PHILEX MINING
CORPORATION

ANNUAL REPORT 2011

There's life in mining.

Quality education is among the four main programs of Philex Mining Corporation for the social uplift of communities where it operates. At the Padcal Project in Benguet Province, it has established the Philex Mines Elementary School where a total of 14,023 students have graduated since 1961, and the St. Louis High School - Philex which has produced 8,532 graduates since 1975.

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Corporate Profile

Philex Mining Corporation (the Company) and subsidiaries are organized into two main business groupings: the metals business under Philex Mining Corporation, and the energy and hydrocarbon business under Philex Petroleum Corporation.

Philex Mining Corporation was incorporated in the Philippines in 1955 and listed in the Philippine Stock Exchange on November 23, 1956. The 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 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 in Surigao, which are currently under pre-feasibility stage.

Philex Petroleum Corporation (PPC, a 64.79%-owned subsidiary of the Company and incorporated in the Philippines) and subsidiaries: Forum Energy plc (FEP, 64.5% owned and registered in England and Wales) and its subsidiaries, and FEC Resources, Inc. (FEC, 51.2% owned and incorporated in Canada), are engaged primarily in oil and gas operation and exploration holding participating interest in several 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 engaged in coal operation in Diplahan, Zamboanga Sibugay and started production during the year.

As of December 31, 2011, the Company has 45,085 stockholders of record with 38.71% of its outstanding shares owned by foreign nationals and institutions.

The Company's exploration strategy in the late 1980's was focused on gold exploration, which resulted in the acquisition and staking of a number of primarily gold claimholdings throughout the Philippines. In July 1996, these gold assets (including the Bulawan mine in Negros Occidental, Negros island, which commenced commercial production in January 1996 and continued until 2002 when the mine was decommissioned due to unfavorable metal prices and since then was placed on a care and maintenance up to present) were spun-off to PGPI. Through swap of shares, ownership in PGPI was subsequently transferred to Philex Gold Inc. (PGI), then a 81%-owned Canadian subsidiary. PGI was initially listed in the Toronto Stock Exchange in October 1996 following a public offering to primarily North American and European investors. From 2001, PGPI focused on its North Property where the Boyongan copper-gold porphyry deposit in Surigao del Norte was discovered in August 2000 under SMMCI, a joint venture with Anglo American Exploration (Philippines) B.V.(Anglo). On February 6, 2009, the Company acquired Anglo's 50% interest in the Silangan Project under SMMCI for US$55 million. In April 2010, the Company undertook the buyback of minority shareholdings of PGI, which was thereafter delisted from the TSX Venture Exchange. This transaction made the Silangan companies now owned jointly by the Parent Company and a wholly-owned subsidiary holding company.

The Company has long been a silent investor in oil properties owning participation in several service contracts. In 2007, Philex Mining incorporated PPC to engage in petroenergy business, of which 49% was subsequently acquired by Anatolian Property BV, a Netherlands company whose shareholders are funds-managed by Ashmore Investment Management Limited. In July 2009, the Company repurchased the 49% interest of Anatolian Property BV, giving back to the Company full control over PPC. In September 2010, the Company transferred its investments in energy and hydrocarbon assets to PPC, which currently holds 38.82% of FEP, a UK-based company listed at the Alternative Investment Market of the London Stock Exchange. FEP is an oil exploration company owning participation interests in several service contracts in the Philippines, principally Service Contract 72 (previously GSEC 101) covering the Sampaguita natural gas discovery in Northwest Palawan. PPC also holds 51.24% of FEC, which also owns 25.63% of FEP, and 40% of Lascogon Mining Corporation (LMC) under a joint venture agreement with PGPI in 2005, 18.46% of Pitkin Petroleum Corporation, a UK-based company that has various exploration activities principally in Vietnam, Peru, and the Philippines, and 100% of BEMC. The Company controls 64.45% of FEP through the direct holdings of PPC and FEC.

Vision

Our vision is to be a highly respected world-class natural resource company committed to deliver excellent value to its investors, employees and other stakeholders.

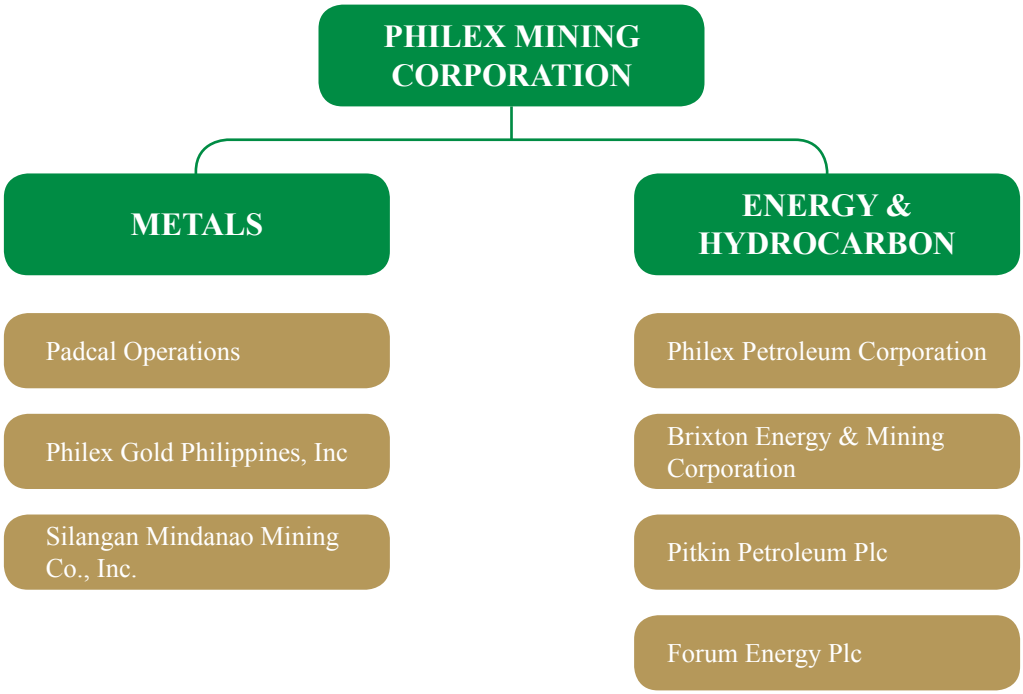
Mission

We are a responsible mining corporation that discovers and processes minerals and energy resources for the use of society.

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



Message from the Chairman and Chief Executive Officer

Fellow Shareholders

Copper and gold prices saw the biggest gains in 2011. As gold continued its 11-year bull run in the world market, realized price for gold averaged US$1,536 per ounce, a 26% increase from US$1,217 per ounce in 2010. Copper price per pound also improved from US$3.63 in 2010 to US$3.70. The year also saw global output for copper at 19.70 million metric tons or only 86% of total demand of 22.00 million metric tons. For gold, full-year demand totaled 4,067 tonnes for the year, vis-à-vis global mine production of 2,700 tonnes.

But 2011 was also a year of even more increased scrutiny of our industry, as special interest groups sought to influence government policies for increased taxation, royalties and contributions to environmental protection and social development, including a moratorium and even an outright ban on mining. We welcome these developments, as these should give impetus to steps on how we can further raise the bar of our Company's performance. As well, these represent opportunities for us to demonstrate that mining, which produces critical elements for technological innovation and global progress, can be furhter sustained.

Yes, we will continue to respond to opportunities and challenges, live our corporate values, and deliver maximum returns to our shareholders, employees and communities where we operate.

Business Performance Highlights: Three Years of Success

Reflecting higher tonnage and unprecendented leverage on the gold price, Core Net Income progressively increased over the last three years from P1.84 billion in 2009, P4.15 billion in 2010, and a record high of P5.57 billion in 2011.

We also posted higher Reported Net Income levels after taxes over the last three years, steadily rising from P2.73 billion in 2009 to P3.94 billion in 2010 and finally reaching P5.80 billion in 2011.

Income from operations in 2011 was higher by 31% to P7.94 billion from P6.06 billion in 2010. Earnings before interest, tax, depreciation and amortization (EBITDA) likewise improved by 35% to P8.85 billion in 2011 from P6.57 billion in the previous year.

The resulting Core Earnings Per Share grew 34% from P0.84 centavos in 2010 to P1.13 in 2011. Reported Earnings Per Share also posted double digit increase of 45% to P1.17 in 2011. Both Core EPS and Reported EPS are the highest posted by the Company to date.

Gross revenue from gold and copper has shown significant increase as a result of greater production efficiencies and favourable prices in the world market. Our gross revenue from gold production rose from P7.21 billion in 2010 to P9.29 billion in 2011. Likewise, copper revenue improved from P5.72 billion in 2010 to P6.09 billion in 2011.

Gold continues to figure prominently in terms of overall gross revenue contribution at 58%, with copper contributing 38%. Gross revenues from total production reached a total of P16.13 billion, showing a marked increase from the previously established record of P13.39 billion in 2010.

Meanwhile, our petroleum and coal investments are beginning to show encouraging results as we remain committed to develop and nurture our investments in these two promising areas of our business.

Given these positive performance indicators, contribution to the national government in terms of taxes has likewise grown. Total taxes paid to the government in 2011 has reached P2.38 billion and has totalled approximately P5.64 billion over the last three years.

Charting A New Course: The New Vision of Philex

Not everything at Philex Mining Corporation is about profitability. During the year, the senior management of your Company completed a series of strategic planning exercises and redefined its new Vision: ***To be a highly respected world-class natural resource company committed to deliver excellent value to its investors, employees and other stakeholders.*** The Company has charted a new course that will lead to a high performance organization in terms of production, competitiveness, key organizational practices and performance standards. Likewise, extensive initiatives in acquisitions and exploration shall be taken to enlarge overall production output, revenues, and shareholder value.

Our New Mission: A Responsible Mining Company

Philex Mining Corporation is a responsible mining company that discovers and processes minerals and energy resources for the use of society. Our new mission clearly

defines our reason for being and captures the essence of our mandate as a Company. Our utmost priority at every stage of mine life is to take care of our environment while harnessing the mineral resources for the good of society. Padcal Mine's Environmental Management System (EMS) has sustained its ISO 14001 Certification, showcasing the Company's continuing commitment to its advocacy. Similarly, our Padcal Mining Operations was awarded the Champion in the 2011 Best Mining Forest Contest (Metallic Category) during the 58th Philippine Mine Safety and Environment Association's (PMSEA) Annual Mine Safety & Environment Conference, an award that the Company has been consistently winning since 1991.

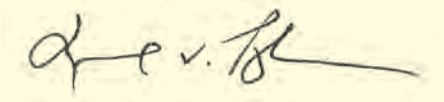
Reforestation has always been a serious undertaking for Philex Mining. To date, 2,210 hectares have been planted with more than 7.5 million seedlings of various tree species. Aside from our internal programs to increase forest cover, the Company has also been the source of seedlings to local government units, the Department of Environment and Natural Resources, socio-civic organizations, nearby schools in Benguet, and small scale mining associations for their reforestation initiatives.

In Closing

We expect exciting times ahead for Philex Mining. We shall embark on new projects that will enable us to grow into a world-class company. We shall invest in people and resources that will provide the motive power in the new direction we would like Philex Mining to take. The challenge for us is to stay steadfast in our journey, to be daring, to question old ways and to embrace a new mindset while adhering to a solid set of shared corporate values and espousing good governance practices. We must also remain transparent in our dealings, and perform with the highest principles of integrity and professionalism.

The challenge has been set and I welcome everyone to join us in our new journey.

Yours cordially,



MANUEL V. PANGILINAN
Chairman and Chief Executive Officer

Review of Operations by the President and Chief Operating Officer

From an initial ore reserve of 18 million tonnes, ore milled at our Padcal Project has reached 359 million tonnes over the last 53 years. As of December 2011, Padcal has produced a total of 5.61 million ounces of gold and 2.08 billion pounds of copper.

Last year's tonnage was the highest since 1987. Ore milled for the year reached 9.487 million tonnes, slightly higher than the 2010 tonnage of 9.364 million tonnes. From this, the Company produced 7% higher volume of copper to 37.955 million pounds and a 5% increase in gold to 140,113 ounces.

The higher ore tonnage milled from the Padcal mine brought total costs and expenses higher by 9% to P6.977 billion this year from P6.426 billion a year ago. Expressed in per ounce of gold produced and after deducting revenues from copper and silver as by- product credits, the operating cost of gold stood at US$114 per ounce in 2011 from US$92 per ounce a year ago. Expressed in per pound of copper produced and after deducting revenues from gold and silver as by-product credits, the operating cost of copper was at a negative US$1.55 per pound in 2011 from negative US$0.59 per pound a year ago.

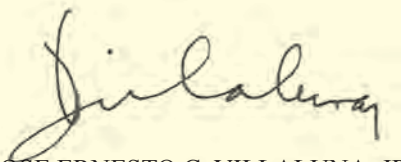
The past three years has shown our gold production steadily rising from 119.17 thousand ounces in 2009 to 133.52 thousand ounces in 2010. At year's end, it has peaked at 140.11 thousand ounces in 2010. This translates to an average growth of 8.5% annually over the past three years.

Meanwhile, copper production has also risen from 33.82 million pounds in 2009 to 35.62 million pounds in 2011, and finally reaching 37.96 million pounds in 2011, showing an average growth rate of 6% per annum.

Record operational and financial results are not our only milestones for the year. In August 2011, the declared operating life of the Padcal Mine was extended from 2017 to 2020 following a recertification of total reserves. As of 31 December 2011, the total reserves of the mine was 80.8 million tonnes with grades of 0.21% copper and 0.40 gframs per tonne of gold.

The mine life extension synchronizes well with our expanding portfolio of assets, particularly the expected commencement of the Silangan Project. Our subsidiary Silangan Mindanao Mining Co. Inc. (SMMCI) has embarked on the Pre-Feasibility Study of the Project. With the mineral reserve already estimated at five billion pounds of copper and nine million ounces of gold, we are confident that the Silangan Project is on its way to becoming among the best-of-class in the country.

I owe the tremendous year-on-year improvement to the improving demand for metals in the world market and to the skills, dedication, and focus of our people. To all our management and staff, my deepest gratitude for your support and cooperation.



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

For the early part of 2011, the Silangan Project in Surigao del Norte has undertaken data compilation, data integrity tests, deposit modeling and resource estimation. This effort utilized information coming from drill core samples as shown in this photo.

COMPARATIVE FINANCIAL HIGHLIGHTS

(In Thousands except Per Share Data and Metal Prices)

	2011	2010	2009	2008	2007
GROSS REVENUES					
Gold	**P9,294,021**	P7,208,532	P5,108,322	P5,363,774	P4,935,735
Copper	**6,091,803**	5,721,373	3,741,625	4,259,135	7,191,720
Silver	**187,893**	134,553	82,939	85,128	89,317
Petroleum	**551,568**	298,449	85,074	9,330	-
Coal	**1,288**	31,062	37,024	-	-
Others	**7,843**	-	-	-	-
Total	**16,134,416**	13,393,969	9,054,983	9,717,367	12,216,771
Dollars Generated [1]	**$ 344,061**	$ 277,183	$ 188,283	$ 201,477	$ 244,025
EXPENSES					
Cost of Mine Products Sold [2]	**P6,166,862**	P5,741,399	P5,065,889	P4,808,330	P4,697,369
General and Administrative Expenses [2]	**1,036,537**	664,698	848,930	537,027	402,037
Petroleum Production Costs	**175,883**	189,471	75,725	15,973	-
Cost of sales-Coal	**1,210**	19,422	22,392	-	-
INCOME (LOSS)					
From Operations	**7,943,457**	6,064,961	2,365,046	3,686,825	6,131,229
Other Income (Loss)	**187,224**	(380,899)	1,136,935	(416,605)	(509,979)
Core Net Income	**5,568,410**	4,150,544	1,849,666	3,055,057	5,204,285
EBITDA	**8,851,114**	6,565,695	4,158,526	3,875,540	6,388,871
Net Income (Loss) (after Tax)	**5,799,889**	3,944,629	2,735,369	2,800,393	5,005,649
Earnings (Loss) per Share	**1.171**	0.806	0.581	0.833	1.690
TAXES:					
Excise Tax	**309,388**	253,254	164,745	211,033	213,508
Income Tax	**2,330,792**	1,739,433	766,612	469,827	615,601
Total Taxes, Direct and Indirect	**2,383,356**	2,309,214	947,230	335,072	884,882
DIVIDENDS:					
Cash Dividends Declared	**1,750,430**	688,072	-	-	1,333,691
Stock Dividends Issued	**-**	-	972,902	890,994	-
Property dividends Issued	**574,681**	-	-	-	-
FINANCIAL CONDITION					
Current Assets	**8,331,626**	7,750,941	5,022,269	12,544,048	5,651,000
Current Liabilities	**2,575,925**	2,311,670	1,153,725	5,878,088	1,608,304
Property, Plant and Equipment					
- Net Book Value	**5,399,716**	5,095,029	4,668,892	4,066,257	3,843,909
- Additions	**1,347,344**	1,397,949	1,480,152	968,259	1,269,842
Total Assets [2]	**32,454,228**	25,652,720	21,378,413	19,398,482	10,904,605
Stockholders' Equity	**27,051,467**	20,757,970	17,683,535	12,528,011	8,441,980
Book Value per Share	**5.491**	4.224	3.633	3.873	2.851
METAL PRICES					
Copper - USc/lb.	**370.34**	362.59	224.39	221.93	347.26
Gold - US$/oz.	**1,535.87**	1,217.14	945.87	787.79	708.16
Silver - US$/oz.	**34.50**	23.17	15.29	12.79	13.63

[1] From mine products net of smelting and refining charges

[2] 2008 and 2007 figures restated to conform with 2009 presentation

SUMMARY OF MINERAL RESOURCES AND ORE RESERVES

as of December 31, 2011

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	52,000	0.25	0.54	290,000	900,000
782 ML	0.30	Measured	90,000	0.24	0.45	470,000	1,300,000
Total Resources [1]		**Measured**	**142,000**	**0.24**	**0.49**	**760,000**	**2,200,000**

** CuEq = %Cu + 0.43 x g/t Au; Metal Prices: US$ 3.00/lb Cu, US$ 1,000/oz Au; 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 II 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	19,900	0.21	0.43	75,100	202,000
782 ML	0.246	Proved	31,400	0.23	0.44	130,000	326,000
798 ML	0.246	Proved	29,500	0.20	0.33	108,500	211,000
Total Reserves		**Proved**	**80,800**	**0.21**	**0.40**	**313,600**	**739,000**

** CuEq = %Cu + 0.43 x g/t Au; Metal Prices: US$ 3.00/lb Cu, US$ 1,000/oz Au; Metal Recoveries: 82% Cu, 72% Au.*

This estimate was prepared by Engr. Eulalio B. Austin, Jr. (BSEM), President and Chief Operating Officer (COO) 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 Mineral Reserve Estimation.

SILANGAN MINDANAO MINING CO., INC.

MINERAL RESOURCES

	CuEq* Cutoff %	Classification	Tonnes (000)	Cu %	Au Grams/Tonne	Contained Cu (000 lbs.)	Contained Au (ounces)
Boyongan	0.50	Measured+Indicated	273,000	0.52	0.72	3,120,000	6,300,000
Bayugo	0.50	Measured+Indicated	125,000	0.66	0.66	1,820,000	2,700,000
Total		**Measured+Indicated**	**398,000**	**0.56**	**0.70**	**4,940,000**	**9,000,000**
Boyongan	0.50	Inferred	26,000	0.41	0.49	240,000	400,000
Bayugo	0.50	Inferred	7,000	0.77	0.60	120,000	100,000
Total		**Inferred**	**33,000**	**0.49**	**0.51**	**360,000**	**500,000**

** Based on Metal Prices: US$ 2.75/lb Cu, US$ 900/oz Au, and varying recoveries according to ore types (oxide, enriched and sulfide) established following the metallurgical tests.*

Mr. Noel C. Oliveros, Exploration Division Manager and Head of the Exploration and Resource Estimation Group of Philex Mining Corporation, has given his consent to the release of this resource estimate. The resource estimate is compliant with the rules and guidelines as set forth by the Philippine Mineral Reporting Code (PMRC). Mr. Oliveros has more than 16 years experience in resource evaluation relevant to the style of mineralization in the Surigao Mineral District. He is a Competent Person for Exploration and Mineral Resource Estimation under the definitionof the PMRC.

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.

Exploration Highlights

BENGUET PROVINCE

Padcal and Vicinity

The Padcal Mine, which Philex has been operating since 1958, is the first underground block cave operation in the Far East. The mine produces copper concentrates containing copper, gold and silver. A majority of the copper concentrates are shipped to Saganoseki, Japan for smelting by Pan Pacific Copper Company Limited, a joint venture company between Nippon Mining Co. Ltd. and Mitsui Mining and Smelting Co. Ltd.

The Padcal Mine is under 12 mineral holdings with an aggregate 95 hectares in Benguet Province, which are subject to royalty agreements with claim owners.

Exploration activities in Padcal and vicinity were pursued in three areas in 2011 – in Sto. Tomas II orebody below 773ML; in Bumolo, and in Southwest prospects. The Sto. Tomas II orebody below 773ML is covered by MPSA 276-2009-CAR. The Bumolo and Southwest prospects are within MPSA 156-2000-CAR.

Within the Sto. Tomas II orebody, underground diamond drilling was continued at 773ML that aimed to explore the vertical extension of the orebody. An additional ten holes were drilled last year for an aggregate meterage of 4,802 meters. This meterage and those in the previous two years resulted in the definition of a significant volume of mineral resource between 600ML to 782ML that could potentially extend the mine life of Padcal beyond 2020.

In Bumolo prospect, located northeast of the Sto. Tomas II orebody, the target drilling which was started last year to investigate the soil geochemical anomaly was followed with completing three additional holes with an aggregate meterage of 1,286 meters. The drill holes intersected intrusive bodies with lower grade mineralization that appears to have diluted an originally good grade deposit earlier delineated near the surface. Good grade mineralization thus appears to be limited near the surface of the prospect. A modest mineral resource tonnage maybe realized from the prospect after the ongoing estimation is completed.

The Southwest prospect lies less than a kilometer from the Sto. Tomas II orebody. A breccia body which was identified as a diatreme breccia was confirmed after the old drill cores were reviewed and relogged in 2011. Gold and copper mineralization was validated after the old drill cores were re-assayed. Limited mapping and sampling was conducted last year due to community issues. Pending the resolution of access to the property, the Company decided to drive an underground exploration tunnel at 908ML that leads to the prospect. The tunnel reached 300 meters and a drilling pad was constructed near its face. The first of a number of exploration holes was collared in that pad and reached 148.5 meters depth as of 31 December 2011. Drilling intercepted a breccia body with marginal grade of gold and copper.

Two other prospects that were lined up for investigation in 2011 did not materialize – Clifton and Bumolo 2. The social license for Clifton continued to be stalled as the communities raised new demands and the National Commission on Indigenous Peoples (NCIP) suspended the Free and Prior Informed Consent (FPIC) pending the issuance of a new guideline. Bumolo 2, located northeast of the Sto. Tomas II orebody, similarly became inaccessible to the exploration team because of overlapping claims among surface owners. Only limited stream sediment sampling in a small area outside of the known target was allowed.

Silangan Project

Located in Surigao del Norte, Northern Mindanao in the Philippines, the Silangan Project combines the development of the Boyongan and Bayugo deposits, which is comprise of gold, copper and silver.

