PHILEX MINING CORPORATION
PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600
P.O. Box MCPO 2398, Makati City 1200
Tel. Nos. 631-1381 to 88 • Fax Nos. (632) 634-4441 (Exec.), 631-9501 (Purch.)
Email: philex@philexmining.com.ph • Corporate Website: http://www.philexmining.com.ph

April 16, 2012

PHILIPPINE STOCK EXCHANGE
Disclosure Department
Tower One & Exchange Plaza
Ayala Avenue, Makati City

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosure Department

Gentlemen:

We submit to you herewith a copy of our Company's SEC Form 17-A Annual Report for the year ended December 31, 2011 which we will file with the Securities and Exchange Commission on the week of April 23, 2012, the due date applicable to the Company as per SEC Memorandum Circular No. 6 dated August 15, 2011.

Very truly yours,

RENATO N. MIGRINO
SVP - Finance

COVER SHEET

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SEC Registration Number

P H I L E X   M I N I N G   C O R P O R A T I O N

(Company's Full Name)

2 7   B r i x t o n   c o r   F a i r L a n e   S t r e e t s

P a s i g   C i t y

(Business Address: No. Street City/Town/Province)

Renato N. Migriño

(Contact Person)

(632) 631-13-81

(Company Telephone Number)

Month	Day
1 2	3 1

Month *Day*
(Calendar Year)

1 7 - A

(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

S.E.C. Number 10044
File Number______

PHILEX MINING CORPORATION
(Company's Full Name)

Philex Building, No. 27 Brixton Street, Pasig City
(Company's Address)

631-1381 to 88
(Telephone Numbers)

December 31
(Fiscal Year Ending)
(month & day)

SEC FORM 17-A Annual Report
Form Type

____
Amendment Delegation (If applicable)

December 31, 2011
Period Ended Date

____
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2011**
2. SEC Identification Number **10044**
3. BIR Tax Identification No. **000-283-731-000**
4. Exact name of issuer as specified in its charter: **PHILEX MINING CORPORATION**
5. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization
6. [ ] (SEC Use Only) Industry Classification Code:
7. **Philex Building, 27 Corner Brixton and Fairlane Streets, Pasig City** **1600**
   Address of principal office Postal Code
8. **(632) 631-1381 to 88**
   Issuer's telephone number, including area code
9. **Not applicable**
   Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 & 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1 par value (as of March 30, 2012)	**4,931,534,968**
Debt Outstanding (as of December 31, 2011)	**P350,000,000**

11. Are any or all of these securities listed on a Stock Exchange?

    Yes [**X**] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange **Common Shares**

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the issuer was required to file such reports).

    Yes [**X**] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes **[X]** No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: **P102.1 billion** based on closing prices at the Philippine Stock Exchange on March 30, 2012.

PART 1
BUSINESS AND GENERAL INFORMATION

Item 1. Business

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 is 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 to buyback the 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 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 hydro carbon 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.

Products/Sales

The Company has operated for the past 54 years the Sto. Tomas II deposit at Padcal, Tuba, Benguet Province. The Padcal mine is the first underground block cave operation in the Far East.

The Company's Padcal mine produces copper concentrates, containing copper, gold and silver. Total ore extracted and processed from start of operation to 2011 aggregate to 359.3 million tonnes producing 2.089 billion pounds of copper, 5.611 million ounces of gold, and 6.114 million ounces of silver.

The mine's production is primarily smelted in the Saganoseki smelter in Kyushu Island, Japan through Pan Pacific Copper Co., Ltd. (Pan Pacific), a joint venture company between Nippon Mining Co. Ltd. and Mitsui Mining and Smelting Co. Ltd.

Under its long-term gold and copper concentrates sales agreement with Pan Pacific, the Company committed to sell 75% of the concentrates produced from the Padcal mine in 2004, the higher of 60,000 dry metric ton (DMT) or the total annual production less 10,000 DMT from 2005 to 2008, and at least 60% of the total annual production thereafter.

