following are the movements of PPC's NOLCO for the years ended December 31, 2010 and 2009:

	NOLCO	
	2010	2009
Beginning balance	**₱72,330**	₱52,313
Additions	**78,826**	20,017
Ending balance	**₱151,156**	₱72,330

h. 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:

	2010	2009	2008
Provision for income tax computed at the statutory income tax rates	**₱1,705,219**	₱1,050,594	₱1,144,577
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	**57,253**	38,423	–
Effect of difference in tax rates and others - net	**(45,785)**	(310,514)	(758,190)
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized	**30,952**	33,139	93,207
Interest income already subjected to final tax	**(7,931)**	(53,629)	(19,243)
Dividend income	**(888)**	–	–
Stock-based compensation expense	**613**	8,599	9,476
Provision for income tax	**₱1,739,433**	₱766,612	₱469,827

i. 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.

j. 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 2010 and 2009.

23. Equity

Capital Stock

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

	Number of Shares	
	2010	2009
Common stock - ₱1 par value		
Authorized:		
January 1	**8,000,000,000**	5,000,000,000
Increase in authorized capital stock	**–**	3,000,000,000
December 31	**8,000,000,000**	8,000,000,000
Issued, outstanding and fully paid:		
January 1	**4,900,604,961**	3,880,851,172
Issuance during the year	**21,525,999**	46,851,875
Stock dividend	**–**	972,901,914
December 31	**4,922,130,960**	4,900,604,961

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 into 5,000,000,000 shares to ₱8,000,000 divided into 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 April 27 and August 4, 2010, the Parent Company's BOD authorized the declaration of cash dividends amounting to ₱442,241 and ₱245,831 (or ₱0.09 and ₱0.05 per share, respectively, or a total of ₱0.14 per share for the whole year), in favor of stockholders of record as of May 12 and September 13, 2010, respectively.

Treasury Stock

On March 25, 2008, the Parent Company's BOD approved the buyback of 10% of the Parent Company's outstanding shares from 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 778,444,065 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 778,620,792 shares, representing 20.06% of its total outstanding shares at the price of ₱7.92 per share to Asia Link B.V. (a wholly-owned subsidiary of FPC). Total proceeds from the reissuance of treasury stock amounted to ₱6,126,450.

Non-controlling Interests

Non-controlling interests consist of the following:

	Percentage of Ownership		December 31	
	2010	2009	**2010**	2009
Non-controlling interests on net assets of:				
FEC	**48.8%**	49.3%	**₱142,606**	₱104,352
FEP and its subsidiaries	**48.1%**	50.1%	**93,963**	227,306
LMC	**19.5%**	31.1%	**(484)**	–
SMECI and its subsidiary	–	11.4%	**–**	368,592
PGPI	–	19.0%	**–**	–
PGI	–	19.0%	**–**	–
			₱236,085	₱700,250

Transactions with non-controlling interests are disclosed in Note 2.

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.

For the year ended December 31, 2010, three confirmed new grants were endorsed. A total of 9,950,000 shares were awarded on May 25, September 28 and November 23.

The following table shows the movements in 2010 and 2009 on stock option plan of the Parent Company:

	Number of Options		Weighted Average Exercise Price	
	2010	2009	**2010**	2009
January 1	**36,652,232**	70,634,675	**₱5.57**	₱3.09
Granted	**9,950,000**	20,300,007*	**3.45**	3.63
Exercised	**(21,718,999)**	(46,454,875)	**2.74**	2.63
Forfeited	**(3,807,875)**	(7,827,575)	**3.53**	3.08
December 31	**21,075,358**	36,652,232	**₱6.70**	₱5.57

**Net of 9,000,000 option shares that were not accepted in 2010.*

The number of unexercised vested stock options as of December 31, 2010 and 2009 are 9,414,983 and 10,738,898, respectively.