In February 2009, Philex Mining consolidated its interest in the Silangan Project by purchasing the remaining 50% equity interest held by Anglo American Exploration BV and Anglo American Exploration (Philippines) Inc. for a consideration of US$55 million.

The Silangan Project comprising the Boyongan-Bayugo deposits is covered by MPSA-149-99-XIII and EP-XII-03. The exploration efforts for 2011 in the Silangan Project focused on three major objectives: (1) the formal declaration of mineral resource complaint with the Philippine Mineral Resource Code (PMRC); (2) the development of the Exploration Decline aimed at reaching the deposits at depth for further assessment; and (3) initiation of engineering studies and development infrastructure in support of the Feasibility Study.

PMRC-compliant resource declaration

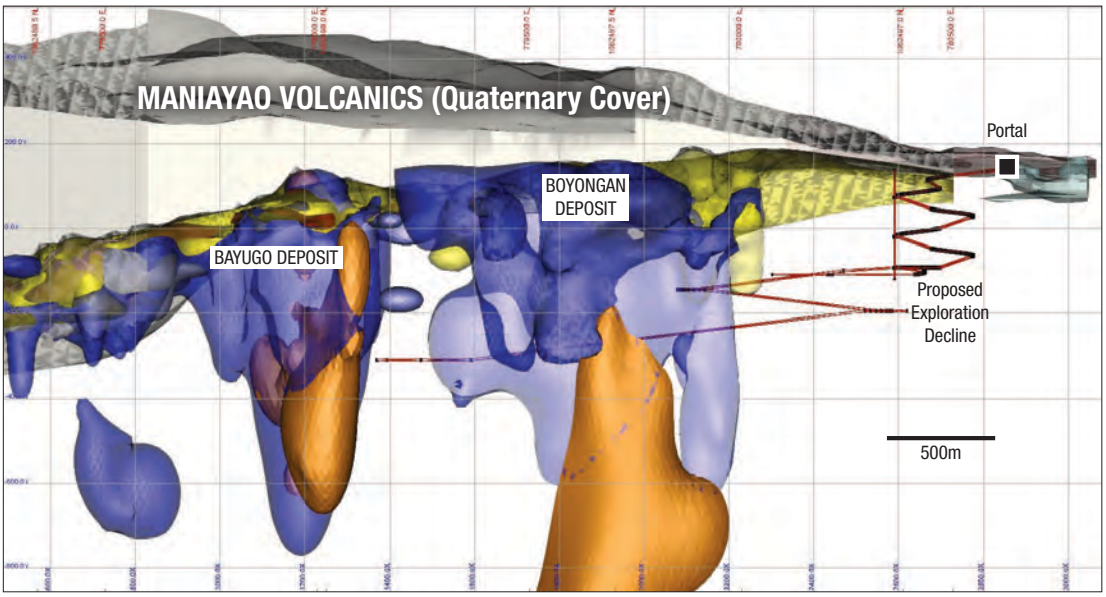
The early part of 2011 was devoted to data compilation, data integrity tests, deposit modeling and resource estimation. This effort utilized information coming from more than 130,000 meters of drill core samples that were subjected to detailed mineralogical logging, geomechanical logging, specific gravity measurements and multi-element assays. In July 2011, a PMRC-compliant mineral resource for Boyongan-Bayugo deposit was disclosed. The combined Measured + Indicated Mineral Resource for Boyongan is 273 million tonnes of 0.52% Cu and 0.72 g/t Au, and for Bayugo 125 million tonnes of 0.66% Cu and 0.66g/t Au.

Exploration Portal and Decline

The exploration decline towards the orebody was recommended as part of the pre-feasibility study to assess the ground condition of the deeply buried deposit. Geotechnical investigation and detailed mapping was initiated at the proposed site of the portal and along the proposed stretch of the exploration decline. Fifty-eight geotechnical holes having an aggregate meterage of 3,411m were completed. Portal development started in April 2011 and the first blast was done in August 10, 2011, after which, development ensued swiftly for 60 meters until the poor ground quickly succumbed to high pore water pressures from heavy rainfall. At this point, it was decided that the development of the decline would be put on hold to facilitate the study of different options to advance the decline and reach the deposit at depth.

Engineering studies and infrastructure support

Several support activities were also done to advance the pre-feasibility study of the Project. These were the conduct of: (a) mining studies by SRK Vancouver; (b) metallurgical test works by Arizona-based KD Engineering and Metcon Research; and (3) engineering studies by Golder Associates of Perth, Western Australia for the proposed tailings storage facility. Aside from minor infrastructure at the Portal Site, the Company also invested P15 million in laying three kilometers of electrical transmission line from the local grid to the Portal site. This was undertaken in partnership with the local power cooperative SURNECO. In addition, the improvement of the access road from the national highway to the Portal site were studied and initiated.



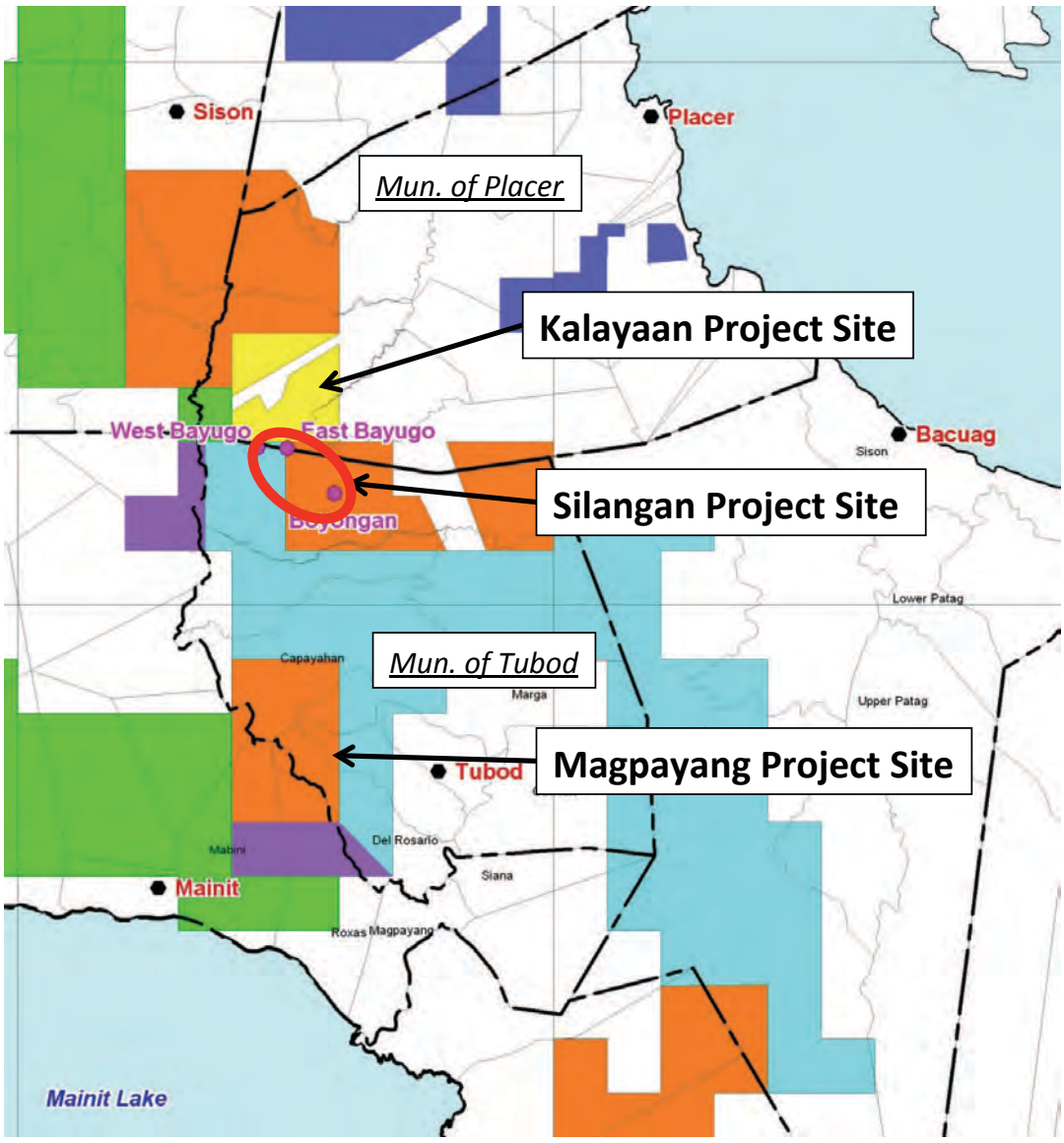
The design of the Proposed Exploration Decline towards the Boyongan and Bayugo Deposits

Magpayang Project

The Magpayang Project was implemented to follow up the old exploration work done by Anglo-American in the surrounding areas south of the Boyongan Deposit. It was deemed that the previous exploration work was not conclusive enough as only two scout drill holes reached the paleosurface. In order to refine the drilling targets, Philex conducted a more traditional approach of detailed mapping simultaneous with multi-element soil geochemical survey. All these were accomplished in 2011 and the results will undergo processing and interpretation. Relevant geochemical anomalies will be subjected to geophysical surveys in the hope that the methods will enable the Exploration Team to peek through the sedimentary cover and select credible targets for scout drilling in the future.

Kalayaan Project

The Kalayaan Project covers 286 hectares immediately north of the Silangan Project area. Although this joint venture with Manila Mining Corporation was signed on May 11, 2011, drilling work did not start until December 8, 2011 due to accessibility issues with the local communities and with the surface landowners. Until that time, the exploration team concentrated on drilling preparations and the development of community projects. Foremost is the rehabilitation of the Makalaya-Anislagan Provincial Road, the construction of the Kalayaan Project tree nursery, ten major silt traps, drilling camp and stockyard. Drilling commenced with the initial mobilization of two drilling rigs tasked with definition drilling of the resource previously identified by Anglo American. At year's end, the drilling meterage totaled 900 meters.



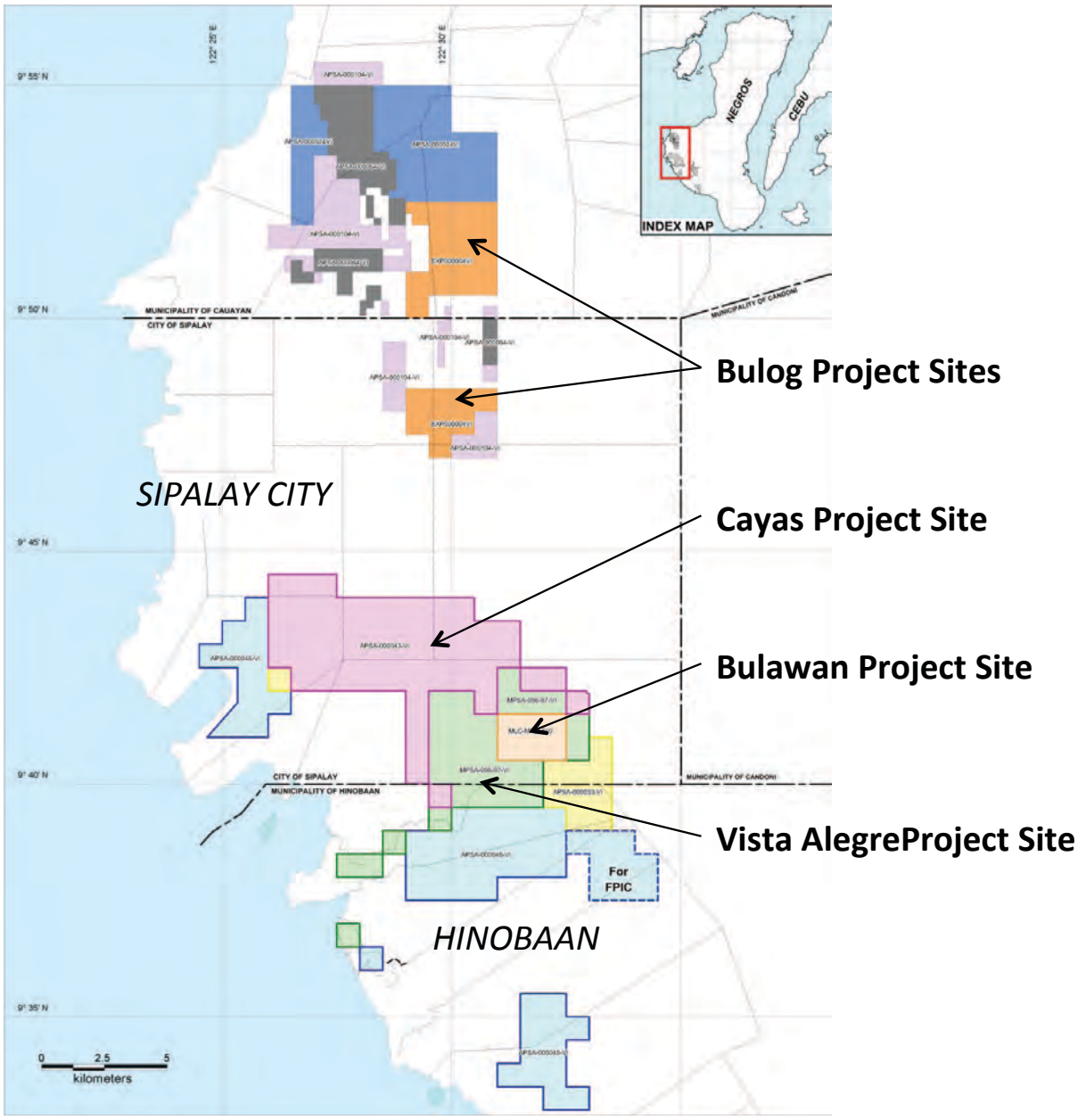
The exploration decline towards the orebody was recommended as part of the pre-feasibility study to assess the ground condition of the deeply buried deposit. Portal development started in April 2011 and the first blast was done in August 10, 2011.

NEGROS OCCIDENTAL

Bulawan Project

Philex Mining is also exploring the possibility of re-opening the Bulawan Project. The Bulawan Project is a gold operation which was mothballed in 2002 and since then has been kept under care and maintenance. The mine was decommissioned because of low metal prices prevailing at the time. With the level of the price of gold having become significantly higher since then, Philex started looking into the possibility of reopening the mine for oepration and is currently undertaking a drilling program to establish if its current resource which stands at 23.9 million tonnes containing 1.91 grams of gold per tonne could be increased before committing further funds for the Project.

In preparation for the upcoming pre-feasibility study of Bulawan Mine, a scout drilling campaign was conducted in the vicinity of Bulawan. The main purpose of this drilling is to test the last remaining exploration plays in Bulawan in the hope of augmenting the remnant resources. A total of 4, 944 meters were drilled on 17 holes. The drillings focused on testing deep root systems in the North Block, the Central Block and in between the South Block and Korokan. Shallow drillings were also conducted to test remote extensions of the North Block as recognized from new induced polarization surveys and from rapid computer modeling of Bulawan deposit using the Leapfrog software.



Vista Alegre Project

The whole Vista Alegre exploration permit area was subjected to high density stream sediment survey to detect hidden dacite breccias bodies within the andesite host rocks. Several gold and zinc anomalies in Skid 8 were highlighted with this method and these were subjected to induced polarization and resistivity surveys. Prior to this, the Nagtalay gold deposit, Laburan, and Skid 9 deposits were subjected to such tests to obtain the geophysical signatures of these known gold areas. More than eight line kilometres of IP and resistivity surveys were laid out and tested from Nagtalay to Skid 8. The results of geochemistry and geophysics will be verified through scout drilling in early 2012 upon completion of the Bulawan geotechnical studies. Simultaneous with this is the planned discovery drilling of Laburan and Skid 9 to augment the Nagtalay gold resource.

Cayas Project

The reconnaissance geologic mapping and stream sediment sampling work in Cayas identified two major areas with high potential for porphyry copper mineralization. Both were delineated on the basis of strong gold, copper and molybdenum anomalies with favourable lithologies and alteration suites. To follow up these anomalies, detailed grid mapping simultaneous with soil geochemical sampling were undertaken. The geologic mapping confirmed an episodic intrusion event contrary to previous works done in the mid 1990's. An analysis of the rock samples also showed that the rock alteration observed in Cayas is typical of mid-level alteration mineral assemblages, indicating that the core of the mineralization zone is to be expected at depth. The same areas will be subjected to in-house electrical and magnetic surveys prior to scout drilling by the last quarter of 2012.

Bulog Project

Further studies and drillings in the Bulog Project for both Parcel 1 and 2 were put on hold for the whole year. Poor security conditions were very pronounced during the year in both parcels while accessibility issues continue to hound the proposed drilling areas in Parcel 2. Small scale mining issues also cropped up in Parcel 2. The company's Community Relations Division rose to seek resolutions to these issues so that exploration work may be continued on the second half of 2012.

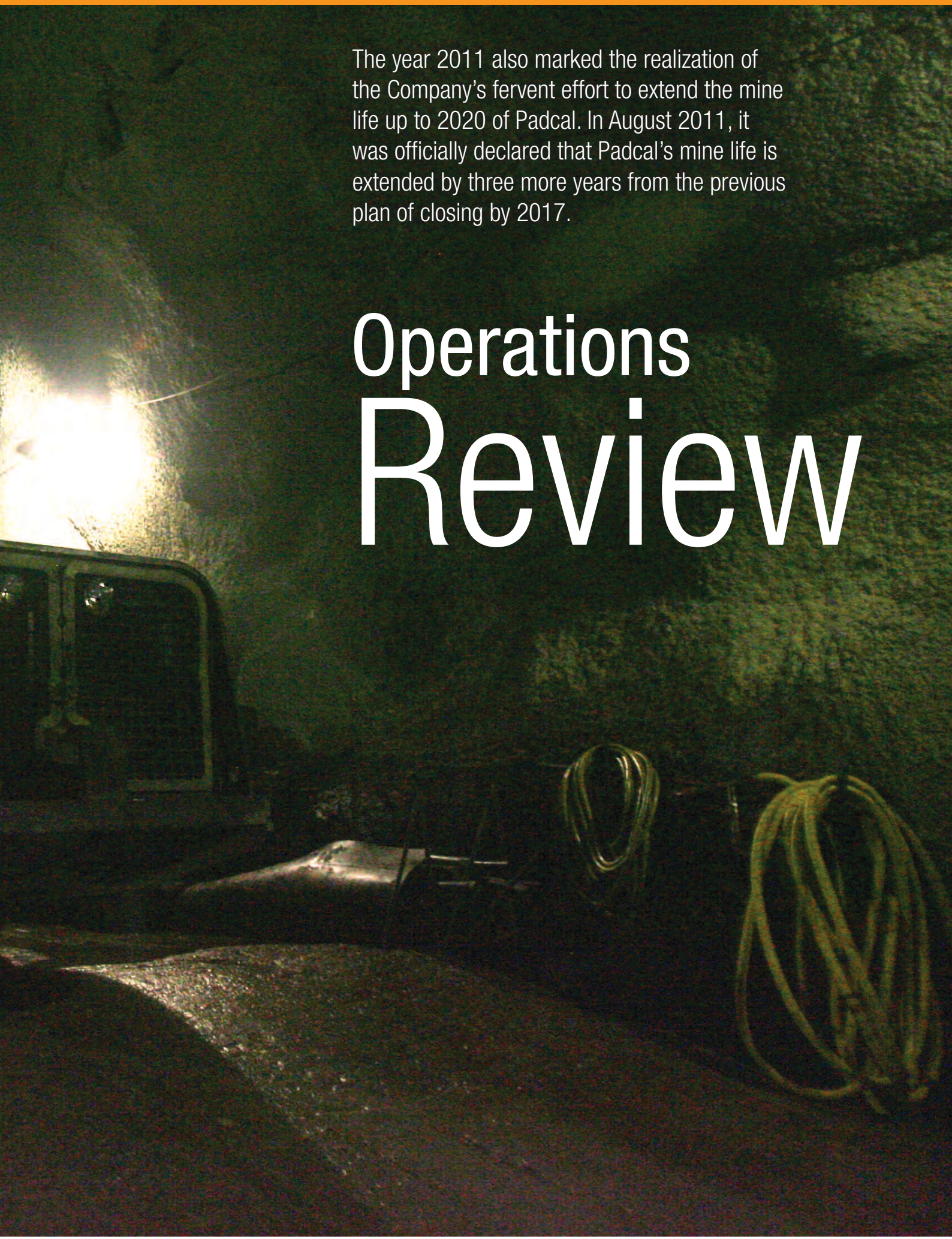
ZAMBOANGA DEL NORTE

Sibutad Project

Exploration work in the Sibutad Project concentrated on areas between the boundaries of the municipalities of Rizal and Sibutad. Stream sediment survey and geologic mapping has identified the Mt. Nanca prospect (five aerial kilometers SE of Sibutad Mine) as the most promising area for a deeply seated deposit of porphyry-type mineralization. This area and several more prospects adjoining it were subjected to soil geochemistry, test pitting, and trenching. The anomalous areas were then subjected to ground magnetics, induced polarization, and resistivity surveys. Before the end of 2011, the exploration team has focused on several deep and shallow scout drilling targets from the Minlasag area to Mt. Nanca. However, the scheduled scout drilling program was put on hold pending the resolution of legal and political issues forwarded by the Zamboanga Del Norte Province against large-scale mining.

The year 2011 also marked the realization of the Company's fervent effort to extend the mine life up to 2020 of Padcal. In August 2011, it was officially declared that Padcal's mine life is extended by three more years from the previous plan of closing by 2017.

Operations Review



Mine Production and Development

Tonnage mined in 2011 totaled 9.49 million tonnes, 1% higher than 2010 production of 9.36 million tonnes due to sustained improvements in the ore transport system and equipment availability of LHD (load-haul-dump) units underground. This production output of 2011 not only surpassed the budgeted tonnage for the year but has also set a new record since 1987, another manifestation of continuing improvement in productivity and resolute perseverance of Padcal employees.

This year's gold grade averaged 0.56 gram per tonne, 2% higher than the average grade of 0.55 gram per tonne in 2010 while the average copper grade of 0.22% is also higher by 5% compared to last year's copper grade of 0.21%. Better grade performance can be attributed to the full production of high grade ore sources at 867ML (meter level) and 840ML Sub-Level Caving Project during the year and the coming in of additional drawpoints at 908ML South Block starting April 2011.

A total of 100 drawpoints has been commissioned for the year, 85 drawpoints at 908ML South Block and 15 drawpoints at 782ML North Block. Development works during the last quarter of the year were also focused on driving of the extension of drilling drifts at 867ML and 840ML in preparation for the Production Schedule of 2012.

During the period, Fanhole drilling has been undertaken at Production Lines 8, 9, 10, 12, and 13 of the 908ML North Block, also in preparation for the programmed pillar robbing by January 2012.