In 2007, the Company entered into a contract with Louis Dreyfus Commodities Metals Suisse S.A. for the uncommitted balance of the Company's copper concentrates from April 2007 to March 2012 covering a total of 55,000 DMT with their actual months of shipment to be determined annually. An addendum to this contract was agreed upon in March 2009, increasing the deliveries by 10,000 DMT per contract year from April 1, 2009 to March 31, 2012, and by 5,000 DMT for contract year from April 1, 2012 to March 31, 2013.

All of the Parent Company's sales revenues for the years 2009 to 2011 were from copper concentrate shipments made to Japan. The value of these shipments are initially determined based on prices during the second calendar week prior to week of shipment then adjusted to the average prices during the final quotational period (one month after month of arrival in Japan for gold and silver, and two months after month of arrival in Japan for the period April 2010 to March 2011 and three months after month of arrival in Japan for the period April 2011 to March 2012, for copper).

The 2011 consolidated revenue of the Company includes the net realizable value of mine products inventory at the end of the financial reporting period. About 2.5% of 2010 consolidated revenue came from petroenergy contributed by FEP and BEMC.

Sources and Availability of Raw Materials and Supplies

The Company's ore production, deemed as raw material extracted, comes from the Company's mineral properties covering the Padcal mine.

Operating supplies, equipment and spare parts, which are generally available, are provided by quite a number of suppliers both local and abroad on competitive basis. Energy is currently sourced from the Team (Philippines) Energy Corporation under a two-year contract for the supply of electricity, although the Padcal mine has the capacity to self-generate standby electricity principally for mine underground use in case of supply interruptions.

Employees

The total manpower of the Company as of December 31, 2011 consists of 2,271 full-time regular employees, as follows:

Padcal Operations	2,126
Pasig Corporate Head Office	145
Total	2,271

Of the Company's employees, 2,050 are in operations, while 221 perform clerical and administrative work. The Company anticipates no material change in the number and type of employees within the ensuing twelve months.

The Padcal employees belong to two collective bargaining agents: the Philex Rank-and-File Employees Union-Association of Labor Unions (Trade Union Congress of the Philippines) [PRFEU-ALU (TUCP)] for rank-and-file and the Philex Mining Supervisory Employees Union-Association of Professional Supervisory Office Technical Employees Union (Trade Union Congress of the Philippines) [PMSEU-APSOTEU (TUCP)] for supervisors. The PRFEU-ALU (TUCP) replaced the previous National Allied Mines and Workers Union 101 (NAMAWU 101) in 2010. New five years collective bargaining agreements to expire in 2015 were already signed and executed with both of the said Unions.

Pasig rank-and-file employees are members of the Philex Pasig Employees Union whose agreement with the Company was signed and executed in February 2012. The agreement covers a period of five years to expire in August 2016.

There has been no labor dispute or strike by any of the Company's unions in the past five years. There are no other supplemental benefits or incentive arrangements the Company has under its collective bargaining agreements other than the usual employee benefits such as vacation and sick leave pays, etc.

Mining Properties / Royalty Agreements

The Company has 132,571 hectares of mineral properties covered by applications for or by approved Mineral Production Sharing Agreements (MPSA), Exploration Permits or Mining Lease Contracts (MLC) with the government or through claimowners.

The Company's main operation area in Padcal is under twelve (12) mineral holdings each containing 95 hectares in Benguet Province covered by a royalty agreement with claimowners. Three of the holdings are covered by Mineral Production Sharing Agreement (MPSA) 156-2000-CAR. In January 2009, the remaining nine mineral holdings covering 81 hectares was issued MPSA-276-2009-CAR valid up to 2034.

As of December 31, 2011, the Padcal Mine's mineral resources and proved reserves are estimated as follows:

MINERAL RESOURCES					
				Contained	
	Million Tonnes	Copper %	Gold g/t	Copper (Million lbs.)	Gold (000 ozs.)
908 ML	52	0.25	0.54	290	900
782 ML	90	0.24	0.45	470	1,300
Total	142	0.24	0.49	760	2,200

CuEq cut-off grade = 0.30%; Metal Prices: US$3.00 per pound Cu, US$1,000 per ounce 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.