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

	2010		
	May 25	September 28	November 23
Spot price per share	₱11.00	₱14.88	₱14.00
Time to maturity	5 years	5 years	5 years
Volatility*	54.57%	55.09%	54.98%
Dividend yield	2.69%	2.00%	2.12%
Suboptimal exercise behavior multiple	1.5	1.5	1.5
Forfeiture rate	2%	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.

Outstanding stock options with SARS as of December 31, 2009 and 2008:

	2009		2008	
	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$0.78
Forfeited	(100,000)	0.60	(71,500)	1.02
December 31	–	Cdn$–	100,000	Cdn$0.60
Exercisable	–	Cdn$–	100,000	Cdn$0.60

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 issued were already forfeited.

No share options were granted in 2010 and 2009. The outstanding number of share options granted to directors and officers of PGPI and PGI were nil as of December 31, 2010 and 2009, and 100,000 as of December 31, 2008.

FEP Share Option Plan

FEP has a share option plan which the Parent Company's management believes that it is not significant to the consolidated financial statements of the Group as of December 31, 2010 and 2009.

25. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share are computed as follows:

	2010	2009	2008
Net income attributable to equity holders of the Parent Company	**₱3,963,201**	₱2,830,309	₱2,892,887
Divided by weighted average number of common shares outstanding during year	**4,914,719,911**	4,867,306,154	4,342,250,635
Basic earnings per share	**₱0.806**	₱0.581	₱0.666

Diluted earnings per share amounts are calculated as follows:

	2010	2009	2008
Net income attributable to equity holders of the Parent Company	**₱3,963,201**	₱2,830,309	₱2,892,887
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	**4,920,204,652**	4,872,321,065	4,352,667,110
Diluted earnings per share	**₱0.805**	₱0.581	₱0.665
Weighted average number of common shares for basic earnings per share	**4,914,719,911**	4,867,306,154	4,342,250,635
Effect of exercise of stock options	**5,484,741**	5,014,911	10,416,475
Weighted average number of common shares adjusted for the effect of exercise of stock options	**4,920,204,652**	4,872,321,065	4,352,667,110

The Parent Company considered the effect of its potentially dilutive stock options outstanding as of December 31, 2010, 2009 and 2008 (see Note 24). The assumed exercise of these stock options would have resulted in additional 5,484,741, 5,014,911 and 10,416,475 common shares in 2010, 2009 and 2008, 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 of which would revert the tenements 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 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 2008 consolidated balance sheets. 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 then 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 planned 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 BOD approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from 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) broken down as follows: 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 to the 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 on March 31, 2010), at least 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2009.

d. Contract Year 2010 (starting on April 1, 2010 and ending on March 31, 2011), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2010.

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

The Parent Company's Padcal Operations was 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 was limited to a period of five to ten years from the date of registration. The registration with the BOI required 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 qualified 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.

a. 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 the Group's legal counsel reassess their estimates on an annual basis to consider new relevant information. In 2010 and 2009, payments in these regard were made for a total of ₱27,380 and ₱81,145, respectively, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation in 2009. Additional provision in 2010 and 2009 amounted to ₱75,000 and ₱41,000, respectively. Total provision for losses amounted to ₱644,481 and ₱561,628 as of December 31, 2010 and 2009, 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, *Provisions, Contingent Liabilities and Contingent Assets,* only a general description is provided.

29. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing activities of the Group are as follows:

a. In 2010, BEMC transferred the balance of deferred mine exploration and development costs amounting to ₱72,122 to property, plant and equipment upon start of the debugging stage of BEMC's coal mine.

b. As of January 1, 2010, BEMC updated the provision for mine rehabilitation costs as a result of the change in timing and amount of future cash flows related to future mine rehabilitation costs. This resulted to a decrease in the carrying amount of the provision for mine rehabilitation costs and mine and mining properties amounting to ₱4,373.

c. In 2010 and 2009, total depreciation expense that were capitalized as part of deferred mine exploration costs by BEMC, SMMCI, PGPI and LMC amounted to ₱141,489 and ₱115,914, respectively.