Major improvements in the mine for the year include the modification of Feeder Belt Conveyor (FBC) No.17 and installation of FBC No.19 at 773ML, which resulted in better flexibility in the conveying system. During the year, two units of Twin-shaft Abon Sizers were commissioned at Feeder Belt Conveyor No.6 and at Long Transfer Raise (LTR) 4-3 which further reduced the ore size being handled by the conveyors,

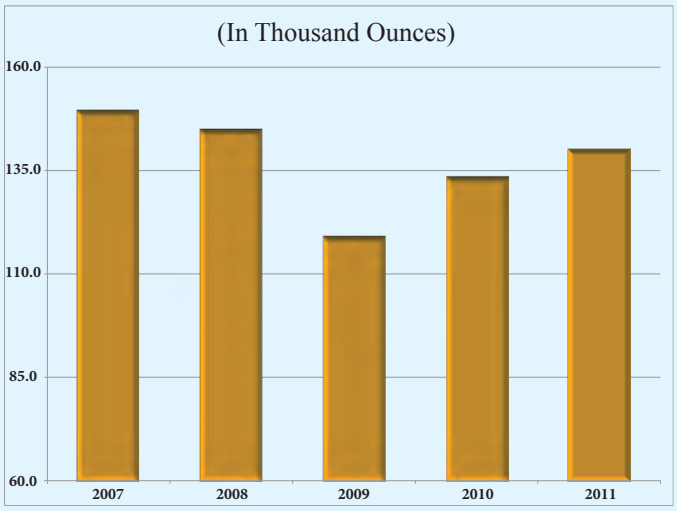
The year 2011 also marked the realization of the Company's fervent effort to extend the mine life up to 2020 of Padcal. In August 2011, it was officially declared that Padcal's mine life is extended by three more years from the previous plan of closing by 2017. This is the result of a careful review of its ore reserves and its mineability, anticipated production costs and capability, and after considering conservative projections of metal prices. The additional reserve will be coming from the 798ML, a new mining level programmed for development starting 2012 and scheduled for production by 2014.

Metal Production

Padcal Mine, 2007-2011

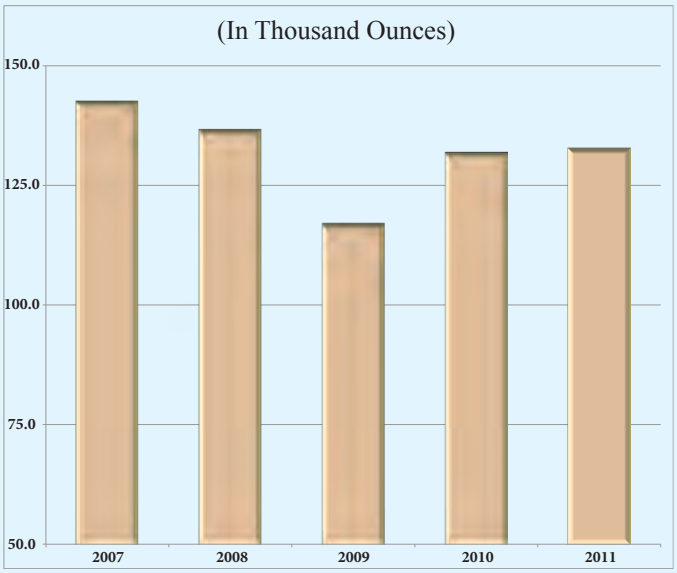
Gold

2007	149.53
2008	145.00
2009	119.17
2010	133.52
2011	140.11



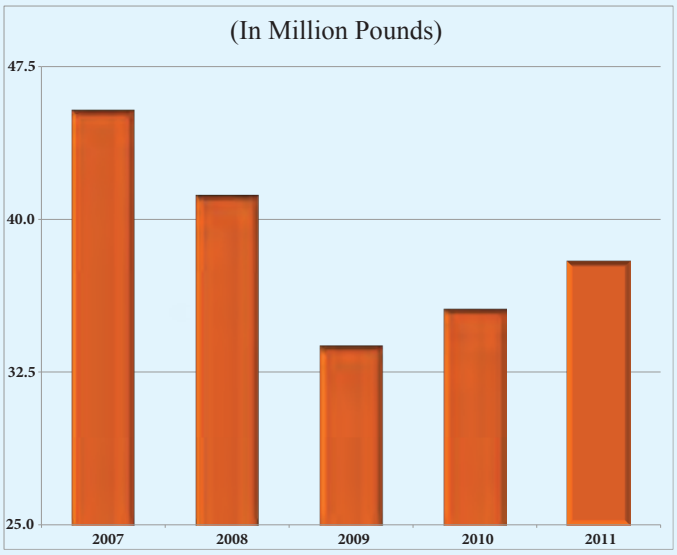
Silver

2007	142.48
2008	136.59
2009	117.05
2010	131.85
2011	132.75



Copper

2007	45.34
2008	41.18
2009	33.82
2010	35.62
2011	37.96



Production and Sales Statistics

	2011	2010
Production		
Tonnes Milled	9,487,037	9,363,966
Concentrate Produced (Tonnes)	69,613	65,340
% Copper in Mill Feed	0.221	0.210
Gold in Mill Feed (Grams/Tonne)	0.564	0.552
% Copper Rocovery	82.10	82.19
% Gold Recovery	81.35	80.32
Copper Produced - Lbs	37,955,132	35,620,784
Gold Produced - Ozs	140,113	133,516
Silver Produced - Ozs	132,745	131,848
Sales		
Concentrate (Tonnes)	70,154	65,090
Copper - Lbs	38,301,937	35,455,403
Gold - Ozs	141,919	133,058
Silver - Ozs	125,414	130,929

Milling Operation

Ore milled in 2011 averaged 0.56 gram gold per tonne production, higher than the 0.55 gram gold per tonne average ore grade in 2010. Copper grade of 0.22% in 2011 was likewise higher than the 0.21% in 2010.

With higher tonnage of 9.48 million tonnes mined in 2011 from 9.36 million tonnes in 2010, concentrate production was consequently higher at 69,613 dry metric tons this year compared to 65,340 of year 2010.

The total tonnage milled for the whole year of 2011 surpassed the 2010 figure, which was reported to be the highest level achieved in over the past 10 years of Padcal's operation. Metal productions were 140,113 ounces of gold and 37.96 million pounds copper in 2011, vis-a-vis 134,000 ounces gold and 35.62 million pounds of copper in 2010.

Major projects for the year included:

- Installation of one more unit of JCI double deck vibrating scalper to replace the Hewitt Robins double deck scalper in August 6, 2011.
- Installation of another unit of Metso C100 Jaw Crusher in December

Through programs that promote health, ensure quality education, provide livelihood, and establish public infrastructure, the Filipino families in communities where we operate can be assured of a sound foundation for their dreams — for themselves and for their families — to come true.

Community Empowerment

Draw Below
PAGE
DATE

Going The Extra Mile

PADCAL PROJECT
Benguet Province

Long before the Philippine Mining Act of 1995 was enacted, the Padcal Project at Tuba, Benguet has already implemented and is continuously implementing for its host and neighboring communities, what is being required by the law. It has even exceeded what is mandated under Republic Act 7942, which requires mining companies to allocate at least 1% of its direct mining and milling cost (DMMC) for Social Development and Management Program or SDMP. For 2011, the total SDMP outlay for health, education, livelihood, and public infrastructure totaled P55.7 million or 150% of its DMMC.

Under the Company's health program, 6,205 community members within and around the mine camp benefited from the basic health services provided by the 28-bed capacity Sto. Nino Philex Hospital, which is located inside the mine camp. During the year, the Company's Medical Department also conducted health maintenance and disease prevention campaigns, which included the conduct of health screenings and emergency preparedness seminars at the communities, and the provision of six sanitation facilities and health equipment in various public health centers and homes in the community.

For its education program in 2011, the Company has invested a total of P15.3 million to promote and uplift quality education in the area. In the said program, the Company has supported 108 college scholars, 58 technical/ vocational scholars, 176 high school scholars, and 26 Alternative Learning System students. Philex Mining has also provided 682 students with school supplies and uniforms and provided susidy to 372 students. Further, the Company also built three additional school buildings for preschoolers and improved classrooms and facilities in eight elementary schools around the mine site. Donation of school supplies and training workshops for students were likewise conducted.

The bulk of the SDMP allocation equivalent to 66% (P37.0 million) was programmed for infrastructure and livelihood.

Infrastructure projects included construction and improvement of farm-to-market roads, flood prevention road works, and three buildings that serve as livelihood centers for the communities. Construction of additional hanging bridges, pathways, foot trails and installations of railings were also conducted during the year.

The Community-Based Training Centers or CBTC for People's Organization (POs) were also established under the Company's livelihood program. Pilot projects include Aquaculture with eight tanks fully established and four in operation; Livestock Raising, which is already operational with 133 hogs, complete with gene-transfer center, piglet production, and fattening unit; Meat Processing, which is already in production stage with 12 employee-dependents workers and ready for outside market expansion; and Coffee farms with two demo farms. The Philex Group Foundation oversees the implementation of the livelihood projects.

In 2011, Philex Mining has built three school buildings to pre-schoolers, in addition to the two schools it has established inside the mine camp and eight other elementary schools in neighboring and outlying communities.

Philex Sto. Niño Hospital

Ensuring one precious element: Health

Operating 24/7, the Philex Sto. Niño Hospital in Padcal, Tuba, Benguet caters to its employees, dependents, the host and outlying communities. The 28-bed capacity facility is equipped with state-of-the-art medical and laboratory apparatuses. These are essential for its continuous operation in ensuring that the health of everyone at Padcal is not compromised.

Established in mid-1960's as a dispensary, what was once a clinic has expanded into a hospital as the mining operation progressed. The hospital is now staffed by six doctors - four resident physicians, an occupational health physician and a medical director – complemented by eight regular registered nurses, two medical technologists, a couple of x-ray technologists and casual or contractual aides. The medical facility also offers dental care, with one regular dentist and one retainer.

"Presently, the hospital is categorized, and operates, as a primary health facility, considering its proximity to hospitals in Baguio City and the neighboring towns," Medical Director Mariele Lantes-Ventenilla explained. "It is PhilHealth-accredited and its services to and medicines are free for company employees and communities."

The Company-run medical facility has an average of five to eight patient admittances for common ailments and services around 175 outpatients in a day. The clientele ranges from employees and direct dependents, extended family members and non-dependents from neighboring communities.

Moreover, the Sto. Niño Hospital has three ambulances to service patients for free, three private rooms, three isolation rooms, pediatric, female and male wards, mother and child ward, and a control and monitoring room. The medical facility also has its own pharmacy as well as dental and occupational health clinics where consultations and the Annual Physical Examinations (APE) of employees are being done.

"We see to it that the well-being of our employees and the community is well taken care of. We do this by providing free primary health care, consultations, maintenance medication, monitoring and screening. We even conduct medical missions in isolated and far-flung communities in coordination with the Community Relations Department, the municipal and barangay local government units," Dr. Ventenilla adds.

Brenda Gabino, a young mother from the neighboring community of Sitio Ligay, Barangay Camp 1, recently gave birth to her first child at the hospital. Cuddles her new bundle of joy, she shares: "*Malaking tulong talaga ang* Philex Hospital. *Malapit at madaling mapuntahan at libre pa ito kahit hindi kami* dependent *o* connected *sa kompanya. Maraming salamat.* (The Philex Hospital is really of great help to us. It is near and accessible, as well as it is free of charge even though we are not dependents or connected to the company. Thank you.)"

Day in and day out, Padcal's medical department through the Sto. Niño Hospital continues to offer basic health care to its employees and to the communities within and beyond its mining operation.

"So far, the communities in and around Padcal are in good shape, health wise. The improved screening procedure and regular consultations help a lot to deter any serious illnesses. As much, the people here have become health conscious. All these are Philex Mining's initiative to ensure one precious element for a progressive and sustainable community, which is health," Dr. Ventenilla concludes.

Inside the mine camp in Padcal, Philex operates a primary hospital staffed by six doctors - four resident physicians, an occupational health physician and a medical director – complemented by eight regular registered nurses, two medical technologists, a couple of x-ray technologists and casual or contractual aides. The medical facility also offers dental care, with one regular dentist and one retainer.

Keeping The Promise

BULAWAN PROJECT
Negros Occidental

Due to low metal prices in 2002, Philex Mining subsidiary Philex Gold Phils., Inc. (PGPI) put on hold gold production at Bulawan Project in Sipalay, Negros Occidental. Yet, its commitment to take care of the environment and its host communities remains steadfast. For ten years now, PGPI continues to prioritize the care of the communities and the environment covered by its Mineral Production Sharing Agreement (MPSA) with the Philippine Government.

For community development, PGPI assisted in the maintenance and improvement of a total of 21 kilometers of barangay roads both in the municipalities of Sipalay and Hinobaan, particularly in the stabilization of drainage systems, backfilling, surfacing, and concreting of spillways.

Aside from public infrastructure, PGPI also continues to support the communities in the establishment of, and building their capacity for, livelihood projects such as cassava plantation, vegetable gardening production, and vermiculture. Together with farmers in the area, PGPI also established a pilot plantation of mulberry for silkworm production, targeted as an alternative livelihood of host communities.

Starting It Right

THE SILANGAN PROJECT
Surigao del Norte

Still in the pre-feasibility phase, the Silangan Project of Philex Mining subsidiary Silangan Mindanao Mining Company, Inc. (SMMCI) has already implemented socio-economic development projects at its seven host municipalities in Surigao del Norte: Alegria, Bacuag, Mainit, Placer, Sison, Taganaan and Tubod.

Through the Community Technical Working Group (CTWG), a multi-sector group composed of representatives from a people's organization (PO), religious group (Catholic and non-Catholic), local government units (LGU), the Department of Health (DOH), the Department of Education, DENR-Mines and Geosciences Bureau (MGB), the National Commission on Indigenous People (NCIP), and SMMCI, around P4.14 million worth of Community Development Projects (CDP) has been identified and implemented for 2011.

Among the priority projects during the year were the improvement of farm-to-market roads and water systems, provision of service drop wires, and street lighting facilities, all of which currently benefits 14 barangays with a total population of 14,861.

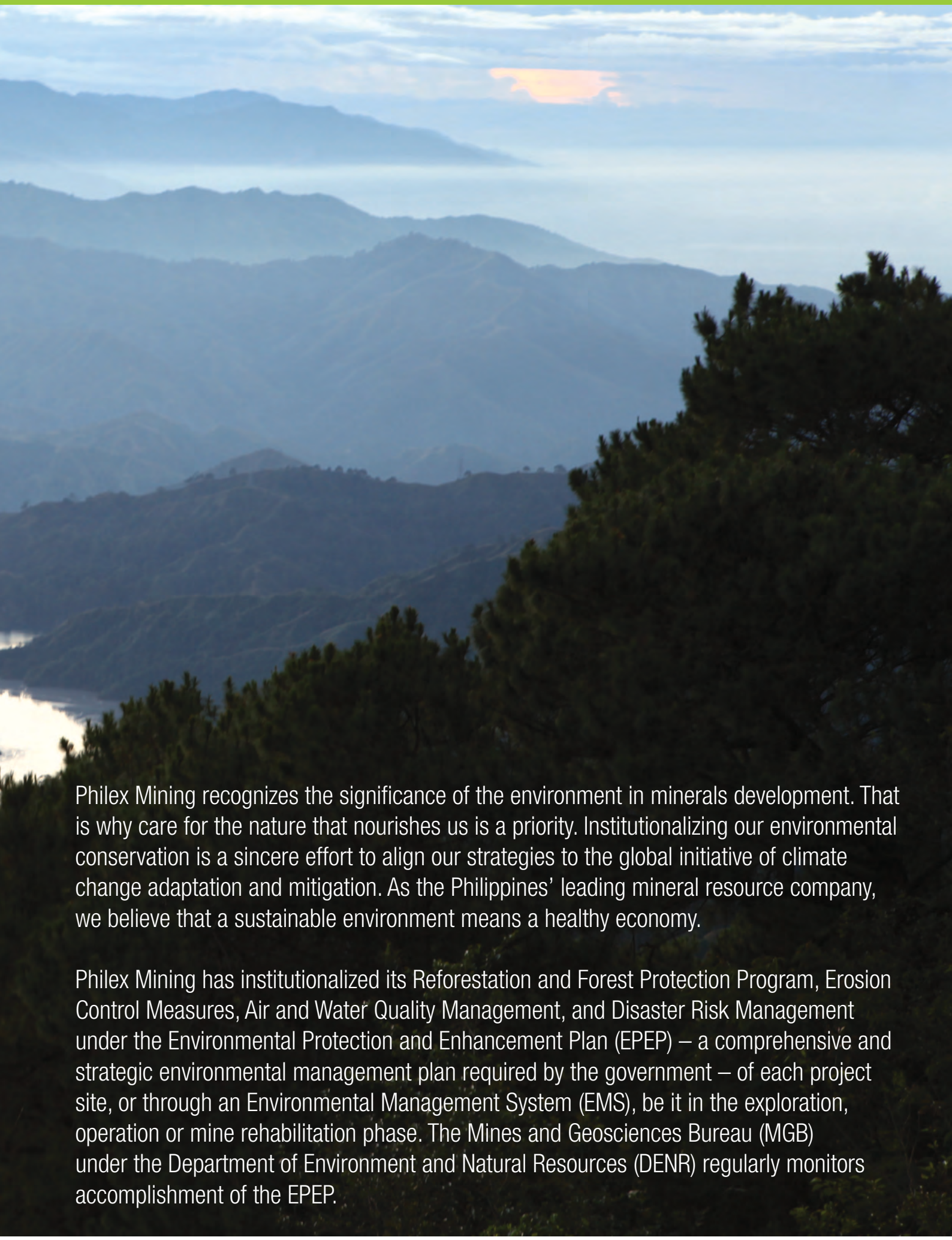
For Silangan Project's Health Program, 61 volunteers from Barangays Capayahan, San Isidro, Timamana, and Boyongan have undergone first aid training to beef up the community's capacity for emergency response. To promote health consciousness among the community members, SMMCI's resident physician conducts free medical consultation in the host communities. As of December 2011, a total of 226 community members have availed of the free health service.

In promoting better quality of education, SMMCI has initially granted scholarships to 141 elementary and high school students from Barangays Timamana, Boyongan, San Isidro, and Capayahan of the Municipalities of Tubod and Placer. SMMCI has also fielded four volunteer teachers to improve the student-teacher ratio in these areas.

Also in partnership with the AFP's National Development Support Command (NADESCOM), three school building construction and repairs have been identified for implementation in 2012. The projects in the pipeline are: repairs of five classrooms in Barangay Anislagan; construction of a two-classroom building in Barangay Boyongan; and repairs of five classrooms in Barangay Macalaya, all of Placer town of Surigao del Norte. The pact between the two parties is anchored on the previously signed agreement late this year allying Philex and NADESCOM, the AFP's peace and development arm. For livelihood, the Company initiated programs in backyard gardening through distribution of seeds and conduct of training among farmers and their families in Barangays San Isidro, Capayahan, Timamana, and Boyongan.

Eleven-year-old Jacky Macopahon (front, left) and 12-year-old Elizabeth Palay (front, right) of the Mamanwa Tribe are among the scholars of SMMCI at the Timamana Elementary School in Tubod, Surigao del Norte. Some 30 families comprise the Mamanwa Indigenous Peoples (IPs) that the Company is currently hosting; 22 children of the Tribe are under the SMMCI Scholarship Program which has initially granted scholarships to 141 elementary and high school students. The Company also fielded four volunteer teachers to help improve the student-teacher ration in these remote communities.

Environmental Stewardship



Philex Mining recognizes the significance of the environment in minerals development. That is why care for the nature that nourishes us is a priority. Institutionalizing our environmental conservation is a sincere effort to align our strategies to the global initiative of climate change adaptation and mitigation. As the Philippines' leading mineral resource company, we believe that a sustainable environment means a healthy economy.

Philex Mining has institutionalized its Reforestation and Forest Protection Program, Erosion Control Measures, Air and Water Quality Management, and Disaster Risk Management under the Environmental Protection and Enhancement Plan (EPEP) – a comprehensive and strategic environmental management plan required by the government – of each project site, or through an Environmental Management System (EMS), be it in the exploration, operation or mine rehabilitation phase. The Mines and Geosciences Bureau (MGB) under the Department of Environment and Natural Resources (DENR) regularly monitors accomplishment of the EPEP.

Reflection of Resolve

PADCAL PROJECT
Benguet Province

Philex Mining's 53-year old Padcal Gold-Copper operation has achieved ISO 14001:2004 (Environmental Management System) re-certification during the year, once again affirming the Company's world-class environmental management standards. In 2002, Certification International Philippines Inc. (CIPI) awarded Padcal Project its first ISO 14001 Certification making us the first mining company to have achieved such. Padcal has continuously and consistently achieved re-certification since then. Its extensive programs for the management of the mine, mill, and tailings impoundment facilities, as well as its initiatives for the conservation of water and watershed, air quality, and the forests within its tenements reflect the Company's resolve to leave behind an environment better than it was found.

For the year, the Company spent a total of P324.20 million or 8.67% of its total mining and milling cost for Padcal Project.

REFORESTATION

Padcal's Reforestation and Forest protection program started in 1976 as a community pet project of Mrs. Marie D. Smith, the wife of former VP for Operations Mr. Lawrence Smith. Wives of miners were hired on a seasonal basis to propagate and care for seedlings within the reforestation and watershed areas.

In 1987, the Forestry Section was formally organized with the employment of a licensed forester. A forest

Committed to providing access to clean and safe water to its host and neighboring communities, Philex Mining puts premium on responsible water quality management as water resource is at the heart of its operations.

nursery was established with the capacity to propagate 500,000 seedlings annually. From 32% in 1976 to 1983, survival rate now stands at 90%.

Forest fires during the dry season are a major factor affecting the survival rate of the planted trees. Firebreaks are constructed to isolate and protect the forest plantations from wildfires. Forest fire prevention and environmental awareness campaign are conducted in the community.

In 1991, Philex Mining launched the "Philex Mining Community Plant A Tree, Adopt A Forest Program," a competition that encouraged farmers to be stewards of the land by protecting the forest areas from destructive forest fires during the dry season. In 1998, the Company launched a five-year community-based reforestation contract program to encourage participation from the residents of host and neighboring communities, employees and their dependents, students, and civic, cultural, religious and professional organizations.

Today, more than 2,210 hectares have been successfully reforested with more than seven million seedlings of various tree species, which the Company continues to maintain and protect each year. In 2011, the Company provided 26,347 planting stocks/seedlings to various civic organizations, LGUs, small-scale mining operators, associations, schools, private individuals, and other government agencies for the National Greening Program (NGP).

The project also reaffirmed its commitment to environmental conservation when it was honored as 'Best in Mining Forest' for the 7th time at the Annual National Mine Safety and Environment Conference in November. Since the launch of the awards for Best Mining Forest in 1989, the Padcal Mine has been champion for the years 1991, 1994, 2000-2002, 2004, 2007 and 2008. The award is given annually by the Philippine Mine Safety and Environment Association (PMSEA) to the mining project that has excelled in development plans, nursery operations, extent of planted areas (total planted area, previous and new plantations or expansions), disturbed areas affected by the operations, maintenance and protection (plantation activities/survival rate, number of persons involved), and other environmental factors (species diversity, research/studies, Information Education Communication on reforestation, services to the community, other conservation measures, wildlife, and faunal migration).

The reforestation program also creates jobs for the communities. Apart from the foresters, deputized forest guards, and regular reforestation personnel, the Padcal Project also employs additional manpower for forest protection and seedling propagation maintenance, grass cutting, and fire line construction.

For forest maintenance and protection, the Padcal Project has ensured consistent control of forest fires through the construction of fire line, firebreaks, and fire towers, brushing, weeding, mulching, and pruning, fertilizer/lime/pesticide/chemical application, water spraying, control of forest pests and diseases, patrol work, and forest law enforcement.