PROVED RESERVES					
				Contained	
	Million Tonnes	Copper %	Gold g/t	Copper (Million lbs.)	Gold (000 ozs.)
908 ML	19.9	0.21	0.43	75.1	202
782 ML	31.4	0.23	0.44	130.0	326
798 ML	29.5	0.20	0.33	108.5	211
Total	80.8	0.21	0.4	313.6	739

CuEq cut-off grade = 0.246%; Metal Prices: US$3.00 per pound Cu, US$1,000 per ounce Au; Metal Recoveries: 82% Cu, 72% Au

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

In August 2011, the declared life of the Padcal Mine was extended to year 2020 from 2017 based on the declared proved reserves which now includes tonnage from the 798 Meter Level.

The other areas in the vicinity of the Padcal Mine are covered by mining agreements over a total area of 13,729 hectares, all within the municipalities of Tuba and Itogon in Benguet:

Tenements	Area (Has.)
MPSA-156-2000-CAR	3,848
MPSA-157-2000 CAR	2,958
MPSA-276-2009-CAR	81
EPA-075	437
EPA-078 (includes APSA-075)	4,458
APSA-098	125
APSA-074 (within MPSA-156 & 157)	-1
EPA-060 (Parcel C)	41
EPA-060 (formerly APSA-062)	986
APSA-051	795
APSA-077 (within MPSA-156 & 157)	0
Total	13,728

Government Regulations and Approvals

The effect on the Company's operation of existing governmental regulations are mainly on their corresponding costs of compliance to the Company which are appropriately reflected either as expense or as capital asset under generally accepted accounting principles. The effect on the Company of any probable government regulation could not be determined until the specific provisions are known.

Other than the usual business licenses or permits, there are no government approvals needed on the Company's principal products.

Exploration and Development

Exploration and development (the equivalent of research and development for a mining company) are currently done internally by the Company by itself or through drilling contractors. Expenses for 2011, 2010, and 2009 amounted to P2.022 billion, P1.246 billion and P855 million, respectively. Up to 2008, Anglo provided the funds for the exploration of the Silangan Project under the terms of its joint venture with the Company.

Note 12 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also incorporated hereto by reference.

Silangan Project

The Silangan Project came into existence in 1999 when the Company and PGPI entered into separate joint venture arrangements with Anglo American Exploration (Philippines) BV (Anglo), a subsidiary of Anglo American plc, for the purpose of exploring a group of the Company's claims in Benguet province, as well as those of PGPI in the province of Surigao del Norte. The focus of the joint ventures had been mainly in PGPI's North property where Boyongan, the first of the two orebodies in the Silangan Project, was discovered in August 2000. Bayugo was discovered in 2003 by Anglo during the definition drilling for the Boyongan orebody. This subsequent definition drilling was, however, only pursued in 2007 and was stopped in late 2008 when Anglo decided to relinquish its rights over its property.

In November 2008, Anglo offered to sell its 50% interest in the Silangan joint venture to the Company. Negotiation on this offer ensued between the parties which was completed in February 2009, with the Company acquiring all of Anglo's interest in the joint venture for $55 million. This gave the Company control over the property together with its 81% indirectly owned subsidiary, PGPI, which holds the other 50% interest.

The Silangan Project currently comprising of the Boyongan and Bayugo deposits, is covered by MPSA-149-99-XIII and EP-XIII-03 Lot-B located in Surigao del Norte. These two tenements under SMMCI are surrounded by several tenements of the Company within the Surigao del Norte Province as well as the Agusan del Norte Province, as listed below:

Tenements	Area (Has.)	Operator / Contractor
MPSA-149-9-XIII	2,880	SMMCI
EP-XIII-013 Lot-A&B	11,934	SMMCI
EPA-XIII-012	1,755	SMMCI
EPA-000039-XIII	6,309	SMMCI
MPSA-034-95-X	405	SMMCI
APSA-0000105-XIII	10,142	PGPI
MPSA-344-2010	6,208	PGPI
MPSA-148-99-XIII	2,306	LMC
EP-14B	237	PMC
Total	42,176	

The reported resources for Boyongan and Bayugo as of August 5, 2011, are as follows:

	Tonnes (millions)	Copper %	Gold g/t	Contained	
				Copper (million lbs.)	Gold (000 ozs.)
BOYONGAN					
Measured	201	0.54	0.78	2,400	5,000
Indicated	72	0.46	0.57	720	1,300
Measured + Indicated	273	0.52	0.72	3,120	6,300
Inferred	26	0.41	0.49	240	400
BAYUGO					
Measured	99	0.64	0.65	1,390	2,100
Indicated	26	0.76	0.69	430	600
Measured + Indicated	125	0.66	0.66	1,820	2,700
Inferred	7	0.77	0.60	120	100

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. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the PMRC. He has given his consent to the public reporting of this estimate following the PMRC guidelines concerning Mineral Resource Estimation.

In May 2011, the Company executed a Farm-In Agreement with Manila Mining Corporation for the purchase for $25 million of 5% interest in Kalayaan Gold-Copper Resources Inc. (KGCRI) and the right to explore the Kalayaan properties covering 286 hectares under EP-148 adjacent to EPXIII containing the Bayugo deposit. Under the agreement, the Company should conduct exploration activities in the property for three years, and should it declare commercial feasibility within the period, it will have the right to increase its holdings in KGCRI to 60% by subscribing to additional 3,437,500 shares representing 55% of KGCRI's outstanding capital stock. Should this event occur, the operation of the Kalayaan deposit will most likely be conducted jointly with the Bayugo deposit which will make the Silangan Project comprise of three deposits together with Boyongan.

Since 2009 when Philex engaged itself directly in the exploration of the Silangan Project, its total expenditures has amounted to P2.6 billion to date. Combined with those incurred by Anglo, the total expenditures in this project would aggregate to P4.0 billion as of December 31, 2011. Total expenditures for 2011, 2010 and 2009 amounted to P621 million, P1.4 billion and P586 million, respectively.

For the first quarter of 2011, the Silangan Project focused on the remaining condemnation holes south of Boyongan deposit and infill/definition drilling holes for the exotic zone.

In November 2010, as part of the Project's pre-feasibility study, SRK Consulting, the third party engineering consultant engaged by the Company to make an independent evaluation of the project, recommended the construction of an exploration decline or ramp to the bottom of the Bayugo/Boyongan deposits as part of geotechnical investigation to provide more reliable and specific information on ground condition for purposes of mine planning and design. From the second quarter to year-end, all activities centered on the portal-tunnel preparation which involved detailed mapping of the portal area, geotechnical drilling for the portal-ramp area, foundation drilling and grout drilling. Drilling in the portal-ramp area completed 58 holes reaching an aggregate meterage of 3,411.2m, while the infill/definition/condemnation holes completed 10 holes making a total of 3,607.5m drilled meterage.

At the Kalayaan Project, from June 2011 up to the end of the year, ground preparation with the corresponding environmental mitigating measures, including community initiatives, were conducted by the Company. On December 8, 2011, diamond drilling commenced and at the end of 2011, over 900 meters of drilling had been accomplished. Currently, six (6) drill rigs are operating in the area.

Padcal Vicinity

The Company has several target areas aimed for exploration in the vicinity of the Padcal mine where it has a total of 13,729 hectares covered by mining tenements discussed above.

Exploration activities in the area in 2011 concentrated on drilling for possible lateral and deeper extensions of the Santo Tomas II orebody such as in the 773 Meter Level (ML), and the Bumolo and SW prospects. Since surface access to these prospect areas have been often problematic, subsurface drilling through existing tunnels was the best option.

The 773 ML drilling project aims to explore the vertical extension of the Sto Tomas orebody. Ten holes were drilled for the year covering of 4,802 meters. The drilling campaign started in the third quarter of 2008 and 36 holes were completed for a total of 18,507. meters. A significant volume of possible mineral resource between 773ML to 600ML has been located and currently being evaluated.

For 2012, the drilling program aims to target the lateral extension of the orebody, for another deep seated porphyry system in the Sto. Tomas II orebody, down to below sea level, and for the gold bearing zone but with marginal copper grade associated with the Sta. Fe fault.