30. Events after the Balance Sheet Date

a. On February 23, 2011, the BOD of the Parent Company approved the declaration of cash dividend amounting to ₱0.16 per share to all stockholders of record as of March 10, 2011.

b. On the same date, the proved reserves of the Padcal Mine as of December 31, 2010 was declared at 90.2 million tonnes based on metal prices of US$1,000 per ounce of gold and US$3.00 per pound of copper at copper equivalent grade of 0.246% per an internal geological study performed by the Parent Company's geologist. The estimated mine life of the Parent Company's Padcal Mine can be possibly extended beyond 2017.

DIRECTORS, OFFICERS AND STAFF

BOARD OF DIRECTORS

Manuel V. Pangilinan
Chairman

Juan B. Santos [(1)]
Vice Chairman

Eliza R. Antonino [(2)]
Nelson B. Bayot
Emilio S. De Quiros, Jr. [(3)]
Oscar J. Hilado
Robert C. Nicholson
Edward A. Tortorici
Marilyn A. Victorio-Aquino
Jose Ernesto C. Villaluna, Jr.

Resigned/Separated:

Thelmo Y. Cunanan [(4)]
Vice Chairman

Albert Awad [(5)]
Vice Chairman Emeritus

DIRECTORS
Albert F. Del Rosario [(6)]
Romulo L. Neri [(7)]
Sergio R. Ortiz-Luis, Jr. [(8)]

OFFICERS

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

Juan B. Santos
Vice Chairman

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

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

Barbara Anne C. Migallos
Corporate Secretary

Guadaflor C. Malonzo
Assistant Corporate Secretary

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

Edgardo C. Crisostomo
Senior Vice President
for Materials Management
& Corporate Office Administration

Benjamin R. Garcia
Senior Vice President
for Human Resource

Redempta P. Baluda
Vice President for Exploration

Victor A. Francisco
Vice President for Environment
& Community Relations

Denis G. Lucindo
Vice President for Business Development

Enrique C. Rodriguez, Jr.
Vice President for Legal

CONSULTANTS

Rogelio G. Laraya, PhD
Senior Adviser

Ralph Rossouw
Technical Consultant to the Chairman

STAFF

PASIG HEAD OFFICE

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

Paraluman M. Navarro
Division Manager – Corporate Finance

Victor B. Maglambayan
Division Manager – Exploration

Noel C. Oliveros
Division Manager – Exploration

Geraldine B. Ateo-an
Group Manager - Internal Audit

Eileen C. Rodriguez
Group Manager – Corporate Treasury

Vicente L. Servidad
Group Manager – Corporate
Environment & Community Relations

PADCAL OPERATIONS & EXPLORATION

Eduardo M. Aratas
Division Manager – Legal

Edgar L. Prangan
Division Manager - Loss Control

Libby R. Ricafort
Division Manager - Mill

Vergel T. Agatep
Group Manager – Mine Mechanical

Carmelita B. Catacutan
Group Manager – Assay
& Poro Installation

Roselyn M. Dahilan
Group Manager – Padcal Finance

Jocelyn B. Galapon
Group Manager – Geology & Exploration

Roy P. Mangali
Group Manager – Mine Operations

Claro Jose C. Manipon
Group Manager – Exploration

Anselmo T. Ranges
Group Manager – Central Mechanical
& Electrical Services

Joel S. Son
Group Manager - Safety

Reynold V. Yabes
Group Manager - Mill Operations &
Maintenance

(1) From September 28, 2010
(2) From April 28, 2011
(3) From November 23, 2010
(4) As of August 31, 2010
(5) As of June 23, 2010
(6) As of March 25, 2011
(7) As of June 23, 2010
(8) As of December 31, 2010

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

Bankers

ANZ
Banco De Oro
Bank of Commerce
Bank of the Philippine Islands
BNP Paribas
Calyon Credit Agricole CIB
Citibank, N.A.
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

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