AIR QUALITY MANAGEMENT

Philex Mining takes the responsibility in ensuring that risks to exposure to pollutants such as fugitive dusts of the communities where it operates are mitigated. The Company conducts quarterly ambient air quality monitoring in established sampling stations within the mine site – Mill Plant, Assay Laboratory, and Petro and Exploration Laboratory – to check the effect of emission in nearby communities like Sal-angan, Banget, and Midway.

For effective monitoring, the Company invested a total of P6.0 Million on four Beta Attenuation Monitor (E-BAM), an instrument that automatically measures and records dust concentration in the air. This best practice ensures compliance with RA 8749 or the Clean Air Act.

WATER QUALITY MANAGEMENT

Philex Mining puts premium on responsible water quality management as water resource is at the heart of its operations. More importantly, it is committed to providing access to clean and safe water to its host and neighboring communities. The Company implements innovative solutions on the prevention of water mass contamination with a goal to shift the paradigm that was built upon by legacy mines, which does not describe the reality of responsible mining today.

Padcal's Environment Division facilitates in-house effluent sampling at the Tailings Pond No. 3 on a weekly and monthly basis to monitor the quality of the effluent from the mine and the mill. The Mines and Geosciences Bureau and the Environment Management Bureau likewise conduct their own regular water sampling analysis for comparison.

The effluent monitoring is compliant with the Department Administrative Order 35 or the Revised Effluent Regulations of 1990, indicating certain parameters that must be maintained such as total suspended solids (TSS), which must be maintained at 50mg/L. The Company took the initiative to assess as well total dissolved solids (TDS)-1,000mg/L and total solids (TS)-1,050mg/L, in which both are compliant.

Also monitored is the presence of heavy metals like copper (1.000ppm), lead (0.1ppm), cadmium (0.050ppm), chromium (0.100ppm), among others. Current pH (acidity or alkalinity) is at 7-8, meeting the standard of 6.5-8.5 while dissolved oxygen stands at 7-8mg/L, well above the required 5mg/L.

A Step Ahead

SILANGAN PROJECT
Surigao Del Norte

Cognizant of the potential environmental impact of exploration activities in its area of operation, the Silangan Mindanao Mining Company, Inc. (SMMCI) is already implementing the Environmental Management System for the Boyongan-Bayugo project in Timamana, Tubod, Surigao, Del Norte.

SMMCI has established a 20x50-meter nursery in Timamana, which can support the production of about 50,000 to 60,000 forest trees and fruit tree species. The Company also opened an extension nursery in Anislagan, which produced 34,251 more seedlings of forest trees including wildlings of indigenous trees. These will be used for site re-vegetation and will be donated to its host communities, interested groups and institutions for tree planting activities. In June 2011, SMMCI donated 1,300 seedlings of Falcata, Narra, Saguimsim, Duyok-Duyok, Hambabalud, Acacia Aurii, and Paguringon for a community tree planting activity in the municipality of Placer. To date, the Company has donated 9,950 seedlings to various groups in the locality.

In support of the project operation while enhancing environmental management, SMMCI initiated erosion prevention and management through access road preparation; stabilization and re-vegetation/ "greening" of soil muck along the access road; establishment of drainage canal; re-vegetation of critical slopes and road cuts; silt trap construction, and de-silting of silt traps.

For effluent management, the Silangan Project is ensuring that environmental preparations in the drilling pad are in place. Mud pits were established simultaneously with the preparation of the drilling pads. Sediments are then collected to reduce the amount of solids entering the mud pit, allowing efficient recycling of water in the drilling process. With the assistance of landowners in the area, SMMCI backfills and stabilizes the mud pit. Drill holes are sealed off and disturbed areas are rehabilitated and re-vegetated.

SMMCI ensures that affected communities will still be able to enjoy access to clean and safe natural sources of water such as creeks, rivers, and springs. Water Quality Monitoring in Silangan involves a quarterly evaluation by the Community Technical Working Group (CTWG) of 27 sampling stations for Physico-chemical parameters and 18 sampling stations for water flow rate.

Results of the water quality assessment at the project site showed far better results compared with the criteria set by the DENR Administrative Order No. 34-1990 or the Revised Water Usage and Classification/ Water Quality Criteria.

While in the process of exploration activities, biodegradable wastes are composted within the drilling camp while non-biodegradable are collected and segregated in the Materials Recovery Facility (MRF) on site. Recyclable materials are packed and donated to the barangay MRF at Timamana as a possible source of income.

SMMCI has also established a system of monitoring hazardous waste (used engine oil) generation that is compliant to the IRR of RA 6969 or Toxic Substances and Hazardous and Nuclear Waste Control Act of 1990.

Better Than Before

BULAWAN PROJECT
Sipalay, Negros Occidental

For 2011, PGPI has established a total reforestation project of 26.4 hectares, bringing total reforested area to 498 hectares. The subsidiary spent approximately P574,197.00 for the reforestation project in 2011 alone.

PGPI has also continuously maintained and monitored the reforestation of the Assisted Natural Regeneration (ANR) project site where Dipterocarp species were planted in 2010. As part of the government's National Greening Program (NGP), the subsidiary supervised the ongoing plantation establishment at the identified area.

To ensure the steady supply of seedlings, PGPI propagated a total of 34,788 seedlings of mangium and brushing of coffee at the central nursery. It has also maintained 1,452 seedlings of Indonesian Jatropha, which will be distributed to the communities as additional alternative source of income.

The Bulawan central nursery is also the source of seedlings for the reforestation projects of local government units, schools and various organizations in the area. For the year, PGPI has donated a total of 8,000 Mahogany and 4,000 Mangium seedlings.

The subsidiary has also maintained slope stabilization and various erosion control measures such as fascine, bench brushing, and matting. For the year, the subsidiary has worked on a total of 3,200 square meters of land within the MPSA.

PGPI spent approximately P708,462.00 for various environmental and mitigating measures on affected exploration sites in 2011. It implemented re-vegetation and re-greening programs to areas where disturbance and earth-moving activities occurred during access road and drill site preparations.

Outside of the MPSA area, PGPI established two major dikes to contain the loss and eroded materials coming from the access roads, which are being used by the communities.

PGPI also subjects itself to the Multi-Partite Monitoring Team (MMT), which regularly conducts monitoring and water quality sampling along the Sipalay- Hinobaan-Bacuyangan river system and its tributaries. Likewise, it also submits to the regular inspection and validation activities conducted by the Mines and Geosciences Bureau (MGB) on the subsidiary's compliance of the Safety, Health and Environment regulations.

Wild ducks frolic at the rehabilitated tailings pond of Bulawan Mine, which they have turned into their sanctuary.

Greener than Green

Revisiting the Philex Sibutad Project

Under the care and maintenance of a mining company, a remote mining community in Zamboanga del Norte has emerged greener than it has ever been.

When Philex Gold Philippines Incorporated (PGPI) was exploring Sitio Lalab, in Barangay Libay, Sibutad, Zamboanga del Norte in the early 90s, the environment back then was evident of old farming practice of swidden method or slash and burn farming *(kaingin)*, and wanton felling of trees for shanties or log cabins. Pitch in some illegal small-scale mining activities, and then you get the whole picture of what cogon grass-covered Lalab was before the entrance of Philex Mining.

Of the 3,515 hectares covered by the Mineral Production Sharing Agreement (MPSA), only 1% or 38 hectares have been utilized during its mine-related activities from 1997 to 1999, while 4% or 144.51 hectares have been forested with about 444,621 trees. Further, 20 hectares of shoreline have also been planted with 132,500 mangrove propagules.

Lilia Lagudas, has lived since childhood at the Municipality of Sibutad. Now at the prime of her life, Lilia dutifully performs her function as the Chairperson of Barangay Libay, one of the Project's impact barangays.

Her house sits just near the Libay *pantalan* or wharf. From there, by the Murcielagos Bay, you can see the grand view of Sitio Lalab and Mt. Emily.

SITIO LALAB BEFORE: Only thinly covered with cogon. Out of the total 3,515 hectares of the Project's approved MPSA, only one percent or 38 hectares have been utilized for mine-related activities.

SITIO LALAB NOW: Greener than it has ever been and living the legacy of Philex Mining Corporation-PGPI's commitment to the environment.

"Ako gayud nga ingnan ang mga tawo ng moingon nga gipasagdan sa Philex ang Lalab. Sukad sa una nga bata pa ako, daan na nga upaw ang bungtod. Wala kini'y mga kahoy ug naputos lang sa nipis nga kakognan. Karon green na gayud sukad nga ania na nag-operate ang Philex. Daghan na ug mga kahoy nga sa una dili gayud motubo kay lagi batuhon man ang klase sa yuta (I really talk to people who say that Philex just took for granted Sitio Lalab. Since childhood, the mountains have been barren. There were no trees back

"We can see it with our own eyes."
A greener Sibutad from high up the mountains down to the Murcielagos Bay.

then and was only covered with a thin layer of cogon grass. Now, the mountains are green ever since Philex came to operate. There are lots of trees now, that years ago won't ever thrive in the area due to its rocky type of soil)," Lilia explained.

The Sibutad Project was commenced after the passage of the Philippine Mining Act of 1995, otherwise known as the Republic Act (R.A.) No. 7942, which mandates mining companies to have its Final Mine Rehabilitation and Decommissioning Plan (FMRDP) in place even before it starts operation. The law requires large-scale mining companies that FMRDP funds shall be put in a government depository bank with the Department of Environment and Natural Resources (DENR) and a Multi-partite Monitoring Team as co-depositors. This ensures that funds are readily available for such purpose.

Since the Sibutad Project ceased operations, Lilia's constituents went back to fishing, their traditional source of living being a coastal barangay. But since the fish supply has depleted, due to illegal fishing methods and increased number of fisher folks, the yield is barely enough to support their families.

Some, Lilia added, turned to small- scale mining activities, operating outside the MPSA area of Philex. These illegal and unregulated mining activities are oftentimes the cause of soil erosion in the area. *"Makita nato mga malubog ang dagat gumikan sa mga aktibidades sa* small scale. *Kung adunay panghitabo nga may kalambigitan sa* environment, *kami nga taga-diri mismo kahibalo kung kinsa ang angay pasanginlan, dili ang kompanya* (We can see that there are soil erosions, which result to a murky sea due to small scale mining activities. If some environmental calamity ever happens, we, who are from this place, know who are to blame and it is not the Company)," Lilia said.

For Edil Lagudas, Lilia's son and also the Chairman of Barangay Magsaysay (another impact barangay of the Sibutad Project), a significant difference of Sibutad's environmental picture is clear. That is, the place has never been greener if not for Philex Mining.

"We can clearly spot and compare the areas within and outside the MPSA of Philex. The one with the lush yellow-green trees is where Philex used to operate and the bald parts of the mountains is the natural attribute of Lalab and Mt. Emily," Edil said while standing on his lawn facing the mountains.

Edil was once a load "checker" of Philex during its operation and knows about the care and maintenance program of the company through upland environmental protection activities. "We know what really is happening and what is the truth. We are from here and we can see it with our own eyes," Edil declared.

When Edil learned that Philex has plans of conducting further exploration activities for the eventual reopening of the Sibutad Project, hope within his heart soared. "Not for me, but for my constituents," he said. "Direct and indirect jobs will be available and business will again flourish in the area. If one has work, he can have the buying power, establishments will have more clients as well as the transport business."

Project OIC Engr. Ramil Mundo explained the progressive rehabilitation program of the company. "There are areas especially at the Heap Leach Pond that are still undergoing slope stabilization, though the remaining area is less than a hectare. We take out the 'lining' one at a time and proceed with tree planting. In no time, all areas will be covered with lush green trees," he explained.

Lalab for now has become an attraction for foreign and local tourists sailing by the Murcielagos Bay. What used to be barren mountaintops and sparse mangrove areas are now lush fields of green. Through its assiduous forestation and coastal enhancement programs, Philex Mining has made Sibutad greener than it has ever been.

Doubling the Effort

PGPI SIBUTAD
Zamboanga Del Norte

In Sibutad, Zamboanga Del Norte, PGPI increased by 200% its re-greening and afforestation, or the establishment of a forest on areas where there was none, as it planted a total of 30,165 Acacia Auriculiformis seedlings and Mangrove propagules at the South Larayan waste dump and Murcielagos Bay in 2011.

To date, a total area of 144.51 hectares has been planted with 444,621 seedlings. There are 380,209 surviving trees around the project site's afforested areas with a survival rate of 85.51%.

It has also conducted replanting in barren areas at South Larayan and Old Larayan waste dump and expanded the mangrove plantation at Sitio Looc.

As part of PGPI's commitment to the government's NGP, the Company donated a total of 5,000 Auri Culiformis seedlings to its host barangays including Magsaysay and Bagacay (Poblacion Municipality), and Barangay Damasing (Rizal Municipality). Last year, the subsidiary's 1,200 sq.m. central nursery produced 33,865 seedlings and maintains 3,700 to date.

The subsidiary also implemented various desilting, fire line construction, and other environmental activities such as repair of rice field dikes, maintenance of access roads by backfilling, maintenance of drainage system, road canals, and road networks, maintenance of a mini zoo with horses, goats, and poultry, and the maintenance of nursery, herbal, and vegetable garden.

On water management, PGPI Sibutad conducted monthly water quality monitoring for pH levels at the MMT sampling points and has observed normal pH values all year round. The Company also maintained check up of water pumps at the water source and generator sets.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills

The management of Philex Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders of the Company.

SyCip Gorres Velasyo & Co., the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

MANUEL V. PANGILINAN
Chairman & Chief Executive Officer

EULALIO B. AUSTIN, JR.
President & Chief Operating Officer

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

SGV&Co
ERNST & YOUNG
Quality In Everything We Do

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation
Philex Building
27 Brixton corner Fairlane Streets
Pasig City

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, 2011 and 2010, 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, 2011, and a summary of significant accounting policies and other explanatory information. We did not audit the December 31, 2009 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% for the year ended December 31, 2009. 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 year ended December 31, 2009.

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.

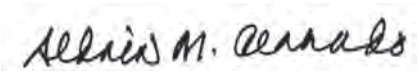
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 report of the other auditors in 2009 are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors in 2009, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011, 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.



Aldrin M. Cerrado
Partner
CPA Certificate No. 86735
SEC Accreditation No. 0113-AR-2 (Group A),
March 4, 2010, valid until March 3, 2013
Tax Identification No. 129-433-783
BIR Accreditation No. 08-001998-45-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174586, January 2, 2012, Makati City
February 29, 2012

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱3,947,295**	₱3,782,248
Accounts receivable (Notes 7, 18 and 21)	**1,595,629**	2,180,432
Inventories (Note 8)	**1,118,667**	1,093,636
Derivative assets (Note 18)	**904,701**	–
Other current assets (Note 9)	**765,334**	694,625
Total Current Assets	**8,331,626**	7,750,941
Noncurrent Assets		
Property, plant and equipment (Note 10)	**5,399,716**	5,095,029
Available-for-sale (AFS) financial assets (Note 11)	**5,428,069**	886,737
Goodwill (Note 4)	**258,593**	258,593
Deferred income tax assets - net (Note 22)	**12,720**	–
Investments in shares of stock (Note 11)	–	833,355
Deferred exploration costs and other noncurrent assets (Notes 1, 12 and 16)	**13,023,504**	10,828,065
Total Noncurrent Assets	**24,122,602**	17,901,779
TOTAL ASSETS	**₱32,454,228**	₱25,652,720
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term bank loans (Note 13)	**₱350,000**	₱150,000
Accounts payable and accrued liabilities (Note 14)	**1,160,205**	968,506
Income tax payable	**376,006**	856,954
Dividends payable (Note 23)	**325,333**	207,875
Provisions and subscriptions payable (Notes 11 and 29)	**317,111**	128,335
Derivative liabilities (Note 18)	**47,270**	–
Total Current Liabilities	**2,575,925**	2,311,670
Noncurrent Liabilities		
Deferred income tax liabilities - net (Notes 4 and 22)	**2,635,330**	2,013,230
Provision for losses (Note 29)	**173,731**	538,141
Provision for mine rehabilitation costs (Note 10)	**17,775**	31,709
Total Noncurrent Liabilities	**2,826,836**	2,583,080
Total Liabilities	**5,402,761**	4,894,750
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (held by 45,085 and 45,607 equity holders in 2011 and 2010, respectively) (Note 23)	**4,929,751**	4,922,131
Additional paid-in capital	**887,290**	812,378
Retained earnings (Note 23)	**16,093,059**	12,716,722
Net unrealized gain on AFS financial assets (net of related deferred income tax of ₱68,094 and ₱158,181 in 2011 and 2010, respectively) (Notes 11 and 22)	**2,020,940**	419,404
Cumulative translation adjustments (net of related deferred income tax of ₱214,070 and ₱32,002 in 2011 and 2010, respectively) (Notes 18 and 22)	**495,019**	(66,174)
Net revaluation surplus (Note 4)	**1,611,397**	1,611,397
Effect of transactions with non-controlling interests (Note 2)	**106,027**	106,027
	26,143,483	20,521,885
Non-controlling Interests (Note 23)	**907,984**	236,085
Total Equity	**27,051,467**	20,757,970
TOTAL LIABILITIES AND EQUITY	**₱32,454,228**	₱25,652,720

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2011	2010	2009
REVENUE (Notes 7, 18 and 28)			
Gold	**₱9,294,021**	₱7,208,532	₱5,108,322
Copper	**6,091,803**	5,721,373	3,741,625
Silver	**187,893**	134,553	82,939
	15,573,717	13,064,458	8,932,886
Less marketing charges	**810,467**	714,018	677,002
	14,763,250	12,350,440	8,255,884
Petroleum	**551,568**	298,449	85,074
Coal	**1,288**	31,062	37,024
Others	**7,843**	–	–
	15,323,949	12,679,951	8,377,982
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 15)	**5,248,910**	4,966,704	4,524,193
General and administrative expenses (Note 15)	**1,036,537**	664,698	848,930
Mine products taxes and royalties (Note 15)	**854,229**	712,536	487,225
Petroleum production costs	**175,883**	189,471	75,725
Handling, hauling and storage	**63,723**	62,159	54,471
Cost of coal sales	**1,210**	19,422	22,392
	7,380,492	6,614,990	6,012,936
OTHER INCOME (CHARGES)			
Gain (loss) on dilution of interests in associates (Note 11)	**523,710**	(119,804)	–
Impairment loss on deferred exploration costs and others (Note 12)	**(170,772)**	–	–
Interest income (Note 6)	**86,017**	27,133	188,124
Equity in net losses of associates (Note 11)	**(44,116)**	(37,594)	(72,624)
Interest expense (Note 13)	**(36,161)**	(20,898)	(108,047)
Foreign exchange losses - net	**(14,681)**	(96,485)	(68,875)
Gain (loss) on disposal of property and equipment (Note 10)	**324**	(2,009)	(1,698)
Gain on disposal of AFS financial assets (Note 11)	**77**	–	126
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	–	–	765,897
Others - net (Notes 11, 12, 18 and 29)	**(157,174)**	(131,242)	434,032
	187,224	(380,899)	1,136,935
INCOME BEFORE INCOME TAX	**8,130,681**	5,684,062	3,501,981
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)			
Current	**1,877,452**	1,804,632	457,514
Deferred	**453,340**	(65,199)	309,098
	2,330,792	1,739,433	766,612
NET INCOME	**₱5,799,889**	₱3,944,629	₱2,735,369
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱5,771,223**	₱3,963,201	₱2,830,309
Non-controlling interests (Note 23)	**28,666**	(18,572)	(94,940)
	₱5,799,889	₱3,944,629	₱2,735,369
Basic Earnings Per Share (Note 25)	**₱1.171**	₱0.806	₱0.581
Diluted Earnings Per Share (Note 25)	**₱1.170**	₱0.805	₱0.581

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱5,799,889**	₱3,944,629	₱2,735,369
OTHER COMPREHENSIVE INCOME (LOSS)			
Realized loss (gain) on fair value of hedging instruments transferred to the consolidated statements of income (Note 18)	**574,168**	263,756	(3,242)
Gain (loss) on translation of foreign subsidiaries	**(20,598)**	(186,466)	71,738
Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)	**1,601,536**	(25,873)	433,937
Revaluation surplus from acquisition of subsidiaries (Note 4)	**–**	–	1,572,385
Realized loss (gain) on disposal of AFS financial assets transferred to the consolidated statements of income (Note 11)	**–**	–	9,613
	2,155,106	51,417	2,084,431
TOTAL COMPREHENSIVE INCOME	**₱7,954,995**	₱3,996,046	₱4,819,800
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱7,933,952**	₱4,102,771	₱4,914,740
Non-controlling interests (Note 23)	**21,043**	(106,725)	(94,940)
	₱7,954,995	₱3,996,046	₱4,819,800

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

(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)	Effect of Transactions with Non-controlling Interests (Note 2)	Subtotal	Non-controlling Interests (Note 23)	Total
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):										
Movement in fair value of hedging instruments - net of related deferred income tax (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
Revaluation surplus from acquisition of subsidiaries (Note 4)	–	–	–	–	–	1,572,385	–	1,572,385	–	1,572,385
Realized gain 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):										
Movement in fair value of hedging instruments - net of related deferred income tax (Note 18)	–	–	–	–	263,756	–	–	263,756	–	263,756

	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)	**Effect of Transactions with Non-controlling Interests** (Note 2)	**Subtotal**	**Non-controlling Interests** (Note 23)	**Total**
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**
Net income			5,771,223					5,771,223	28,666	5,799,889
Other comprehensive income (loss):										
Movement in fair value of hedging instruments - net of related deferred income tax (Note 18)	–	–	–	–	574,168	–	–	574,168		574,168
Loss on translation of foreign subsidiaries	–	–	–	–	(12,975)	–	–	(12,975)	(7,623)	(20,598)
Unrealized gain on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	1,601,536	–	–	–	1,601,536		1,601,536
Total comprehensive income	–	–	5,771,223	1,601,536	561,193	–	–	7,933,952	21,043	7,954,995
Increase in additional paid-in capital due to exercise of stock option (Note 23)	7,620	24,947	–	–	–	–	–	32,567	–	32,567
Increase in additional paid-in capital due to stock option plan (Note 23)	–	49,965	–	–	–	–	–	49,965	–	49,965
Declaration of cash dividends and property dividends (Note 23)	–	–	(2,401,287)	–	–	–	–	(2,401,287)	650,856	(1,750,431)
Deemed acquisition of shares of stock	–	–	6,401	–	–	–	–	6,401	–	6,401
BALANCES AT DECEMBER 31, 2011	**₱4,929,751**	**₱887,290**	**₱16,093,059**	**₱2,020,940**	**₱495,019**	**₱1,611,397**	**₱106,027**	**₱26,143,483**	**₱ 907,984**	**₱27,051,467**

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱8,130,681**	₱5,684,062	₱3,501,981
Adjustments for:			
Unrealized foreign exchange losses (gains) and others - net	**779,911**	470,194	(531,919)
Depletion and depreciation (Notes 10 and 15)	**770,289**	887,868	736,622
Loss (gain) on dilution of interest in an associate (Note 11)	**(523,710)**	119,804	–
Impairment loss on deferred exploration costs and others (Note 12)	**170,772**	–	–
Interest income (Note 6)	**(86,017)**	(27,133)	(188,124)
Stock-based compensation expense (Note 24)	**49,965**	2,043	28,665
Equity in net losses of associates (Note 11)	**44,116**	37,594	72,624
Provision for retirement benefits cost (Note 16)	**43,781**	65,268	88,172
Interest expense (Note 13)	**36,161**	20,898	108,047
Loss (gain) on disposal of property and equipment	**(324)**	2,009	1,698
Gain on disposal of AFS financial assets (Note 11)	**(77)**	–	(126)
Dividend income	**–**	(2,823)	–
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	**–**	–	(765,897)
Operating income before working capital changes	**9,415,548**	7,259,784	3,051,743
Decrease (increase) in:			
Derivative assets	**(904,701)**	19,975	(19,975)
Accounts receivable	**576,843**	(1,762,965)	(135,711)
Inventories	**(25,242)**	50,106	116,199
Other current assets	**(78,688)**	(215,369)	228,160
Increase (decrease) in:			
Provision and subscription payable	**(175,578)**		
Accounts payable and accrued liabilities	**162,021**	190,488	(243,290)
Derivative liabilities	**47,270**	–	(478,836)
Cash generated from operations	**9,017,473**	5,542,019	2,518,290
Income taxes paid	**(2,358,400)**	(949,921)	(357,067)
Interest received	**93,665**	29,142	225,635
Retirement benefits contributions (Note 16)	**(96,000)**	(96,000)	(138,000)
Interest paid	**(16,081)**	(18,417)	(116,170)
Net cash from operating activities	**6,640,657**	4,506,823	2,132,688
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deferred exploration costs and other noncurrent assets	**(2,075,491)**	(1,223,377)	(841,417)
Additions to:			
AFS financial assets	**(1,716,388)**	(24,664)	(170,500)
Property, plant and equipment (Note 10)	**(1,347,344)**	(1,397,949)	(1,480,152)
Investments in shares of stock (Note 11)	**–**	(775)	(742,686)
Payment of subscriptions payable (Note 11)	**–**	(32,921)	–
Net proceeds from sale of:			
Property, plant and equipment	**43,461**	8,195	596
AFS financial assets	**280**	–	–
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)
Dividends received	**–**	8,468	5,645

(Forward)

	Years Ended December 31		
	2011	2010	2009
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)
Net cash used in investing activities	**(5,095,482)**	(2,955,972)	(5,865,748)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of short-term bank loans (Note 13)	**2,553,985**	1,527,845	711,703
Exercise of stock options (Note 23)	**32,567**	57,367	110,932
Payments of:			
Short-term bank loans (Note 13)	**(2,353,985)**	(1,377,845)	(4,750,903)
Dividends (Note 23)	**(1,632,973)**	(649,053)	(4,445)
Net cash used in financing activities	**(1,400,406)**	(441,686)	(3,932,713)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**20,278**	(208,032)	(166,218)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**165,047**	901,133	(7,831,991)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,782,248**	2,881,115	10,713,106
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱3,947,295**	₱3,782,248	₱2,881,115

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES
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 metals business under Philex Mining Corporation, and the energy and hydrocarbon business under Philex Petroleum Corporation.