For the Bumolo Prospect an underground drilling, stationed at the Shimada cross-cut tunnel, completed 3 diamond drillholes in 2011, making an aggregate meterage of 1,286m, however, assay results yielded very low grades for Cu and Au.

The Southwest Prospect is a diatreme breccia system with intrusive units similar to that of the Sto. Tomas II orebody. The field mapping activity completed in 2011 was successful in delineating these breccias. Drilling programs for the SW Prospect include the surface area and the 908 ML adit stations. Drilling already reached 148.5m at Station SW908-11-1 as of 31 December 2011. The preparations for the drilling activities at the surface are ongoing.

Other Projects

Bulawan Project

The Bulawan Project used to be PGPI's gold operation which was mothballed in 2002 and since then kept under care and maintenance. The mine was decommissioned because of the low metal prices prevailing then. With the level of the price of gold having become significantly higher since the Company and PGPI started looking into the possibility of reopening the mine for operation but deemed it best to first determine if its current resource which stand at 23.9 million tonnes containing 1.91 grams of gold per tonne could be increased before committing further funds for the Project.

In 2011, PGPI undertook a deep drilling campaign to find additional resource for Bulawan gold deposit. Two rigs were commissioned and operated simultaneously completing 17 holes equivalent to 4,944m of drill cores. The holes were distributed in the periphery of the known Bulawan orebody. After the completion of the scout drilling program within the fourth quarter of 2011, geotechnical drilling started. Alongside drilling, induced polarization survey was conducted in the Bulawan area to aid in the search for additional scout holes. Three lines were programmed and each line covered a distance of 2 km with array spacing of 100m interval.

The Bulawan mine straddles an area known as the Vista Alegre gold belt where PGPI also targeted drilling areas when in 2011, geochemical and geophysical surveys and drilling were conducted. The geochemical surveys conducted were stream sediment geochemistry and soil geochemistry, while the geophysical survey was induced polarization (IP) aiming to determine the ground resistivity and chargeability. Scout drilling commenced on the 4th quarter up to the end of the year totaling 856m. Diamond drilling is programmed to continue up to 2012 at which term, the Company aims to come out with a resource estimate as basis for determining the possibility of reopening the Bulawan mine.

Sibutad Project

The Sibutad Project is a joint venture between PGPI and Freeport McMoRan executed in October 2007 for the exploration by Freeport over the area of the former Sibutad property which was mined open pit by PGPI from 1997 to 2002. At present, the remaining resource of the Project stand at 17.1 million tonnes containing 0.84 grams per tonne of gold.

The 2011 exploration activities for Sibutad concentrated on surface work such as detailed mapping, soil and rock chip sampling, trenching and test pitting, and geophysics survey. Grid soil sampling in the prospects of Nasipang-Sebaca and Mt. Nanca accumulated 699 samples. Analyses identified anomalous areas which are now potential drilling targets. Test-pitting and trenching were also conducted; collected samples are still on process for analysis. Geophysical surveys, such as induced polarization (IP) and magnetics, were conducted in several prospects.

Activities in Sibutad are temporarily on standby because of an ordinance banning open-pit in the province.

Bulog Project

Exploration activities in Bulog during the year 2011 concentrated on surface geologic mapping. Geologic investigations encountered three (3) manganese oxide outcrops occurring as vein/lenses. The thickness of these veins varies from 10 to 60 cm with length measuring 5 to 10 meters. Assay results of 41 rock samples range from 39 to 65% MnO. These findings need follow-up investigation through test pitting or trenching, and the conduct of an IP survey in the prospect.

Cayas Project

For the Cayas Project, drainage-based stream sediment sampling and soil grid sampling were conducted. Multi-element geochemistry and statistical analysis of 334 stream sediment samples indicates copper high in two separate blocks, Cayas, located 6 aerial-km northwest of Bulawan Mine, and the mapped area in Brgy. Maricalum, located 5 aerial km west of Cayas. A geophysical survey is programmed to be conducted on the following year to augment the geochemical results.

Magpayang Project

The Magpayang Project conducted geologic mapping, stream floats mapping, stream sediments and soil geochemistry. The survey recognized that porphyry and epithermal systems as well as ultramafic terranes are represented in the Tugunan Formation as clastic components, which now are reworked as stream floats. Geochemical analyses of 1,982 rock, soil and stream sediments indicate a mixture of epithermal and ultramafic affinity. However, in situ alteration and mineralization have not been encountered in the Magpayang areas.

Compliance with Environmental Laws

The Company's Padcal mine has been ISO14001 Certified since 2002 for Environmental Management System.

With the Company's commitment to its environmental and policy statement of protecting and enhancing the environment, it has spent total environmental expenses of P324.2 million in 2011, bringing the Company's expenditures from 1967 to date to P3.31 billion.

The Company and its subsidiaries have been consistent winners in environmental contests. Awards won for the last three years include; for the Padcal mine, as the Best Mining Forest champion in 2011, and first runner-up in 2010 and 2009; for the Bulawan Project, as the Best Mining Forest champion in 2009, and first runner-up in 2008 and 2007; for the Sibutad Project, as second runner-up from 2006 to 2008, and for the Silangan Project, as second runner-up in 2010. Silangan Project also won the Platinum Achievement Award (Mineral Exploration category) for the Presidential Mineral Industry Environmental Award in 2011.

Related Party Transactions

Part III, Item 12 discusses related party transactions.

Major Business Risks

Nature of Mineral Exploration and Mining

The exploration for, development and exploitation of, mineral properties entail significant operating risks. There is no certainty that the activities of the Company, which by the character of its business involve substantial expenditures and capital investments in the exploration and development of its resource properties, will result in the discovery of mineralized materials in commercial quantities and thereafter in a viable commercial operation. The Company tries to temper its exposure to these risks by prudent management and the use of up-to-date technology.

Price Risks

The Company is highly dependent on world market prices for gold, copper and silver which are subject to volatility and which change for reasons beyond the Company's control. To protect the Company from disadvantageous price fluctuations, it hedges up to a significant portion of its annual production, a practice which started way back 1996. One way the Company protects its revenue from a significant downturn in prices is by buying put options or through forward selling which establishes a minimum level for a portion up to substantially all of its production for a certain period as the Company may decide upon. Another is through zero-cost collars which establishes a price range below which the Company is paid for the difference between the actual price and the floor strike price, but above which range the Company is to pay the counterparty for the difference between the actual price and the strike ceiling price.

Environmental Risks

As a natural resource operation, the Company is inherently subject to potential environmental concerns. Thus, it puts a great amount of effort and invests a substantial amount of money into environmental protection and rehabilitation. The Company is also subject to Philippine laws and regulations governing the environmental impact of its operations. As a manifestation of its commitment to responsible and sustainable mineral resource development, the Company has adopted an environmental policy statement and is ISO 14001 certified on Environmental Management Systems. The Company is also covered by a pollution liability insurance to answer for claims against it by reason of environmental pollution caused by its Padcal mining operation.

While the Company believes it is in substantial compliance with all material environmental regulations, it can give no assurance that changes in these regulations will not occur in the future which may adversely impact its operation and/or impose added costs to the Company.

Item 2. Properties

The Company owns real property where its Corporate Head Office is situated. It likewise owns real properties and support facilities in its Padcal mine site and a concentrate loading facility at Poro Point, San Fernando, La Union, which properties are currently used in operation. PGPI similarly owns real properties and support facilities in its Bulawan and Sibutad Projects which are currently on care and maintenance basis.

Certain real property and mining assets of the Company are covered by a Mortgage Trust Indenture which secured certain loans from creditor banks in previous years. Certain mining assets of PGPI are covered by a Collateral Trust Indenture to secure its loans from the Parent Company.

SMMCI has been acquiring real properties or entering into land lease agreements for the Silangan Project. The lease agreements are typically for 25 years cancellable at the option of SMMCI.

The Company does not lease any significant real property nor has the intention at present to acquire any significant real property other than necessary for corporate purposes in the next 12 months. Machinery and equipment are acquired month to month as needed by operation usually through direct purchase or through letters of credit, if imported, under supplier's or bank's credit terms.