Philex Mining Corporation (the Parent Company) was incorporated on July 19, 1955 in the Philippines and is listed in the Philippine Stock Exchange on November 23, 1956. The Parent Company's Philippine Securities and Exchange Commission registration was renewed on July 23, 2004. 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 all 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 under pre-feasibility study stage as of December 31, 2011.

Philex Petroleum Corporation (PPC, a 64.79% owned subsidiary of the Parent Company and incorporated in the Philippines) and its subsidiaries: Forum Energy plc (FEP, 64.5% owned and registered in England and Wales) and its subsidiaries, and FEC Resources, Inc. (FEC, 51.2% owned 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.

Brixton Energy & Mining Corporation (BEMC), a wholly-owned subsidiary of PPC and incorporated in the Philippines operates a coal mine in Diplahan, Zamboanga Sibugay, started production during the year.

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 Company currently has the Padcal Mine as its main source of revenue from its metals business segment. The Padcal Mine is on its 54th year of operation producing gold, copper and silver.

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

SMECI
SMECI, through SMMCI, is currently conducting the pre-feasibility study of the Silangan Project covering the Boyongan and Bayugo copper-gold deposits.

BEMC
Developmental work for the mining activities of BEMC over its coal property in Zamboanga Sibugay started in 2009 when BEMC also purchased coal from small-scale miners permitted to operate within its mine site and in turn, sells these coal to generate revenue. In 2010, it commenced production from its clean mines.

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, covering 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 ₱12,876,803 and ₱10,789,502 as of December 31, 2011 and 2010, 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 29, 2012.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV), 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 thousands, 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, 2011.

- Philippine Accounting Standards (PAS) 24, *Related Party Transactions (Amendment)* clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation (Amendment)* alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14, *Prepayments of a Minimum Funding Requirement (Amendment)* removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements in the Philippines, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment. Any difference between the carrying amount of the financial liability that is extinguished and the fair value of the equity instruments issued is recognized immediately in profit or loss. The interpretation did not have any impact on the Group's financial position or performance.

Improvements to PFRS

The Financial Reporting Standards Council, or FRSC, approved during its meeting in May 2010 the adoption of Improvements to PFRS, which were issued by the International Accounting Standards Board in May 2010. Improvements to PFRS is an omnibus of amendments to standards that deal primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of the following amendments resulted in changes to the Group's accounting policies but did not have any impact on the Group's financial position or performance.

- PFRS 3, *Business Combinations* amends the measurement options available for non-controlling interest (NCI). Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- PFRS 7, *Financial Instruments: Disclosures* intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

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

Other amendments resulting from the Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))

- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)

- PAS 27, *Consolidated and Separate Financial Statements*

- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

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 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 Parent Company 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 Parent Company's share of components previously recognized in other comprehensive income is reclassified 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 on August 28, 1996 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 on October 1, 1996, as previously the intermediary holding company of PGI.
Philex Gold Inc. (PGI)	Incorporated in Canada on June 14, 1996 and owns 100% of the outstanding shares of PGPI.
PGPI	Incorporated in the Philippines on September 9, 1996 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 60% effective interest in SMMCI through SMECI.
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. PPC's share is listed in the Philippine Stock Exchange.
FEP	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines and whose shares are listed in the Alternative Investment Market of the London Stock Exchange.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada primarily to engage 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 on December 28, 1981 to act as a stock transfer agent and/or registrar of client corporations.

Subsidiaries	Nature of Business
Philex Land, Inc. (PLI)	Incorporated in the Philippines on February 26, 2007 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 2011 and 2010 is summarized as follows:

	Percentages of Ownership			
	2011		2010	
	Direct	**Indirect**	Direct	Indirect
PGHI	**100.0**	**–**	100.0	–
PGMC-BV	**–**	**100.0**	–	100.0
PGI	**–**	**100.0**	–	100.0
PGPI	**–**	**100.0**	–	100.0
LMC	**–**	**60.0**	–	60.0
SMECI	**–**	**60.0**	–	60.0
SMMCI	**–**	**83.3**	–	83.3
PPC	**64.8**	**–**	100.0	–
BEMC	**–**	**100.0**	–	100.0
(Forward)				
FEP	**–**	**38.8**	–	38.8
FEC	**–**	**51.2**	–	51.2
LMC	**–**	**40.0**	–	40.0
FEP	**–**	**25.6**	–	25.6
SMECI	**40.0**	**–**	40.0	–
SMMCI	**16.7**	**–**	16.7	–
FSTI	**100.0**	**–**	100.0	–
PLI	**100.0**	**–**	100.0	–
PIAI	**100.0**	**–**	100.0	–

Distribution of PPC shares as property dividend
On May 16, 2011, the Parent Company declared approximately 35.21% of its ownership interest in PPC as property dividend to its shareholders. As a result of the dividend declaration, the Company's ownership to PPC was reduced to 64.79% (see Note 23).

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 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, the Parent Company 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, Parent Company 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.

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, 2011 (see Notes 11 and 27).

The Group also enters into an agreement with third parties for the joint exploration, development and production activities under contractual arrangement. It clarifies these arrangements as jointly controlled operations for the purpose of PAS 31. Accordingly, the Group only accounts for its share of assets, liabilities, revenues and expenses, classified in the appropriate consolidated balance sheet, and consolidated statement of income and other comprehensive income headings.

The Galoc, Nido and Matinloc fields are accounted for by the Group using proportionate consolidation which brings into account the Group's share of assets, liabilities, revenue and operating costs related to their fields.

Business Combination and Goodwill

Business combinations starting January 1, 2010

Business combinations, except for business combination between entities under common control, 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 in the consolidated statement of comprehensive income . If the contingent consideration is classified as equity, it is not 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 in the consolidated statement of income. 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 Canadian 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, 2011 and 2010, 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. When 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, 2011 and 2010, included under loans and receivables are the Group's 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 discuss the details of the Group's AFS financial assets as of December 31, 2011 and 2010.

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, 2011 and 2010, included in other financial liabilities are the Group's short-term bank loans, 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:

Petroleum production costs
Petroleum production costs, which include all direct materials and labor costs, depletion of oil and gas properties, and other costs related to the oil and gas operations, are expensed when incurred.

Cost of coal sales
Cost of coal sales includes costs of purchased coal and all direct materials and labor costs and other costs related to the coal production. Cost of coal sales is recognized by the Group when sales are made to customers.

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 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, 2011. 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 2012

- PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements* requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income* changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

- PAS 12, *Income Taxes - Recovery of Underlying Assets* clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* always be measured on a sale basis of the asset.

Effective in 2013

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance

with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a. The gross amounts of those recognized financial assets and recognized financial liabilities;
b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
c. The net amounts presented in the statement of financial position;
d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and,
    ii. Amounts related to financial collateral (including cash collateral); and,
e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements* replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements* replaces PAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Currently, the Group accounts joint venture arrangements under equity method.

- *PFRS 12, Disclosure of Interest in Other Entities* includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

- *PFRS 13, Fair Value Measurement* establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

- PAS 19, *Employee Benefits (Amendment)* removes the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19.

- PAS 27, *Separate Financial Statements* (as revised in 2011). As a consequence of the new PFRS 10, *Consolidated Financial Statement,* and PFRS 12, *Disclosure of Interests in Other Entities,* what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group is currently assessing the impact of the amendment.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011). As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* specifies that during the development phase of the mine (before production begins), stripping costs are usually capitalized as part of the depreciable cost of building, developing and constructing the mine. Those capitalized costs are depreciated or amortized on a systematic basis, usually by using the units of production method, once production begins. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce invetory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. This Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently. The standard is effective for annual periods beginning on or after January 1, 2013.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities* clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement* reflects the first phase 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 impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. 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 and most of its local subsidiaries based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine peso. It is the currency of the primary economic environment in which the Parent Company and most of its local subsidiaries primarily operates. FEC's and FEP's functional currencies are the Canadian dollar and US dollar, respectively.

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, 2011 and 2010, deferred income tax assets recognized in the consolidated balance sheets amounted to ₱438,859 and ₱371,146, respectively (see note 22).

Classification of financial instruments

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

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

Loss of significant influence over certain associates

The Group assesses whether lack of significant influence over an associate is evident. Aside from the presumption that holding of less than 20% of the voting power does not give rise to significant influence, the management also considers other circumstances that may lead them to believe that the Group cannot exercise significant influence over its associates. Such circumstances include

failure to obtain representations on the investee's BOD, inability to obtain timely financial information or cannot obtain more information than investors without significant influence, the Group's views and economic decisions are not considered in the operations of the investee, and the other investors are opposing the Group's attempt to exercise significant influence. In 2010, the ownership interest of the Group over its investment in PERC has decreased from 20.62% to 10.31% (see Note 11) and management assessed that the Group has lost its significant influence over its investment in PERC. In 2011, the ownership interest of the Group over its investment in Pitkin was reduced from 21% to 18.46% (see Note 11) which, together with other factors, caused the management to conclude that the Group has lost its significant influence over its investment in Pitkin. The Group therefore reclassified its investment in Pitkin and PERC as AFS financial assets in 2011 and 2010, respectively.

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 ₱15,573,717, ₱13,064,458 and ₱8,932,886 in 2011, 2010 and 2009, 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 ₱1,595,629 and ₱2,180,432 as of December 31, 2011 and 2010, respectively (see Notes 7 and 17). Allowance for impairment on these financial assets as of December 31, 2011 and 2010 amounted to ₱2,300 and ₱2,303, respectively (see Note 7).

Valuation of AFS financial assets

The Group carries its quoted and unquoted AFS financial assets at fair value and at cost, respectively. Fair value measurement requires the use of accounting estimates and judgment. At initial recognition, the fair value of quoted AFS financial assets is based on its quoted price in an active market while the fair value of unquoted AFS financial assets is based on the latest available transaction price. The amount of changes in fair value would differ if the Group utilized a different valuation methodology.

Any change in fair value of its AFS financial assets is recognized in the consolidated statement of comprehensive income. As of December 31, 2011 and 2010, the Group has net cumulative unrealized gain on its AFS financial assets amounting to ₱2,020,940 and ₱419,404, respectively (see Note 11). As of December 31, 2011 and 2010, the carrying value of the Group's AFS financial assets amounted to ₱5,428,069 and ₱886,737, respectively, (see Note 11).

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 2011 and 2010 (see Note 11). As of December 31, 2011 and 2010, the carrying value of AFS financial assets amounted to ₱5,428,069 and ₱886,737, respectively (see Note 11).

Impairment of goodwill
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the 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 for the year ended December 31, 2011 and 2010, the carrying value of goodwill as of December 31, 2011 and 2010 amounted to ₱258,593 (see note 14).

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, 2011 and 2010 amounted to ₱41,527 and ₱169,104, 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 2011. The carrying value of materials and supplies inventories amounted to ₱947,758 and ₱909,906 as of December 31, 2011 and 2010, 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, 2011, the Padcal mine life had been extended from 2017 to 2020 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 ₱17,775 and ₱31,709 as of December 31, 2011 and 2010, 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 2011 and 2010. As of December 31, 2011 and 2010, the carrying value of noncurrent non-financial assets amounted to ₱18,423,220 and ₱16,756,449, 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 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 2011 and 2010, payments were made for a total of ₱72,782 and ₱27,380, respectively, through the Parent Company and PGPI. For the year ended December 31, 2011, payments made on provision for losses amounted to ₱267,975, through FEP. Additional provision in 2011 and 2010 amounted to ₱117,000 and ₱75,000, respectively. Total provision for losses amounted to ₱468,847 and ₱644,481 as of December 31, 2011 and 2010, respectively (see Note 29).

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 ₱52,626 and ₱408 as of December 31, 2011 and 2010, respectively (see Note 12). The related net retirement benefits costs amounted to ₱43,781, ₱65,268 and ₱88,172 for the years ended December 31, 2011, 2010 and 2009, 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 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.

5. Segment Information

The Group is organized into business units on their products and activities and has two reportable business segments: the metals segment and the energy and hydrocarbon 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 is also using core net income (loss) in evaluating total performance. Core income is the performance of business 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 following tables present revenue and profit and certain asset and liability information regarding the Group's business segments.

	December 31, 2011				
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	**₱14,763,250**	**₱552,856**	**₱7,843**	**₱–**	**₱15,323,949**
Inter-segment	**–**	**–**	**–**	**–**	**–**
Consolidated revenue	**₱14,763,250**	**₱552,856**	**₱7,843**	**₱–**	**₱15,323,949**
Results					
EBITDA	**₱8,167,230**	**₱539,403**	**₱2,406**	**₱142,075**	**₱8,851,114**
Interest income (expense) - net	**76,453**	**(26,830)**	**233**	**–**	**49,856**
Income tax expense	**(2,290,410)**	**(39,697)**	**(685)**	**–**	**(2,330,792)**
Depreciation and depletion	**(767,421)**	**(2,505)**	**(363)**	**–**	**(770,289)**
Consolidated net income (loss)	**₱5,185,852**	**₱470,371**	**₱1,591**	**₱142,075**	**₱5,799,889**
Core net income (loss)	**₱5,376,225**	**₱178,103**	**₱1,588**	**₱12,494**	**₱5,568,410**
Consolidated total assets	**₱32,310,162**	**₱5,538,045**	**₱18,209**	**(₱5,412,188)**	**₱32,454,228**
Consolidated total liabilities	**₱9,930,771**	**₱1,879,446**	**₱1,430**	**(₱6,408,886)**	**₱5,402,761**
Other Segment Information					
Capital expenditures	**₱2,756,660**	**₱451,941**	**₱–**	**₱–**	**₱3,208,601**
Investments in shares of stocks	**2,926,048**	**1,104,775**	**–**	**(4,030,823)**	**–**
Equity in net losses of associates	**–**	**(44,116)**	**–**	**–**	**(44,116)**
Non-cash expenses other than depletion and depreciation	**(150)**	**–**	**–**	**–**	**(150)**

	December 31, 2010				
	Metals	Energy and Hydrocarbon	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

	December 31, 2010				
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
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				
	Metals	Energy and Hydrocarbon	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

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2011 and 2010.

	2011	2010	2009
Core net income	**₱5,568,410**	₱4,150,544	₱1,849,253
Non-recurring gains (losses):			
Gain (Loss) on dilution of interest in an associate	**523,710**	(119,804)	–
Provision for write down of asset	**(137,489)**	–	–
Provision for losses	**(66,854)**	–	–
Foreign exchange losses	**(14,681)**	(96,485)	(68,875)
Gain on disposal of assets	**401**	–	–

(Forward)

	2011	2010	2009
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	**(102,274)**	28,946	(123,068)
Net income attributable to equity holders of the Parent Company	**5,771,223**	3,963,201	2,830,309
Net income attributable to non-controlling interests	**28,666**	(18,572)	(94,940)
Consolidated net income	**₱5,799,889**	₱3,944,629	₱2,735,369

Pan Pacific Copper Co., Ltd. (Pan Pacific) is the main customer in the metals segment of the Group. Gross revenue from Pan Pacific amounted to ₱10,219,215, ₱10,394,702 and ₱9,065,805 in 2011, 2010 and 2009, respectively.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2011	2010
Cash on hand and in banks	**₱457,574**	₱270,568
Short-term deposits	**3,489,721**	3,511,680
	₱3,947,295	₱3,782,248

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 ₱86,017, ₱27,133 and ₱188,124 in 2011, 2010 and 2009, respectively.

7. Accounts Receivable

Accounts receivable consist of:

	2011	2010
Trade - net of allowance for doubtful accounts of ₱592 and ₱628 as of December 31, 2011 and 2010, respectively	**₱1,525,848**	₱2,095,625
Accrued interest	**2,601**	10,248
Others - net of allowance for doubtful accounts of ₱1,708 and ₱1,675 as of December 31, 2011 and 2010, respectively	**67,180**	74,559
	₱1,595,629	₱2,180,432

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:

	2011	2010
January 1		
Trade	**₱628**	₱771
Others	**1,675**	1,675
Provisions during the year		
Trade	**–**	–
Others	**33**	–
(Forward)		
Reversals during the year		
Trade	**(₱36)**	(₱143)
Others	**–**	–
December 31	**₱2,300**	₱2,303

The impaired receivables were specifically identified as of December 31, 2011 and 2010.

8. Inventories

Inventories consist of:

	2011	2010
Mine products - at NRV	**₱41,527**	₱169,104
Coal - at NRV	**129,382**	14,626
Materials and supplies:		
On hand:		
At cost	**822,369**	827,557
At NRV	**29,385**	29,839
In transit - at cost	**96,004**	52,510
	₱1,118,667	₱1,093,636

As of December 31, 2011 and 2010, the cost of materials and supplies inventories on hand that are carried at NRV amounted to ₱224,486 and ₱224,940, respectively. Related allowance for inventory obsolescence amounted to ₱195,101 as of December 31, 2011 and 2010. Materials and supplies recognized as expense amounted to ₱1,629,511, ₱1,679,576, ₱1,528,097 for the years ended December 31, 2011, 2010 and 2009, respectively (see Note 15). The Group's coal inventory comes from its coal mine production and purchases from small-scale coal miners who are operating within its coal mine property. As of December 31, 2011 and 2010, the Group's coal inventory at cost amounted to ₱137,640 and ₱14,626, respectively.

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

	2011	2010
At cost	**₱136,642**	₱137,096
At NRV	**29,385**	29,839

9. Other Current Assets

Other current assets consist of:

	2011	2010
Input tax recoverable - net of allowance for probable loss of ₱162,030 and ₱154,842 as of December 31, 2011 and 2010, respectively	**₱724,225**	₱660,092
Prepaid expenses and others	**41,109**	34,533
	₱765,334	₱694,625

10. Property, Plant and Equipment

Property, plant and equipment consist of:

	December 31, 2011						
	Mine and Mining Properties	Land, Buildings and Improve-ments*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost							
January 1	**₱7,838,185**	**₱289,295**	**₱6,379,760**	**₱111,622**	**₱44,989**	**₱2,197,683**	**₱16,861,534**
Additions	**547,768**	**7,332**	**663,799**	**40,519**	**87,926**	**–**	**1,347,344**
Disposals	**(38,254)**	**–**	**(69,633)**	**–**	**–**	**–**	**(107,887)**
Reclassifications	**63,630**	**(56,682)**	**(28,814)**	**11,231**	**(46,047)**	**–**	**(56,682)**
December 31	**8,411,329**	**239,945**	**6,945,112**	**163,372**	**86,868**	**2,197,683**	**18,044,309**
Accumulated Depletion and Depreciation							
January 1	**5,520,473**	**215,210**	**3,740,309**	**92,830**	**–**	**2,197,683**	**11,766,505**
Depletion and depreciation for the year (Note 15)	**377,079**	**11,297**	**551,051**	**3,411**	**–**	**–**	**942,838**
Disposals	**–**	**–**	**(64,750)**	**–**	**–**	**–**	**(64,750)**
December 31	**5,897,552**	**226,507**	**4,226,610**	**96,241**	**–**	**2,197,683**	**12,644,593**
Net Book Values	**₱2,513,777**	**₱13,438**	**₱2,718,502**	**₱67,131**	**₱86,868**	**₱–**	**₱5,399,716**

**Cost of land amounts to ₱2,053. This also includes capitalized costs of mine rehabilitation of ₱18,767 and related accumulated amortization of ₱18,302.*

	December 31, 2010						
	Mine and Mining Properties	Land, Buildings and Improve-ments*	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	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.*

Mine and mining properties as of December 31, 2011 and 2010 include mine development cost of the 782 Meter Level project amounting to ₱1,109,929 and ₱846,229, respectively. In 2011, the estimated mine life of the Parent Company's Padcal Mine was extended until 2020, or an additional three years from the original estimated mine life of until 2017. 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 ₱172,549 and ₱141,489 in 2011 and 2010, respectively, are capitalized under deferred exploration costs which relate to projects that are currently ongoing for BEMC, SMMCI and PGPI.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to nil and ₱8,900 as of December 31, 2011 and 2010, respectively. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2021 up to 2030, discounted using the Parent Company's historical average borrowing rate of 10% per annum. The provision for mine rehabilitation costs amounted to ₱16,417 and ₱31,072 as of December 31, 2011 and 2010, 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 ₱637 and ₱557 as of December 31, 2011 and 2010, respectively. Discount rate of 14% was used to compute the present value of mine rehabilitation costs as of December 31, 2010. Accretion of interest totaled ₱92 in 2011 and ₱80 in 2010. Accordingly, the provision for mine rehabilitation costs amounted to ₱728 and ₱637 as of December 31, 2011 and 2010, respectively.