Item 3. Legal Proceedings

The Parent Company is contingently liable for lawsuits and claims arising from the ordinary course of business, which are either pending decision by the courts or are being contested, the outcomes of which are not presently determinable.

There are two labor cases relating to various claims against PGPI aggregating to approximately P2 million that are still pending hearing and/or motion for execution.

Item 4. Submission of Matters to a Vote of the Security Holders

There were no matters covered under this item submitted in the fourth quarter of 2011 to the security holders for a vote.

PART II

OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

<u>Market Information</u>

The registrant's common equity, which was initially classified into Class A and Class B common stock until it was declassified into a single class in 2006, is traded in the Philippine Stock Exchange.

The Company's public float as of December 31, 2011 is 31.86%

The average stock prices for the Company's common shares within the last two years were as follows:

Year	Quarter	High	Low
2012	1st Quarter	24.15	20.05
2011	4th Quarter	24.80	20.00
	3rd Quarter	28.95	18.50
	2nd Quarter	23.50	14.98
	1st Quarter	16.30	13.74
2010	4th Quarter	16.18	12.90
	3rd Quarter	17.00	9.25
	2nd Quarter	14.00	10.50
	1st Quarter	15.75	12.50

The Company's stock was traded at P20.70 per share as of March 30, 2012.

Holders

Of the Company's 45,085 shareholders as of the end of 2011 with 4,929,750,743 common shares issued and outstanding, the top 20 are as follows:

	Name of Stockholder	**Number of Shares**	**% of Ownership**
1	Social Security System (inclusive of 202,394,639 shares lodged with PCD Nominee Corporation)	1,063,839,568	21.58
2	Asia Link B. V.	1,023,275,990	20.76
3	PCD Nominee Corporation (As record owner. See Item 11 for additional information.)	757,702,912	15.37
4	Two Rivers Pacific Holdings Corp.	738,871,510	14.99
5	Kirtman Limited	242,011,062	4.91
6	Maxella Limited	239,479,900	4.86
7	Richard Ng Lim	85,389,767	1.73
8	Cheng Han Sui &/or Diana Y. Cheng	22,000,042	0.45
9	The First National Investment Company	12,195,042	0.25
10	Albert Awad	8,844,478	0.18
11	Makati Supermarket Corp.	8,353,226	0.17
12	Estate of Allen Cham	6,720,476	0.14
13	Estate of Eudaldo Boix	5,025,422	0.10
14	Philippine Remnants Co., Inc.	4,875,000	0.10
15	Manuel V. Pangilinan	4,505,000	0.09
16	Frank Pao	3,639,260	0.07
17	Religious of the Virgin Mary-B	3,125,777	0.06
18	Estate of Eudaldo Boix & Petra Hernando	3,093,203	0.06
19	Paulino de Ugarte &/or Elena de Ugarte	3,068,143	0.06
20	Carol Joan Reif	2,974,086	0.06
	Total	4,238,989,864	85.99

Dividends

Starting from 2010, the Company's Board of Directors adopted a policy to declare cash dividend at 25% of the Company's core net income should the circumstances allow for its declaration. Previously, the policy was based on 25% of annual cash flow before debt service.

In 2011 and 2010, the following dividends were declared:

1. On July 27, 2011, cash dividend of P0.14 per share at 25% of first half 2011 core net income; for record date of August 10, 2011; payable on August 31, 2011.

2. On May 25, 2011, dividend comprising of 598,626,045 shares or 35.21% of Philex Petroleum Corporation held by the Company as property component at one PPC shares for every eight Philex shares, and a cash component of P0.052 per share; for record date of June 8, 2011; payable on August 18, 2011 was also declared.

3. On February 23, 2011, cash dividend of P0.16 per share at 25% of second half 2010 core net income; for record date of March 10, 2011; payable on April 5, 2011.

4. On August 4, 2010, cash dividend of P0.05 per share at 25% of first half 2010 core net income; for record date of August 18, 2010; payable on September 13, 2010.

5. On April 27, 2010, cash dividend of P0.09 per share at 25% of 2009 core net income; for record date of May 12, 2010; payable on May 31, 2010.