The provision for mine rehabilitation cost pertaining to FEP amounted to ₱630 and nil as of December 31, 2011 and 2010, 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:

	2011	2010
Investments in quoted shares of stock of:		
Lepanto Consolidated Mining Corporation	**₱3,358,412**	₱2,985
Indophil Resources NL (Indophil)	**514,247**	644,001
PetroEnergy Resources Corporation (PERC)	**148,189**	170,771
Philippine Realty & Holdings Corporation (PRHC)	**34,974**	50,060
Other quoted equity investments	**6,099**	4,360
	4,061,921	872,177
Investments in unquoted shares of stock of:		
Pitkin Petroleum Limited (Pitkin)	**₱1,313,700**	₱–
Pacific Global One Aviation	**37,500**	–
Philippine Associated Smelting and Refining Corporation	**14,055**	14,055
Other unquoted equity investments	**893**	505
	1,366,148	14,560
	₱5,428,069	₱886,737

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, 2011 and 2010, the cumulative increase in value of AFS financial assets amounted to ₱2,020,940 and ₱419,404, respectively, net of deferred income tax liability of ₱68,094 and ₱158,181 as of December 31, 2011 and 2010, 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 Group's investment in shares of stock of PERC is carried at fair value with cumulative changes in fair value presented as part of "Unrealized gain on AFS financial asset" in the equity section of the consolidated balance sheets.

Previously, the investment in shares of stock of PERC was recognized as investment in associate and was accounted for under 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.

As of December 31, 2011 and 2010, the fair value of the investment in PERC amounted to ₱148,189 (₱5.25 per share) and ₱170,771 (₱6.05 per share), respectively, as quoted in the PSE.

The following table shows the movement of the "Unrealized Gain on AFS financial assets" account:

	2011	2010	2009
January 1	**₱419,404**	₱445,277	₱1,727
Net increase (decrease) in fair value of AFS financial assets	**1,601,536**	(25,873)	433,937
Realized loss on disposal of AFS financial assets transferred to consolidated statement of income	–	–	9,613
December 31	**₱2,020,940**	₱419,404	₱445,277

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:

	2011	2010
Acquisition costs:		
January 1	**₱958,980**	₱1,213,378
Reclassification - Pitkin Petroleum Plc (Pitkin)	**(955,103)**	–
Deemed disposal of investment in associate	**(3,877)**	(255,173)
Additional acquisition during the year	–	775
December 31	–	958,980
Accumulated equity in net losses:		
January 1	**(125,625)**	(76,623)
Reclassification – Pitkin Petroleum Plc (Pitkin)	**169,741**	–
Equity in net losses for the year	**(44,116)**	(37,594)
Deemed disposal of investment in associate	–	(5,763)
Dividends received	–	(5,645)
December 31	–	(125,625)
	₱–	₱833,355

Investments in Joint Ventures

As of December 31, 2011, investments in joint ventures include investments in shares of stock of MECI (see Note 27) that are accounted for at equity.

The Group's proportionate ownership interests in MECI and its subsidiary as of December 31, 2011 and 2010 follow:

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

** Incorporated on October 12, 1999 and has not started commercial operations (see Note 27).*

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

	2011	2010
Current assets	**₱52**	₱52
Noncurrent assets	**90,268**	89,035
Current liabilities	**90,657**	89,021
Equity	**(337)**	66
Net loss	**(403)**	691

The joint venture has no contingent liabilities or capital commitments as of December 31, 2011 and 2010.

Investment in Shares of Stock of Pitkin
On March 17, 2009, the Parent Company subscribed to additional 14,000,000 shares of Pitkin for an aggregate amount of United States (US) $14,000 (or ₱679,601). Pitkin is a UK-based oil and gas exploration and production company registered in England and Wales. The subscription brings the total holdings of the Company to 18,000,000 shares representing 14.7% equity in Pitkin.

On September 24, 2010, the Parent Company sold to PPC all of its investment in shares of stock of Pitkin, which consists of 18,000,000 shares at a selling price equal to the Parent Company's carrying amount of ₱766,346.

As of December 31, 2010, the Group held 21.00% ownership interest in Pitkin and was treated as investment in associate. The following is the summarized financial information as of and for the year ended December 31, 2010 of Pitkin whose financial statements are stated in US dollar and translated to Peso at the closing exchange rate of US$1 to ₱43.84 for balance sheet accounts and at the average exchange rate of US$1 to ₱43.31 for income statement accounts:

Total assets	₱813,986
Total liabilities	34,643
Equity	779,343
Revenue	35,607
Net loss	88,121

On February 24, 2011, Pitkin issued 15,700,000 new ordinary shares to the public particularly to international investor and stockholder. The issuance caused the increase in its capitalization from 114,300,000 shares to 130,000,000 shares. PPC did not avail of the share issuance, thus reducing its ownership interest from 21.00% to 18.46%. PPC's management assessed that PPC ceased to have significant influence over Pitkin. The difference amounting to ₱523,710 between the fair value and the carrying value of the investment in shares of stock of Pitkin as at date of loss of

significant influence was recognized as "gain on dilution of interest in an associate" in the consolidated statement of income. The investment in shares of stock of Pitkin was reclassified as investment in AFS financial asset.

Subscriptions Payable

Subscriptions payable which is included as part of "Provisions and subscription payable" in the consolidated balance sheets as of December 31, 2011 and 2010 is related to the investments in shares of stock of PRHC and Philodrill amounting to ₱21,995 in both years.

12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

	2011	2010
Deferred mine exploration costs (Note 4)	**₱12,650,459**	₱10,757,136
Less allowance for unrecoverable portion	**1,048,829**	888,060
	11,601,630	9,869,076
Deferred oil exploration costs (Note 4)	**1,329,516**	1,006,993
Less allowance for unrecoverable portion	**54,343**	86,567
	1,275,173	920,426
Others	**194,136**	85,998
Less allowance for unrecoverable portion	**47,435**	47,435
	146,701	38,563
	₱13,023,504	₱10,828,065

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. Allowances recognized for the year are included under "Impairment loss on deferred exploration costs and others" in the consolidated statements of income.

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; and

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 from 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 (US$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.

c. As of December 31, 2011, FEP has various participating interests in petroleum service contracts as follows:

Service Contract	Participating Interest
SC 6A (Octon Block)	1.67%
SC 6B (Bonita Block)	7.03%
SC 14 (Tara PA)	10.00%
SC 14 Block A (Nido)	8.47%
SC 14 Block B (Matinloc)	12.41%
SC 14 Block B-1 (North Matinloc)	19.46%
SC 14 Block C-1 (Galoc)	2.28%
SC 14 Block C-2 (West Linapacan)	2.28%
SC 14 Block D (Retention Block)	8.17%
SC 40 (North Cebu Block)	100.00%
SC 72 (Reed Bank)	70.00%

SC 6

SC 6 presently covers three contract areas, namely: Cadlao production area, Block A Octon and Block B Bonita, all in offshore Northwest Palawan. The service contract has a seven-year exploration period, extendible by three years, and a 25-year production period, extendible by 15 years. SC 6 was awarded on September 1, 1973, and is presently in the 15-year production period extension ending on February 28, 2024.

The status of Block A Octon and Block B Bonita is summarized below:

SC 6A - Octon Block

SC 6A Octon is located offshore Northwest Palawan covering an area of 1,081 square kilometers. The contract area contains the Octon field discovered in January 1991 and appraised in April 1992. The discovery well was drilled to a measured depth of 2,652 meters and yielded 1,816 barrels per day of oil and 1.8 million cubic feet of gas during testing. The field is estimated to contain both oil and gas resources.

Prior to exiting the consortium in November 2010, Vitol worked on the interpretation of re-processed seismic data and reviewed the petrophysics of the Octon wells to estimate the hydrocarbon resources in the Octon field. The results of the evaluation indicated a mid-case estimate of 22 million barrels oil-in-place and 61 billion cubic feet gas-in-place for both the northern and southern blocks of the Galoc structure.

On July 11, 2011, the consortium and Pitkin signed a Farm-in Agreement (FIA) which provides for the transfer of 70% participating interest to Pitkin in consideration for an agreed exploration work program which includes acquisition of 500 square kilometres of 3D seismic data at a cost of about $5,000. Furthermore, should Pitkin exercise its options, the consortium shall be carried free on the drilling of 2 exploration wells in the block. Upon completion of the Farm-in, the participating interest of the PPC's and Forum Energy Philippines Corporation's (FEPCO) in SC 6A Octon will be reduced from 5.560% to 1.668%. On December 6, 2011, the FIA and Deed of Assignment were approved by DOE.

SC 6B - Bonita Block

SC 6B Bonita is located offshore Northwest Palawan adjacent to SC 6 Cadlao, covering an area of 533 square kilometers. The contract area contains the Bonita discovery by Alcorn (Production) Philippines, Inc. in 1989 that yielded 765 to 2,107 barrels per day of oil during testing. In 2001, Nido Petroleum Philippines Pty Ltd performed seismic interpretation of 3D data and was able to identify some exploration prospects and leads within the contract area.

In February 2011, members of the SC 6B Bonita consortium excluding Nido Petroleum Philippines, signed a farm-in agreement with Peak Oil, Blade Petroleum and VenturOil. The agreement gave the farmees a farm-in option in return for completing a work program comprising geological, geophysical and reservoir analysis, interpretation, data processing and reporting.

In May 2011, Peak Oil formally provided notice of the farmees' intention to exercise their option to acquire the farm-in interest. Upon completion of the farm-in, the participating interest of FEPCO in SC 6B Bonita will reduce from 7.031% to 2.109% in exchange for a free carry of exploration and development costs up to first oil. The farm-in documents and work program are awaiting DOE approval.

SC 14

SC 14 is located offshore Northwest Palawan covering an area of 720 square kilometres. The service contract has a seven-year exploration period, extendible by three years, and a 25-year production period, extendible by 15 years. SC 14 was awarded on December 17, 1975, and is presently in the 15-year production period extension ending on December 17, 2025.

The SC 14 contract area is divided into seven blocks which includes Block A, B, B-1, C-1 and C-2. The status of these blocks is summarized below:

SC 14A, 14B and 14B-1 (Nido, Matinloc and North Matinloc)

Block A has an area of 23.8 square kilometers and contains the Nido Production Area which was first put in production in 1979. Block B has an area of 154 square kilometers and contains the Matinloc Oil Production Complex which was first put in production in 1982. Block B1 has an area of 8 square kilometers and contains the North Matinloc field which was first put in production in 1989.

As of December 31, 2011 and 2010 the combined gross oil production from the fields totalled 142,452 and 174,911 barrels, respectively. Crude production is sold mainly to Pilipinas Shell Petroleum Corporation. The Nido and Matinloc fields are in late-life and cyclical production, meaning intermittent production to allow time for oil to accumulate on top of the reservoir. Aside from production performance of the wells, continued production from Nido and Matinloc is dependent on oil price due to the relatively high operating cost and the ability to share operating expenses.

To extend production in Block A, the operator has proposed a re-evaluation of Nido 1X1, a discovery in 1979 which straddles SC 14A and SC 54A. The evaluation will involve processing of about 40 square kilometers of 3D seismic data covering the Nido1X1 structure that will help in the robust calculation of potential reserves for the Nido 1X1 field and identification of the best drilling location for any new production wells.

SC 14C-1 (Galoc)

Block C-1 Galoc has an area of 163 square kilometers and contains the producing Galoc Oil Field Development which was put into production in October 2008. Galoc crude oil is produced with two horizontal wells which are tied back via subsea riser to the Floating Production Storage and Offtake ("FPSO") vessel Rubicon Intrepid. The field currently produces around 6,700 barrels per day of crude oil with an API gravity of 35°. The field is expected to continue producing until approximately 2014 to 2018 on the basis of the existing two wells alone. The gross (100%) proved and probable developed reserves estimate of the Galoc field as at January 1, 2011 is 8.45 million barrels, based on a review by independent consultants, Resource Investment Strategy Consultants ("RISC"), which was commissioned by the operator, Galoc Production Company, on behalf of the Galoc joint venture.

As of December 31, 2011, cumulative gross production stood at around 8.45 million barrels of oil, including some 2.18 million barrels that were produced in 2011. A total of seven (7) offtakes were carried out in 2011, involving some 2.45 million barrels of oil. Most of the crude offtake were delivered to refineries in Korea. Production was shut-in on November 23, 2011 to prepare the FPSO for a planned 3-month turret installation work program at the Keppel shipyard in Singapore.

On September 5, 2011, the Galoc Joint Venture approved the commencement of Front End Engineering and Design and the acquisition of new 3D seismic to support the planned Phase II development aimed at increasing the Galoc reserves. The Final Investment Decision for the Phase II development is targeted for mid-2012.

SC 14C-2 (West Linapacan)
Block C-2 contains the West Linapacan discovery drilled in October 1990 and the West Linapacan B discovery drilled in March 1993. The West Linapacan field was developed with subsea wellheads connected to an FPSO. The field came on stream in mid-1992 with initial production from three wells of 18,700 barrels per day of crude oil with an API gravity of 32°. The field produced 8.5 million barrels of oil before it was shut in as of early 1996 because of the low oil price and high water production.

Pitkin's proposed re-development program for the West Linapacan field consists of a 1,500-meter lateral appraisal/development well drilled along the crest of the structure to optimize the intersection of reservoir fractures while minimizing fault intercepts. This well will be completed as a producing well. One redundant development well, also a 1,500 meter lateral borehole, will be drilled as a backup to the primary producing well. Pitkin plans to produce the field through a Floating Production Unit with target commercial first oil in 2014.

SC 40
SC 40 covers the northern area of Cebu Island and the adjacent offshore areas in the Central Tañon Strait and Visayan Sea, with a total area of 4,580 square kilometers. The service contract has a seven-year exploration period, extendible by three years, and a 25-year production period, extendible by 15 years. SC 40 was awarded on February 9, 1995, and is presently in the 25-year production period ending on November 24, 2030.

The SC40 block in which Forum Exploration, Inc. (FEI, a 66.67% owned subsidiary of FEP) has a 100% participating interest contains the Libertad and Maya discoveries, and other onshore and offshore prospects and leads. On January 30, 2009, FEI entered into a Gas Sale and Purchase Agreement ("GSPA") with Desco, Inc. to develop the Libertad Gas Field. Under the agreement, Desco will install up to 3MW of power generating units at the site in Northern Cebu using gas turbines. The gas will be sold to Desco at an agreed rate of US$1.50 per million BTU (British Thermal Units) for the first 0.70 billion cubic feet of gas (BCF) extracted and utilized, and US$1.60 per million BTU for any gas produced beyond 0.70 BCF. The GSPA with Desco was approved by the Department of Energy in July 2009.

Currently, a GE Jenbacher Turbine rated at 1MW has been installed and, whilst not material to the Group's revenue, commercial production at the Libertad Field commenced on February 6, 2012. The power generated from the 1MW facility is sold by Desco to the local grid through Cebu II Electric Cooperative ("Cebeco") under a power supply agreement.

Further ventures to produce across the significant SC40 acreage are underway with drilling on the block planned for 2013. FEI also continues to explore the possibility of cooperation with other companies in this area.

SC 72 (Reed Bank)
SC 72 is located in the Recto Bank area offshore West Palawan covering an area of 8,800 square kilometers which was previously covered by the Geophysical Survey and Exploration Contract No. 101 ("GSEC101"). The service contract has a seven-year exploration period, extendible by three years, and a 25-year production period, extendible by 15 years. The seven-year exploration period is divided into four sub-phases with an option to exit at the end of each sub-phase. SC 72 was awarded by the DOE on February 15, 2010, and is presently in the second sub-phase of the seven-year exploration period ending on February 14, 2017. Forum (GSEC 101) (a fully owned subsidiary of FEP) holds a 70% participating interest in the block and is the operator of the block.

The block contains the Sampaguita gas discovery with expected mean GIP of 3.4 TCF and a number of additional leads. In the first quarter of 2011, Forum (GSEC 101) completed the acquisition of 565 square kilometers of 3D seismic data over the Sampaguita Gas Field and 2,202 line-kilometers of seismic data over the rest of the block, exceeding the minimum work commitment under the first exploration sub-phase of the service contract. Forum (GSEC 101) is currently planning the execution of the second exploration sub-phase work programme which is expected to involve the drilling of up to two wells before August 2013, and is also continuing to discuss potential partnerships to accelerate the development of the project.

Others

a. "Others" primarily pertain to materials and supplies that are being used in operations over a period of more than one year.

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, 2011 and 2010, the Parent Company's MRF amounted to ₱5,769 in both years, while PGPI's MRF amounted to ₱6,541 and ₱6,449, respectively.

c. Included in the Group's "Others" is the Group's net retirement plan asset amounting to ₱52,626 and ₱408 as of December 31, 2011 and 2010, respectively, form part of the other noncurrent assets 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 Loans

On June 29, 2010, BEMC obtained from the Bank of the Philippine Islands (BPI) a six-month, interest-bearing promissory note amounting to ₱150,000. The proceeds of the note were used to partially pay the advances from the Parent Company to BEMC. Originally, the note matured on December 26, 2010 but it was renewed for another six months. With the renewal of the promissory note, the maturity date is on June 24, 2011. The interest rate of the note was initially stated at 5% per annum but it is subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The related interest is payable every 30 days. The note which matured last June 24, 2011 was renewed and will mature on July 28, 2012.

On March 7, 2011, BEMC obtained an additional six-month, interest-bearing promissory note of ₱100,000 from BPI for working capital purposes. The note will mature on September 9, 2011 and bears an interest rate initially stated at 4.75% per annum, subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The proceeds of the note were also used to partially pay the advances of the Parent Company to BEMC. The loan was renewed and will mature on August 27, 2012.

On April 12, 2011, BEMC obtained a six-month, interest-bearing promissory note of ₱100,000 from Philippine National Bank for working capital purposes. The note will mature on October 10, 2011 and bears an interest rate initially stated at 4.60% per annum, subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The proceeds of the note were also used to partially pay the advances of the Parent Company to BEMC. The note with PNB was settled fully on October 10, 2011. The Company obtained a new promissory note from BDO on October 7, 2011. The note has an initial interest rate of 4.25% per annum subject to repricing and will mature on April 4, 2012.

The promissory notes are unsecured and BEMC is not required to meet any loan covenants. Interest expense on these short-term bank loans charged to the consolidated statement of income amounted to ₱13,918 and ₱1,845 for the years ended December 31, 2011 and 2010, respectively.

The Parent Company also obtained unsecured US dollar-denominated short-term bank loans from various local banks in 2011 and 2010. These bank loans were repriced every 30 to 120 days, and with interest rates from 2% to 2.5% in 2011 and 2.50% to 2.85% in 2010. As of December 31, 2011 and 2010, all of the Company's bank loans have been fully paid. Interest expense arising from these short-term loans amounted to ₱27,817 and ₱8,504 in 2011 and 2010, respectively.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2011	2010
Trade	**₱479,465**	₱386,072
Accrued expenses	**295,423**	161,007
Accrued royalties and excise taxes	**233,483**	254,413
Withholding taxes	**14,897**	41,739
Refundable retention fee	**12,265**	11,906
Accrued interest	**5,802**	99
Other nontrade liabilities	**118,870**	113,270
	₱1,160,205	₱968,506

Trade payables are non-interest bearing and are generally settled within 30-60 day terms.

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

15. Costs and Expenses

Costs and expenses include the following:

	2011	2010	2009
Mining and milling costs:			
Materials and supplies	**₱1,612,583**	₱1,668,675	₱1,500,571
Communications, light and water	**1,276,766**	1,036,347	989,110
Personnel (Note 16)	**1,017,590**	815,590	810,162
Depletion and depreciation (Note 10)	**749,423**	871,340	724,838
Contracted services	**446,534**	473,919	390,544
Others	**146,014**	100,833	108,968
	₱5,248,910	₱4,966,704	₱4,524,193
General and administrative expenses:			
Personnel (Note 16)	**₱333,145**	₱176,472	₱172,195
Contracted services	**172,019**	187,677	101,344
Taxes and licenses	**151,567**	117,250	233,435
Travel and transportation	**58,799**	38,008	8,411
Repairs and maintenance	**20,974**	6,377	6,905
Depreciation (Note 10)	**20,866**	16,528	11,784
Donations	**21,551**	10,168	27,337
Communications, light and water	**14,489**	12,669	7,560
Office supplies	**11,289**	6,415	4,029
Representation	**9,379**	5,586	629
Exploration supplies	**5,639**	4,486	23,497
Others	**216,820**	83,062	251,804
	₱1,036,537	₱664,698	₱848,930
Mine products taxes and royalties:			
Royalties	**₱544,841**	₱459,282	₱322,480
Excise taxes	**309,388**	253,254	164,745
	₱854,229	₱712,536	₱487,225

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:

	2011	2010	2009
Current service cost	**₱59,003**	₱51,352	₱47,790
Interest cost on defined benefits obligation	**52,650**	70,776	58,711
Expected return on plan assets	**(73,814)**	(62,802)	(41,709)
Amortization of past service cost	**5,942**	5,942	5,942
Net actuarial loss recognized during the year	**–**	–	17,438
	₱43,781	₱65,268	₱88,172
Portions recognized in:			
Mining and milling costs (Note 15)	**₱37,652**	₱56,130	₱75,828
General and administrative expenses (Note 15)	**6,129**	9,138	12,344
	₱43,781	₱65,268	₱88,172
Actual return on plan assets	**₱98,484**	₱126,974	₱103,697

Net retirement benefits liability (plan assets):

	2011	2010	2009
Defined benefits obligation	**₱1,307,421**	₱1,085,575	₱943,686
Fair value of plan assets	**(1,199,523)**	(1,054,479)	(897,172)
Excess of defined benefits obligation over fair value of plan assets	**107,898**	31,096	46,514
Unrecognized net actuarial losses	**(160,524)**	(25,562)	(4,306)
Unrecognized past service cost	**–**	(5,942)	(11,884)
	(₱52,626)	(₱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:

	2011	2010
January 1	**₱1,085,575**	₱943,686
Current service cost	**59,003**	51,352
Interest cost on defined benefits obligation	**52,650**	70,776
Benefits paid	**(49,440)**	(65,667)
Actuarial losses on obligation	**159,633**	85,428
December 31	**₱1,307,421**	₱1,085,575

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

	2011	2010
January 1	**₱1,054,479**	₱897,172
Expected return on plan assets	**73,814**	62,802
Actuarial gains on plan assets	**24,670**	64,172
Actual contributions to the plan	**96,000**	96,000
Benefits paid	**(49,440)**	(65,667)
December 31	**₱1,199,523**	₱1,054,479

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

	2011	2010
Cash and cash equivalents	**8%**	3%
Investments in debt securities	**75%**	80%
Investments in equity securities	**15%**	15%
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 2012 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	
	2011	2010	2009
Number of employees	**2,235**	2,251	2,196
Discount rate per annum	**4.85%**	7.5%	6.25%
Expected annual rate of return on plan assets	**7%**	7%	6%
Future annual increase in salary	**10%**	10%	10%

The latest actuarial valuation is as of December 31, 2011. The discount rate used was 4.8%.

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

	2011	2010	2009	2008	2007
Defined benefits obligation	**(₱1,307,421)**	(₱1,085,575)	(₱943,686)	(₱939,377)	(₱928,311)
Fair value of plan assets	**1,199,523**	1,054,479	897,172	695,148	586,790
Excess of defined benefits obligation over fair value of plan assets	**(107,898)**	(31,096)	(46,514)	(244,229)	(341,521)
Experience adjustment on plan liabilities	**64,378**	(57,887)	101,120	53,531	(39,806)

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, 2011		December 31, 2010	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**₱457,574**	**₱457,574**	₱270,568	₱270,568
Short-term deposits	**3,489,721**	**3,489,721**	3,511,680	3,511,680
Accounts receivable:				
Trade	**1,525,848**	**1,525,848**	2,095,625	2,095,625
Accrued interest	**2,601**	**2,601**	10,248	10,248
Others	**67,180**	**67,180**	74,559	74,559
Derivative assets	**904,701**	**904,701**	–	–
AFS financial assets:				
Quoted equity investments	**4,061,921**	**4,061,921**	872,177	872,177
Unquoted equity investments	**1,366,148**	**1,366,148**	14,560	14,560
Total	**₱11,875,694**	**₱11,875,694**	₱6,849,417	₱6,849,417
Liabilities				
Short-term bank loan	**₱350,000**	**₱350,000**	₱150,000	₱150,000
Accounts payable and accrued liabilities:				
Trade	**479,465**	**479,465**	386,072	386,072
Accrued expenses	**295,423**	**295,423**	161,007	161,007
Accrued interest	**5,802**	**5,802**	99	99
Other nontrade liabilities	**131,135**	**131,135**	106,729	106,729
Derivative liabilities	**47,270**	**47,270**	–	–
Dividends payable	**325,333**	**325,333**	207,875	207,875
Subscriptions payable	**21,995**	**21,995**	21,995	21,995
Total	**₱1,656,423**	**₱1,656,423**	₱1,033,777	₱1,033,777

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 and liabilities are based on counterparty valuation.

The fair value hierarchy of the financial assets and financial liabilities as of December 31, 2011 and 2010 are presented below:

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
AFS quoted financial assets	**₱4,061,921**	**₱–**	**₱–**	**₱4,061,921**
Derivative assets	**–**	**904,701**	**–**	**904,701**
Financial liabilities				
Derivative liabilities	**₱–**	**₱47,270**	**₱–**	**₱47,270**

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
AFS quoted financial assets	₱872,177	₱–	₱–	₱872,177

During the years ended December 31, 2011 and 2010, 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:

	2011	2010
Cash and cash equivalents:		
Cash on hand	**₱3,853**	₱3,061
Cash in banks	**453,721**	267,507
Short-term deposits	**3,489,721**	3,511,680
	₱3,947,295	₱3,782,248
Loans and receivables:		
Accounts receivable:		
Trade	**₱1,525,848**	₱2,095,625
Accrued interest	**2,601**	10,248
Others	**67,180**	74,559
	1,595,629	2,180,432
AFS financial assets:		
Quoted equity investments	**4,061,921**	872,177
Unquoted equity investments	**1,366,148**	14,560
	5,428,069	886,737
Derivatives designated as cash flow hedges - derivative assets	**904,701**	–
	₱11,875,694	₱6,849,417

For 2011, the Group has outstanding derivative liabilities designated as cash flow hedges amounting to ₱47,270. All other financial liabilities of the Group as of December 31, 2011 and 2010 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. In June 29, 2011, the BOD approved its formalized hedging policy in relation to entering into commodity derivatives in order to manage its financial performance.

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 Pan Pacific 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 29. This agreement is effective until the end of the Padcal mine life currently declared as 2020. 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, 2011 and 2010:

	2011	2010
Cash and cash equivalents:		
Cash in banks*	**₱453,721**	₱267,507
Short-term deposits	**3,489,721**	3,511,680
Accounts receivable:		
Trade	**1,525,848**	2,095,625
Accrued interest	**2,601**	10,248
Others	**67,180**	74,559
AFS financial assets:		
Quoted equity investments	**4,066,550**	872,177
Unquoted equity investments	**1,361,519**	14,560
Derivative assets	**904,701**	–
Gross maximum credit risk exposure	**₱11,871,841**	₱6,846,356

**Excluding cash on hand amounting to ₱3,853 and ₱3,061 in 2011 and 2010, respectively.*

The following tables show the credit quality of the Group's financial assets by class as of December 31, 2011 and 2010 based on the Group's credit evaluation process:

	December 31, 2011			
	Neither Past Due nor Impaired		**Past Due and Individually Impaired**	**Total**
	High-Grade	**Standard**		
Cash and cash equivalents:				
Cash in banks*	**₱453,721**	**₱–**	**₱–**	**₱453,721**
Short-term deposits	**3,489,721**	**–**	**–**	**3,489,721**
Accounts receivable:				
Trade	**1,525,848**	**–**	**592**	**1,526,440**
Accrued interest	**2,601**	**–**	**–**	**2,601**
Others	**67,180**	**–**	**1,708**	**68,888**

(Forward)

	December 31, 2011			
	Neither Past Due nor Impaired		Past Due and Individually Impaired	Total
	High-Grade	Standard		
AFS financial assets:				
Quoted equity investments	–	**4,061,921**	–	**4,061,921**
Unquoted equity investments	–	**1,366,148**	–	**1,366,148**
Derivative assets		**904,701**		**904,701**
Total	**₱5,539,071**	**₱6,332,770**	**₱2,300**	**₱11,874,141**

**Excluding cash on hand amounting to ₱3,853.*

	December 31, 2010			
	Neither Past Due nor Impaired		Past Due and Individually Impaired	Total
	High-Grade	Standard		
Cash and cash equivalents:				
Cash in banks*	₱267,507	₱–	₱–	₱267,507
Short-term deposits	3,511,680	–	–	3,511,680
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

**Excluding cash on hand amounting to ₱3,061.*

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, and derivative transactions with counterparty banks.

The Group has no past due but not impaired financial assets as of December 31, 2011 and 2010.

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, 2011 and 2010, respectively:

	December 31, 2011			
	On Demand	**Within 1 Year**	**More than 1 Year**	**Total**
Cash and cash equivalents	**₱3,947,295**	**₱–**	**₱–**	**₱3,947,295**
Accounts receivable:				
Trade	–	**1,525,848**	–	**1,525,848**
Accrued interest	–	**2,601**	–	**2,601**
Others	–	**67,180**	–	**67,180**
AFS financial assets:				
Quoted equity investments	–	–	**4,061,921**	**4,061,921**
Unquoted equity investments	–	–	**1,366,148**	**1,366,148**
Derivative assets	–	**904,701**	–	**904,701**
Total undiscounted financial assets	**₱3,947,295**	**₱2,500,330**	**₱5,428,069**	**₱11,875,694**
Short-term bank loan	**₱–**	**₱350,000**	**₱–**	**₱350,000**
Accounts payable and accrued liabilities	–	**911,825**	–	**911,825**
Dividends payable	**325,333**	–	–	**325,333**
Subscriptions payable	**21,995**	–	–	**21,995**
Derivative liability		**47,270**		**47,270**
Total undiscounted financial liabilities	**₱347,328**	**₱1,309,095**	**₱–**	**₱1,656,423**

	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
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	₱–	₱150,000	₱–	₱150,000
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	₱803,808	₱–	₱1,033,678

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. 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, 2011, 2010 and 2009, the Group recognized net foreign exchange losses of ₱14,681, ₱96,485 and ₱68,875, respectively, arising from the translation of these foreign currency-denominated financial instruments.

As the need arises, the Group 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, 2011

US$ Appreciate (Depreciate)	**Effect on Income before Income Tax**
6%	**₱242,270**
(6%)	**(242,270)**

Year Ended December 31, 2010

US$ Appreciate (Depreciate)	Effect on Income before Income Tax
7%	₱364,187
(7%)	(364,187)

As of December 31, 2011, there were outstanding dollar derivatives designated as cash flow hedges wherein fair value changes are reported under equity. There were no outstanding dollar derivatives as of December 31, 2010. The following table summarizes the impact on equity of reasonably possible changes in the exchange rates of US dollar against the Peso.

Year Ended December 31, 2011

US$ Appreciate (Depreciate)	**Effect on Equity**
6%	**(₱214,619)**
(6%)	**177,757**

Year Ended December 31, 2010

US$ Appreciate (Depreciate)	Effect on Equity
7%	₱–
(7%)	–

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, 2011 and 2010, the Group's exposure to the risk in changes in market interest rates relates primarily to BEMC's short-term bank loan.

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 2011 and 2010 income before income tax. For 2011, there is no direct effect on income before income tax brought about by changes in short-term interest rates. The change in market interest rates is based on the annualized volatility of the 6-month benchmark rate:

Year Ended December 31, 2011

Change in Market Rate of Interest	**Effect on Income before Income Tax**
Decrease by 1.0%	**₱3,500**
Decrease by 0.5%	**1,750**
Increase by 1.0%	**(3,500)**
Increase by 0.5%	**(1,750)**

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, 2011 and 2010, investments in quoted shares totaling ₱4,061,921 and ₱872,177 represent 12.50% and 3.40% of the total assets of the Group, respectively. Reasonable possible changes were based on an 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 quoted equity instruments held as AFS financial assets as at December 31, 2011 and 2010 that could be brought by changes in equity indices with all other variables held constant are as follows:

December 31, 2011

Currency	**Change in Quoted Prices of Investments Carried at Fair Value**	**Effect on Equity**
Australian dollar (AU$)	**Increase by 20%**	**₱179,610**
	Decrease by 40%	**(359,220)**
Peso	**Increase by 20%**	**297,260**
	Increase by 40%	**594,520**
	Decrease by 20%	**(297,260)**
	Decrease by 40%	**(594,520)**

	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)

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, 2011 and 2010. The change in metal prices is based on 1-year historical price movements.

Year Ended December 31, 2011	
Change in Metal Prices	**Effect on Income before Income Tax**
Gold:	
Increase by 21%	**₱7,253**
Decrease by 21%	**(7,253)**
Copper:	
Increase by 30%	**2,042**
Decrease by 30%	**(2,042)**

Year Ended December 31, 2010	
Change in Metal Prices	Effect on Income before Income Tax
Gold:	
Increase by 17%	₱17,408
Decrease by 17%	(17,408)
Copper:	
Increase by 28%	18,184
Decrease by 28%	(18,184)

As of December 31, 2011, there were outstanding gold and copper derivatives designated as cash flow hedges wherein fair value changes are reported under equity. There were no outstanding gold and copper derivatives as of December 31, 2010. The following table summarizes the impact on equity of reasonably possible changes in the prices of gold and copper.

	Year Ended December 31, 2011
Change in Metal Prices	**Effect on Equity**
Gold:	
Increase by 21%	**(₱336,647)**
Decrease by 21%	**665,184**
Copper:	
Increase by 30%	**(743,396)**
Decrease by 30%	**889,374**

	Year Ended December 31, 2010
Change in Metal Prices	Effect on Equity
Gold:	
Increase by 17%	~~₱~~–
Decrease by 17%	–
Copper:	
Increase by 28%	–
Decrease by 28%	–

Derivative Financial Instruments

The table below provides information about the Parent Company's derivative financial instruments outstanding as of December 31, 2011 and 2010, and the related fair values:

Derivative Asset / (Derivative Liability)	**2011**	2010
Gold put options	**₱37,355**	~~₱~~–
Gold collars	**165,217**	–
Copper put options	**94,687**	–
Copper collars	**238,542**	–
Copper forwards	**368,900**	–
Dollar collars	**(47,270)**	–

Gold Collar Pre-Termination. 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 have matured in early part of 2011. The pre-termination of the gold collars discontinued the hedge relationship of such derivatives. The unwinding cost has been amortized monthly until April 2011 based on contractual monthly notional amount of the collars. The effective portion of the unwinding cost of the hedge remained in equity prior to maturity and has been transferred to profit or loss upon occurrence of the forecasted transaction. Total amortization in 2011, 2010 and 2009 amounted to ₱106,673, ₱355,577 and ₱88,894, respectively.

Gold Derivatives. During 2011, the Parent Company has entered into gold put option contracts to hedge the company's position to possibly decreasing gold prices. The contracts required premium payments which amounted to ₱97,212. The put options have a total notional amount of 9,000 ounces monthly from January to December 2011. These long put options were designated as cash flow hedges.

As of December 31, 2011, the Parent Company has outstanding gold derivatives with the following terms:

		Total quantity	Monthly maturity	Average Strike price in US$ per oz		Period covered	
Deal date	Contract	(in ozs)	(in ozs)	Put	Call	From	To
Jul 27, 2011	Put	48,000	8,000	1,400.00		Jan 2012	Jun 2012
Dec 8, 2011	Collar	5,400	900	1,600.00	1,905.00	Jan 2012	Jun 2012
Dec 8, 2011	Collar	13,350	2,225	1,600.00	1,935.00	Jul 2012	Sep 2012
Dec 8, 2011	Collar	6,675	4,450	1,600.00	1,935.00	Jul 2012	Sep 2012
Dec 8, 2011	Collar	6,675	2,225	1,600.00	1,935.00	Jul 2012	Sep 2012

As of December 31, 2011, these gold derivatives have a total mark-to-market value of ₱202,572.

Copper Derivatives. During 2011, the Parent Company has entered into several types of derivatives, such as forward and put option contracts, to hedge against volatile copper prices. The long put option contract required premium payment amounting to ₱163,507. These were designated as cash flow hedges and have monthly notional amounts of 1,125 dmt from January to December 2011.

As of December 31, 2011, the Parent Company has outstanding copper derivatives with the following terms:

		Total quantity	Monthly maturity	Average Strike price in US$ per lb			Period covered	
Deal date	Contract	(in dmt)	(in dmt)	Put	Call	Forward	From	To
27 Jul 2011	Collar	3,900	650	4.00	4.81		Jan 2012	Jun 2012
27 Jul 2011	Forward	3,900	650			4.43	Jan 2012	Jun 2012
03 Nov 2011	Put	945	315	3.00			Jul 2012	Sep 2012
03 Nov 2011	Put	945	315	3.00			Jul 2012	Sep 2012
03 Nov 2011	Put	945	315	3.00			Jul 2012	Sep 2012
03 Nov 2011	Put	945	315	3.00			Jul 2012	Sep 2012

As of December 31, 2011, these copper derivatives have a total mark-to-market value of ₱702,129.

Dollar Forwards and Collars. During 2011, the Parent Company entered into dollar collar contracts at a put strike of ₱43.00 and call strike of ₱45.00. The collars have a total monthly notional amount of US$13 million from March to September 2011, and US$11 million from October to December 2011. Dollar forward contracts were also entered into at an average agreed forward rate of ₱44.10 with monthly settlements of US$2 million each in October, November and December 2011. For 2011, total gain from these dollar forwards and collars amounted to ₱24,674.

As of December 31, 2011, the Parent Company has outstanding dollar collars with the following terms:

		Total dollar	Monthly maturity	Average Strike price in Php per $1		Period covered	
Deal date	Contract	(in million $)	(in million $)	Put	Call	From	To
Aug 5, 2011	Collar	48	8	42.25	44.60	Jan 2012	Jun 2012
Aug 8, 2011	Collar	48	8	42.25	44.60	Jan 2012	Jun 2012
Dec 20, 2011	Collar	24	8	43.50	45.50	Jul 2012	Sep 2012

As of December 31, 2011, these dollar derivatives have a total mark-to-market value of (₱47,270).

Embedded Derivatives. As of December 31, 2011 and 2010, the Parent Company had embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Note 28). 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, 2011 and 2010 amounted to a gain of ₱138,198, and ₱269,532 respectively, which were included under revenue and adjusted against receivables.

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, 2011 and 2010 are as follows:

	2011	2010
January 1	**₱–**	₱19,975
Premiums paid	**404,585**	259,650
Net changes in fair values of derivatives:		
Designated as accounting hedges	**655,173**	(272,709)
Not designated as accounting hedges	**–**	12,448
	1,059,758	19,364
Fair value of settled instruments	**(202,327)**	(19,364)
December 31	**₱857,431**	₱–

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, 2011 and 2010:

	2011	2010
January 1	**(₱74,671)**	(₱338,427)
Changes in fair value of cash flow hedges	**452,847**	(272,709)
Transferred to consolidated statements of income	**367,392**	649,548
Tax effects of items taken directly to or transferred from equity	**(246,072)**	(113,083)
December 31	**₱499,496**	(₱74,671)

As of December 31, 2011 and 2010, 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:

	2011	2010
Capital stock	**₱4,929,751**	₱4,922,131
Additional paid-in capital	**887,290**	812,378
Retained earnings	**16,093,059**	12,716,722
	₱21,910,100	₱18,451,231

20. Foreign Currency-Denominated Monetary Assets

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

	2011		2010	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Cash and cash equivalents	**$78,974**	**₱3,462,220**	$72,136	₱3,162,442
Trade receivables	**13,294**	**582,809**	46,538	2,040,226
	$92,268	**₱4,045,029**	$118,674	₱5,202,668

As of December 31, 2011 and 2010, the exchange rates of the Peso to the US dollar were ₱43.84 to US$1 in both years.

21. Related Party Transactions

The Group's significant related party transactions, which are under terms that are no less favorable than those arranged with third parties, and account balances follows:

a. On November 24, 2010, the Parent Company, as lender, entered into a US$10,000 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 the FEP's or FPHL's ordinary shares but are guaranteed by FEP for repayment to the Company. As of December 31, 2011, FEP or FPHL has made a total drawdown amounting to US$6,000 or ₱263,040. Interest earned by the Parent Company amounted to ₱10,604 and nil in 2011 and 2010, respectively.

b. On September 25, 2008, the BOD approved to pursue the Parent Company's 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 control over the property. 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 noninterest-bearing, unguaranteed cash advances to SMMCI and SMECI. As of December 31, 2011 and 2010, the outstanding cash advances to SMMCI and SMECI amounted to ₱4,012,925 and ₱3,335,141, respectively. These advances are payable on demand and will be settled through cash payment by SMMCI and SMECI.

c. The Parent Company advances PGPI's working capital and capital expenditure requirements which amounted to ₱1,087,763 and ₱932,737 as of December 31, 2011 and 2010, 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, 2011 and 2010.

d. 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 noninterest-bearing, unguaranteed and payable on demand through cash. As of December 31, 2011 and 2010, cash advances from the Parent Company amounted to ₱646,428 and ₱635,929, respectively.

e. In April 2011, the Parent Company sold US$30,000 to First Pacific Company Limited, Inc. (FPC), a stockholder, at the forward rate of ₱43.06 per US dollar in converting part of the Parent Company's dollar fund for routine working capital requirement. In April 2010, the 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 Company's dollar fund for routine working capital requirement.

f. The Parent Company provided cash advances to BEMC for the funding of its exploration and development activities. These advances are noninterest-bearing and payable on demand through cash. As of December 31, 2011 and 2010, total advances amounted to ₱185,190 and ₱139,242, respectively.

Compensations of Key Management Personnel

Compensations of the members of key management personnel follow:

	2011	2010	2009
Short-term employee benefits	**₱108,119**	₱64,413	₱69,824
Retirement benefits	**3,383**	3,032	4,942
Share-based payments	**396**	1,619	5,325
	₱111,898	₱69,064	₱80,091

22. Income Taxes

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

	2011	2010	2009
Parent Company - RCIT	**₱1,876,748**	₱1,804,393	₱455,314
FSTI – RCIT	**685**	–	–
FEP – MCIT	**17**	–	–
BEMC*	**2**	239	2,196
LMC – RCIT	–	–	4
	₱1,877,452	₱1,804,632	₱457,514

** BEMC's provision for current income represents MCIT for the years ended December 31, 2011 and 2010 and RCIT for the year ended December 31, 2009.*

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

	2011	2010
Deferred income tax assets on:		
Unamortized past service costs	**₱84,249**	₱86,256
Provision for losses and others	**78,898**	49,459
Impairment loss on AFS financial assets	**68,094**	68,094
NOLCO	**62,400**	–
Allowances for:		
Losses on input VAT	**45,884**	43,739
Materials and supplies obsolescence	**26,353**	26,353
Unrecoverable deferred mine and oil exploration costs	**28,713**	8,868
Probable losses on other noncurrent assets	**14,231**	14,231
Doubtful accounts	**410**	410
Unrealized foreign exchange losses - net	**24,188**	35,082
Accumulated accretion of interest on provision for mine rehabilitation costs	**5,439**	3,883
Cumulative translation adjustment on hedging instruments	–	32,002
Accumulated amortization of mine rehabilitation cost	–	2,769
Total deferred income tax assets	**438,859**	371,146
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	**(958,603)**	(489,013)
Cumulative translation adjustment on hedging instruments	**(214,070)**	–
Gain on dilution of interest in associate	**(126,615)**	–
Unrealized gain on AFS financial assets	**(68,094)**	(158,181)
Net retirement plan assets	**(15,788)**	(122)
Measurement of mine products inventory at NRV	**(10,397)**	(33,003)
Unrealized foreign exchange gain	**(1,875)**	(6,542)
Accumulated amortization of mine rehabilitation cost	**(514)**	–
Loss on termination of gold hedging contracts	–	(32,002)
Total deferred income tax liabilities	**(3,061,469)**	(2,384,376)
Net deferred income tax liabilities	**(₱2,622,610)**	(₱2,013,230)

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

	December 31, 2011		December 31, 2010	
	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	**–**	**910,852**	–	341,175
PPC	**–**	**57,090**	–	4,692
LMC	**–**	**1,875**	–	1,850
BEMC	**12,720**	**–**	–	–
	₱12,720	**₱2,635,330**	₱–	₱2,013,230

c. Deferred income tax liability amounting to ₱1,875 and ₱1,850 as of December 31, 2011 and 2010, 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, 2011 and 2010.

d. As of December 31, 2011 and 2010, PGPI's deductible temporary differences, NOLCO and excess MCIT for which deferred income tax assets have not been recognized are as follows:

	2011	2010
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**	107,256
Input tax	**9,045**	9,045
Doubtful accounts	**628**	628
NOLCO	**178,252**	173,673
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

e. As of December 31, 2011, PGPI's NOLCO that can be claimed as deduction from future taxable income are as follows:

		NOLCO	
Year Incurred	Available Until	Amount	Tax Effect
2009	2012	₱60,121	₱18,036
2010	2013	81,637	24,491
2011	2014	36,494	10,948
		₱178,252	₱53,475

The following are the movements of PGPI's NOLCO and excess MCIT for the years ended December 31, 2011 and 2010:

	NOLCO		Excess MCIT	
	2011	2010	**2011**	2010
Beginning balance	**₱173,673**	₱121,635	**₱53**	₱70
Additions	**36,494**	81,637	**–**	–
Expirations	**(31,915)**	(29,599)	**(53)**	(17)
Ending balance	**₱178,252**	₱173,673	**₱–**	₱53

f. As of December 31, 2011, PPC's NOLCO that can be claimed as deduction from future taxable income are as follows:

		NOLCO	
Year Incurred	Available Until	Amount	Tax Effect
2009	2012	₱20,017	₱6,005
2010	2013	78,826	23,648
2011	2014	93,656	28,097
		₱192,499	₱57,750

The following are the movements of PPC's NOLCO for the years ended December 31, 2011 and 2010:

	2011	2010
At January 1	**₱151,156**	₱72,330
Additions	**93,656**	78,826
Expirations	**(52,313)**	–
At December 31	**₱192,499**	₱151,156

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

	2011	2010	2009
Provision for income tax computed at the statutory income tax rates	**₱2,439,204**	₱1,705,219	₱1,050,594
Additions to (reductions in) income tax resulting from:			
Effect of difference in tax rates and others - net	**(121,436)**	(45,785)	(310,514)
Deductible temporary differences, NOLCO and excess MCIT for which no deferred income tax assets were recognized	**80,534**	30,952	33,139
Deductible temporary differences and NOLCO for which deferred income tax assets were recognized in the current year	**(61,869)**	–	–

(Forward)

	2011	2010	2009
Interest income already subjected to final tax	**(₱25,805)**	(₱7,931)	(₱53,629)
Stock-based compensation expense	**14,990**	613	8,599
Nondeductible expenses and non-taxable income - net	**6,943**	57,253	38,423
Dividend income	**(1,769)**	(888)	–
Provision for income tax	**₱2,330,792**	₱1,739,433	₱766,612

h. 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 2011 and 2010.

23. Equity

Capital Stock

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

	Number of Shares	
Common stock - ₱1 par value	**2011**	2010
Authorized	**8,000,000,000**	8,000,000,000
Issued, outstanding and fully paid:		
January 1	**4,922,130,960**	4,900,604,961
Issuance during the year	**7,619,783**	21,525,999
December 31	**4,929,750,743**	4,922,130,960

Below is a summary of the capital stock movement of the Parent Company:

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
1956	November 26, 1956	60,000,000	20,590,250
1957			30,539,750
1958			107,035
1959			1,442,500
1960	September 12, 1960	30,000,000	10,997,397
1961			1,238,500
1962			9,737,294
1963	December 16, 1993	90,000,000*	103,258,378
1964	March 6, 1964	220,000,000	65,339,520
1965			61,546,755
1966			60,959,182
1969	September 22, 1969	600,000,000	182,878,280

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
1970			274,317,420
1971	August 20, 1971	1,000,000,000	411,476,131
1973		4,000,000,000****	2,623,160,332
1974			1,543,035,476
1978			540,062,420
1981	August 4, 1981	5,000,000,000	1,485,171,655
1983			742,006,977
1985			815,707,473
1986			3,923,841,215
1987	August 14, 1987	9,000,000,000	3,867,787,326
1989	July 11, 1989	20,000,000,000	5,028,123,524
1990	June 27, 1990	(38,000,000,000)**	(20,549,744,536)
1991			375,852,233
1992			162,869,258
1993			179,156,183
1995			403,849
1997			985,928,483
1999	May 23, 1997	3,000,000,000	–
2007			10,781,250
2008			912,279,662
2009	May 22, 2009	3,000,000,000	1,019,753,789
2010			21,525,999
2011			7,619,783
		8,000,000,000	**4,929,750,743**

*This is the result of the change of par value from ₱0.10 to ₱0.05.
**This is the result of the change in par value from ₱0.05 to ₱1.00.
***Information on issue/offer price on public offering not available or information not applicable since the shares were not issued in relation to a public offering.
****Information on date of approval not available.

As of December 31, 2011 and 2010, the Parent Company's total stockholders is 45,085 and 45,607, respectively.

Retained Earnings

On February 23 and July 27, 2011, the Parent Company's BOD authorized the declaration of cash dividends amounting to ₱787,844 and ₱847,098 (or ₱0.16 and ₱0.14 per share, respectively), in favor of all stockholders of record as of March 10 and August 10, 2011, respectively.

On May 16, 2011, the Parent Company's BOD authorized the declaration of property dividend composed of shares of stock of PPC at the ratio of one share for every 8 shares of the Parent Company and cash in the amount of ₱0.052 per share to all stockholders of record of the Parent Company as of June 8, 2011. US based shareholders received, in lieu of PPC shares, cash in the amount of ₱0.96 per PPC share. It was approved by SEC on August 25, 2011. The declaration of property dividend was accounted for as equity transaction which resulted to reduction of ownership interest by the Parent Company and increase in non-controlling interest amounting to ₱650,856.

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.

The Parent Company's retained earnings available for dividend distribution amounted to ₱15,372,637 and ₱12,161,656 as of December 31, 2011 and 2010, respectively.

Non-controlling Interests

Non-controlling interests consist of the following:

	Percentage of Ownership		Amount	
	2011	2010	**2011**	2010
Non-controlling interests on net assets of:				
PPC	**35.21%**	–	**₱633,229**	₱–
BEMC	**35.21%**	–	**(2,999)**	–
FEC	**66.80%**	48.8%	**214,619**	142,606
FEP and its subsidiaries	**66.34%**	48.1%	**97,382**	93,963
LMC	**26.72%**	19.5%	**(34,247)**	(484)
			₱907,984	₱236,085

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, 2010.

On January 5, 2011, a new stock option grant was given following the terms of the approved plan. A total of 6,000,000 options were awarded vesting every 6 months up to January 5, 2014.

The total share-based compensation expense for 2011, 2010 and 2009 amounted to ₱49,965, ₱2,043 and ₱28,665, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital for 2011 and 2010 amounted to ₱195,595, and ₱145,630.

The following table shows the movements in 2011 and 2010 on stock option plan of the Parent Company:

	Number of Options		Weighted Average Exercise Price	
	2011	2010	**2011**	2010
January 1	**21,075,358**	36,652,232	**₱6.32**	₱5.57
Granted	**6,000,000**	9,950,000	**12.20**	10.49
Exercised	**(7,823,783)**	(21,718,999)	**4.34**	5.20
Forfeited	**(500)**	(3,807,875)	**1.90**	2.61
December 31	**19,251,075**	21,075,358	**₱8.96**	₱6.32

The number of unexercised vested stock options as of December 31, 2011 and 2010 are 5,703,668 and 9,414,983, respectively.

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

	2011
	January 5, 2011
Spot price per share	₱15.40
Time to maturity	5 years
Volatility*	54.57%
Dividend yield	1.93%
Suboptimal exercise behavior multiple	1.5
Forfeiture rate	2%

	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.*

On August 1, 2005, FEP implemented a Share Option Plan ("the Plan") with three sub-plans ("the sub-plan"). Under the terms of the Plan, FEP can issue up to 16% of its issued stocks.

The following share options outstanding in respect of FEP's ordinary shares with their corresponding weighted average exercise prices for the year ended December 31, 2011 and 2010 are as follows:

	Number of Options		Weighted Average Exercise Price	
	2011	2010	**2011** (1 year)	2010 (1 year)
Beginning	**2,195,000**	2,467,000	**£0.31 ($0.50)**	£0.31 ($0.48)
Exercised	**–**	(272,000)	**–**	£0.31 ($0.48)
Ending	**2,195,000**	2,195,000	**£0.31 ($0.50)**	£0.31 ($0.48)

The weighted average remaining contractual life of outstanding options as of December 31, 2011 is seven (7) years. The options in issue represent 41% of the total permissible options per terms of the Plan and are exercisable at a price lower that its market value.

The fair values of awards granted under the Plan has been calculated using the Black Scholes model that takes into account factors specific to share incentive plans such as the vesting periods of the Plan, the expected dividend yield on FEP's shares and expected early exercise of share options.

Grant Date	August 1, 2005	December 6, 2006	December 19, 2010
Share price at grant date	£1.12 ($2.19)	£0.73 ($1.39)	£0.25 ($0.38)
Exercise price	£1.12 ($2.19)	£0.73 ($1.39)	£0.31 ($0.46)
Fair value of options	£0.35 ($0.51)	£0.31 ($0.45)	£0.13 ($0.20)
Volatility*	25%	40%	40%
Option life	10 years	5 years	10 years
Risk-free investment risk	4.5%	5%	4%

** Volatility has been based on the annualized volatility of the Company's shares since its flotation on the AIM market.*

25. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share are computed as follows:

	2011	2010	2009
Net income attributable to equity holders of the Parent Company	**₱5,771,223**	₱3,963,201	₱2,830,309
Divided by weighted average number of common shares outstanding during year	**4,926,583,729**	4,914,719,911	4,867,306,154
Basic earnings per share	**₱1.171**	₱0.806	₱0.581

Diluted earnings per share amounts are calculated as follows:

	2011	2010	2009
Net income attributable to equity holders of the Parent Company	**₱5,771,223**	₱3,963,201	₱2,830,309
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	**4,932,287,397**	4,920,204,652	4,872,321,065
Diluted earnings per share	**₱1.170**	₱0.805	₱0.581
Weighted average number of comm shares for basic earnings per sha	**4,926,583,729**	4,914,719,911	4,867,306,154
Effect of exercise of stock options	**5,703,668**	5,484,741	5,014,911
Weighted average number of common shares adjusted for the effect of exercise of stock options	**4,932,287,397**	4,920,204,652	4,872,321,065

The Parent Company considered the effect of its potentially dilutive stock options outstanding as of December 31, 2011, 2010 and 2009 (see Note 24). The assumed exercise of these stock options would have resulted in additional 5,703,668, 5,484,741 and 5,014,911 common shares in 2011, 2010 and 2009, respectively.

26. Farm-in Agreement with Manila Mining Corporation (MMC)

On May 11, 2011, the Parent Company entered into a farm-in agreement with MMC and to acquire up to 60% of the outstanding capital stock of Kalayaan Copper Gold Resources, Inc. (Kalayaan), a wholly owned subsidiary of MMC. The Parent Company purchased from MMC 125,000 shares of Kalayaan representing 5% of the outstanding capital stock for US$25,000 or ₱1,071,521. Further, the Parent Company will subscribe to additional 3,437,500 shares of Kalayaan, representing 55% of outstanding capital stock, subject to the condition that the Parent Company will fulfill the subscription services within the earlier of 3 years following the execution of the agreement or expiry of the term of the exploration permit.

Upon acquisition of 5% stake over Kalayaan, MMC, under the Operating Agreement, grants the Parent Company exclusive, irrevocable and unconditional rights:

a. To conduct exploration and pre-development;
b. To perform all activities necessary to complete a final feasibility study for the project; and,
c. To possess and/or exercise all of Kalayaan's surface rights, to exercise, utilize and enjoy all the rights, benefits, privileges, and perform all the obligations of Kalayaan under and in relation to the exploration permit and the mineral rights, provided that Kalayaan shall remain liable for all accrued obligations under the exploration permit as of the date of the agreement.

The transaction was recorded by allocating the US$25,000 to Investment in AFS pertaining to the 5% interest in Kalayaan and to the exploration rights acquired. The acquisition cost is then allocated by valuing the investment in AFS at ₱100 and the deferred exploration cost at ₱1,071,421.

27. **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.

On December 7, 2011, the Company entered into an agreement with Anglo and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Company agreed to buy and Anglo agreed to sell all Anglo's rights, interests and obligations in MECI for US$25. In addition, AAEPI agreed with the Company that all of its rights interests and title in and to its receivable to MECI will be assigned to the Company for a consideration amounting to US$175. The purchase of share and assignment of receivable will become effective and legally enforceable only upon fulfillment of the closing obligations. As at December 31, 2011, the closing obligations are not yet fulfilled.

28. 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 April 1, 2004, 75% of the total concentrates production.

b. From the Contract Year 2005 (starting April 1, 2005) through the Contract Year 2008 (starting 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 April 1, 2009 and ending on March 31, 2010), at least 60% of the total Concentrate 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.

e. Contract Year 2011 (starting on April 1, 2011 and ending on March 31, 2012), 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 2011.

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.

29. Other Matters

a. 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, and 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.

b. The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and the Group's legal counsel reassess their estimates on an annual basis to consider new relevant information. 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.

30. Notes to Consolidated Statements of Cash Flows

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

a. In 2011 and 2010, total depreciation expense that was capitalized as part of deferred mine exploration costs by BEMC, SMMCI, PGPI and LMC amounted to ₱172,549 and ₱141,489, respectively.

b. 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.

c. 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.

31. Events After Balance Sheet Date

On February 29, 2012, the BOD of the Parent Company approved the declaration of cash dividend amounting to ₱0.42 per share to all stockholders of record as of March 15, 2012 comprising of ₱0.14 per share regular dividend and ₱0.28 per share special dividend for a full year payout at 50%.

MANUEL V. PANGILINAN

65, Filipino citizen. Chairman effective June 24, 2009 and subsequently Chairman & Chief Executive Officer effective December 7, 2009 to present. He has been a Director of the Company and PGPI since November 2008 and re-elected on June 29, 2011. He is the Managing Director and Chief Executive Officer of First Pacific Company Limited and the Chairman of the Philippine Long Distance Company since 2004 from President and Chief Executive Officer in November 1998. He is also the Chairman of Metro Pacific Investments Corporation, Smart Communications, Inc. Pilipino Telephone Corporation, Maynilad Water Services, Inc., Metro Pacific Tollways Corporation, Manila North Tollways Corporation, Landco Pacific Corporation, Medical Doctors Inc. (Makati Medical Center), Davao Doctors, Inc., Colinas Verdes Corporation (Cardinal Santos Medical Center), Mediaquest Holdings, Inc., and Associated Broadcasting Corporation (TV 5), as well as the President Commissioner of PT Indofood Sukses Makmur Tbk. He is also the President and Chief Executive Officer of the Manila Electric Company.

ELIZA R. ANTONINO

34, Filipino citizen. She has been a Director of the Company and PGPI since April 27, 2011 and re-elected on June 29, 2011. She has been a Commissioner of the Social Security System since September 2010. She has held various positions in the Philippine Senate and was formerly Vice President – Business Development of WEMILCO Management and Development Company from 2003-2004.

MARILYN A. VICTORIO-AQUINO

56, Filipino citizen. She has been a Director of the Company and PGPI since December 7, 2009 and re-elected on June 29, 2011. She joined Sycip Salazar Hernandez and Gatmaitan Law Offices in 1980 and became partner since 1989.

EULALIO B. AUSTIN, JR.

50, Filipino citizen. He has been a Director of the Company and PGPI since June 29, 2011. He is also a Director of Silangan Mindanao Mining Company, Inc. He is the President and Chief Operating Officer effective January 1, 2012, previously from Senior Vice President for Operations and Padcal Resident Manager in November 2010, Vice President & Resident Manager for Padcal Operations in January 2004, Mine Division Manager (Padcal) in January 1999, Engineering Group Manager in October 1998 and Mine Engineering & Draw Control Department Manager in January 1996.

EMILIO S. DE QUIROS, JR.

63, Filipino citizen. He has been a Director of the Company and PGPI since November 23, 2010 and was re-elected on June 29, 2011. He is currently the President and Chief Executive Officer of Social Security System. He is also a Director of ALFM Peso Mutual Fund, ALFM Dollar Mutual Fund, ALFM Euro Mutual Fund, ALFM Growth Fund and Philippine Stock Index Fund. He was Executive Vice President of Bank of the Philippine Islands from May 2004 to December 2008. He also served as President of Ayala Life Assurance, Inc. and Ayala Plans and Director of BPI Bancassurance Inc. and BPI/MS Insurance Corporation from May 2004 to December 2008.

OSCAR J. HILADO

74, Filipino citizen. He has been a Director of the Company since December 7, 2009 and was re-elected on June 29, 2011. He is currently the Chairman of Philippine Investment Management (PHINMA), Inc., Bacnotan Consolidated Industries, Inc., Holcim Philippines, Inc., Trans Asia Oil and Energy Development Corporation, Phinma Property Holdings Corporation and Union Galvasteel Corporation. He is a Director of A. Soriano Corporation, First Philippine Holdings Corporation, Seven Seas Resources and Leisure, Inc., Asian Eye Institute, University of Pangasinan, University of Iloilo, Araullo University, Cagayan de Oro College, and Microtel Inns and Suites (Pilipinas), Inc. He is an Independent Director of the Company since his initial election, having possessed the required qualifications.

ROBERT C. NICHOLSON

56, British citizen. He has been a Director of the Company and PGPI since November 28, 2008 and was re-elected on June 29, 2011. He is an Executive Director of First Pacific Company Limited, the Executive Chairman of Forum Energy Plc, a Commissioner of PT Indofood Sukses Makmur Tnk, a Director of Metro Pacific Investments Corporation, Level Up International Holdings Pte. Ltd., and Pitkin Petroleum Plc, an Independent Non-Executive of QPL International Holdings Limited and Pacific Basin Shipping Limited, and a Non-Executive Director of India Capital Growth Fund Limited. He was a senior adviser to the Board of Directors of PCCW Limited from August 2001 to September 2003.

WILFREDO A. PARAS

65, Filipino citizen. He was elected as Director of the Company on June 29, 2011. He currently serves as Senior Advisor to the Association of Petrochemical Manufacturers of the Philippines. He is also the President of WAP Holdings, Inc. He was the Executive Vice President, Chief Operating Officer and Director of JG Summit Petrochemical Corporation from 1996 to July 2008. He also served as President-Director of PT Union Carbide Indonesia, Managing Director of Union Carbide Singapore Ltd. and Business Director – Polyolefins of Union Carbide Asia Pacific, Singapore.

JUAN B. SANTOS

73, Filipino citizen. Vice-Chairman. He has been a Director of the Company and PGPI since September 28, 2010 and re-elected on June 29, 2011. He is the Chairman of the Social Security Commission. He was the Chairman and President of Nestle Philippines, Inc. from 1987 to 2003 and former Secretary of Trade and Industry in 2005. He also served as Director of San Miguel Corporation, Philippine Long Distance Telephone Company, Manila Electric Company, Malayan Insurance Company, Inc., Equitable Savings Bank, Inc. PCI Leasing and Finance, Inc., Inter-Milling Holdings Limited and PT Indofood Sukses Makmur Tbk. He was the Chairman of the Advisory Board of Equitable PCIBank.

EDWARD A. TORTORICI

72, American citizen. He has been a Director of the Company and PGPI since December 7, 2009 and was re-elected on June 29, 2011. He is currently an Executive Director of First Pacific Company Limited. He serves as Commissioner of PT Indofood Sukses Makmur Tbk, and a Director of Metro Pacific Investments Corporation, Maynilad Water Services, Inc., Medical Doctors, Inc., Landco Pacific Corporation, Forum Energy Plc and FEC Resources Inc. He also serves as a Trustee of the Asia Society and the Metropolitan Museum of Manila.

JOSE ERNESTO C. VILLALUNA, JR.

72, Filipino citizen. He has been a Director of the Company since 2004 and was re-elected on June 29, 2011. He is also a Director of PGPI, Philex Petroleum Corporation, FEC Resources, Inc., Brixton Energy & Mining Corporation, Silangan Mindanao Mining Co., Inc., and Lascogon Mining Corporation. He was the Vice Chairman and President of Itogon Suyoc Mines, Inc. in 1993 to 2001. He has been a Director of ISM Communications Corporation since July 2001.

Eulalio B. Austin, Jr.
President &
Chief Operating Officer
(2012)

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

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

Benjamin R. Garcia
Senior Vice President
for Human Resources

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

Jose Ernesto C. Villaluna, Jr.
President &
Chief Operating Officer
(2011)

Barbara Anne C. Migalos
Corporate Secretary

Michael T. Toledo
Senior Vice President
for Corporate Affairs

Victor A. Francisco
Vice President for Environment
& Community Relations

Raymund Brett C. Medel
Vice President and
Chief Information Officer

Enrique C. Rodriguez, Jr.
Vice President for Legal

Redempta P. Baluda
Vice President for Exploration

Denis G. Lucindo
Vice President for
Business Development

Libby R. Ricafort
Vice President for Operations
& Padcal Resident Manager

BOARD OF DIRECTORS

Manuel V. Pangilinan
Chairman

Juan B. Santos
Vice Chairman

Eliza R. Antonino
Eulalio B. Austin, Jr.
Emilio S. De Quiros, Jr.
Oscar J. Hilado (Independent)
Robert C. Nicholson
Wilfredo A. Paras (Independent) [1]
Edward A. Tortorici
Marilyn A. Victorio-Aquino
Jose Ernesto C. Villaluna, Jr.

CONSULTANTS

Rogelio G. Laraya, PhD
Senior Adviser

Ralph Rossouw
Technical Consultant to the Chairman

OFFICERS

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

Juan B. Santos
Vice Chairman

Jose Ernesto C. Villaluna, Jr. [2]
President & Chief Operating Officer

Eulalio B. Austin, Jr. [3]
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 [4]
Assistant Corporate Secretary

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

Benjamin R. Garcia
Senior Vice President
for Human Resources

Michael T. Toledo [5]
Senior Vice President
for Corporate Affairs

Redempta P. Baluda
Vice President for Exploration

Victor A. Francisco
Vice President for Environment
& Community Relations

Denis G. Lucindo
Vice President for Business Development

Raymund Brett C. Medel [6]
Vice President and Chief Information Officer

Libby R. Ricafort [7]
Vice President & Padcal Resident Manager

Enrique C. Rodriguez, Jr.
Vice President for Legal

PASIG HEAD OFFICE STAFF

Elisa R. Dungca
Division Manager - Marketing
& Investor Relations

Paraluman M. Navarro
Division Manager – Corporate Finance

Victor B. Maglambayan
Division Manager – Exploration

Noel C. Oliveros
Division Manager – Exploration

Alejandro Lito R. Aprieto [8]
Group Manager - Materials Management

Geraldine B. Ateo-an
Group Manager - Internal Audit

Carmelita B. Catacutan [9]
Group Manager – Mining Academy

Claro Jose C. Manipon
Group Manager – Exploration

Eileen C. Rodriguez
Group Manager – Corporate Treasury

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

Marites A. Valerio [10]
Group Manager - Organization
Capability Development

PADCAL OPERATIONS STAFF

Eduardo M. Aratas
Division Manager – Legal

Roy P. Mangali [11]
Division Manager – Mine

Edgar L. Prangan
Division Manager - Safety/Loss Control

Vergel T. Agatep
Group Manager – Mine Mechanical

Roselyn M. Dahilan
Group Manager – Padcal Finance

Ricardo S. Dolipas II [12]
Group Manager - Mine Operations

Jocelyn B. Galapon
Group Manager – Geology & Exploration

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

Joel S. Son
Group Manager - Safety

Reynold V. Yabes
Group Manager - Mill Operations & Maintenance

Andres C. Zabala [13]
Group Manager - Human Resources

[1] *Effective July 27, 2011*
[2] *Retired December 31, 2011*
[3] *Effective January 1, 2012*
[4] *Retired October 5, 2011*
[5] *Effective February 15, 2012*
[6] *Effective May 17, 2012*
[7] *Effective January 1, 2012*
[8] *Effective October 1, 2011*
[9] *Effective January 1, 2012*
[10] *Effective July 1, 2011*
[11] *Effective January 1, 2012*
[12] *Effective March 1, 2012*
[13] *Effective April 16, 2012*

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Bankers

ANZ
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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
Maybank
Metropolitan Bank & Trust Company
Mizuho Corporate Bank, Ltd.
NOMURA
Philippine National Bank
Plantersbank
Rizal Commercial Banking Corporation
Standard Chartered Bank
The Hongkong and Shanghai Banking Corp. Ltd.
Union Bank of the Philippines
United Coconut Planters Bank

What was once a tailings pond that held water and effluents from the mill at the Bulawan Project in Negros Occidental is now a sanctuary for migratory wild ducks, proof of the Company's efficiency in environmental management and mine rehabilitation.

PHILEX MINING
CORPORATION

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