On February 29, 2012, a regular cash dividend of P0.14 per share at 25% of second half 2011 core net income, and a special cash dividend of P0.28 per share at 25% of full year 2011 core net income, were declared for record date of March 15, 2012 and payment date of April 12, 2012.

In 2009, no cash dividend was declared. The Company, however, declared on April 21, 2009 a stock dividend of 25%, equivalent to 972,901,914 shares, of the Company's outstanding shares as of the record date of June 8, 2009, that was subsequently approved by the Company's stockholders at its April 21, 2009 meeting and approved for listing by the PSE on June 23, 2009.

Recent Sale of Unregistered or Exempt Securities

No securities were sold by the Company within the past three years which were not registered under the Code.

The Company's stockholders at its April 21, 2009 meeting approved to amend the Articles of Incorporation to increase the authorized capital stock of the Company from Five Billion Pesos divided into five billion shares at par value of One Peso per share to Eight Billion Pesos divided into eight billion shares at par value of One Peso per share. On May 22, 2009, the SEC approved the amendment of the Articles of Incorporation for the increase in authorized capital stock.

On June 23, 2006, the Company's stockholders approved and adopted a Stock Option Plan which provides for the granting of options to the Company's directors, officers, managers and key consultants to purchase common shares of the Company at specified exercise price. The aggregate number of shares initially approved for grant was 88,733,707 shares or 3% of then total outstanding shares of the Company. On March 8, 2007, the SEC resolved that the issuance of the 88,733,707 shares under the plan is exempt from the registration requirements under Section 10.2 of the Code.

As adjustment to the shares reserved for stock option due to the effect of the declaration of stock dividend of 30% in 2007 and 25% in 2009, additional 22,882,037 shares and 17,180,737 shares were respectively made available for grant which were similarly granted exemption from registration by the SEC. The exercise prices for the outstanding option shares were correspondingly adjusted to avoid a dilution of their option value.

As of December 31, 2011, the total option shares granted amounted to 150,728,832, of which 108,065,007 option shares have been exercised and 23,412,750 option shares were forfeited.

On June 29, 2011, the Company's stockholders approved a new stock option plan covering up to 246,334,118 shares equivalent to 5% of the Company's outstanding shares of 4,926,682,368 as of June 29, 2011. Approval by the SEC of the new plan has yet to be obtained.

Item 6. Management Discussion and Analysis of Financial Position and Results of Operations

For the years ended December 31, 2011, 2010 and 2009

Information on the Company's results of operations and financial condition presented in the 2011 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

The Company's consolidated net income in 2011, the highest thus far in the Company's 54 years of operating history, amounted to P5.800 billion, 47% and 112% higher than the P3.945 billion in 2010, which is the third highest, and P2.735 billion in 2009, the sixth highest, respectively.

Operating revenue, generated mostly by the Company, amounted to P16.134 billion in 2011, likewise a record level to date, compared to the P13.394 billion revenue in 2010 and the P9.055 billion revenue in 2009, the second and sixth highest, respectively. Gold revenue, comprising 58% of total revenue, rose to P9.294 billion in 2011 from P7.209 billion in 2010 and P5.108 billion in 2009. Copper revenue, which is 38% of total, also increased to P6.092 billion this year compared to P5.721 billion in 2010 and P3.742 billion in 2009. Revenue from silver, coal, petroleum and others comprise the remaining 4%, likewise higher at P748.6 million in 2011, compared to P464.1 million in 2010 and P205.0 million in 2009.

Stronger realized metal prices combined with higher metal production generated the increase in operating revenue in 2011 from 2010 and 2009. During the respective periods in 2011, 2010 and 2009, realized gold prices per ounce averaged $1,536, $1,217 and $946. Realized copper prices per pound averaged $3.70, $3.63 and $2.24. Respectively, gold production were at 140,113 ounces, 133,516 ounces and 119,171 ounces; while copper production were at 38.0 million pounds, 35.6 million pounds, and 33.8 million pounds.

The higher metal prices and production volume correspondingly resulted in higher marketing charges amounting to P810.5 million in 2011, which increased 14% and 20% from the P714.0 million in 2010 and P677.0 million in 2009, respectively. The higher production volume principally contributed to higher operating costs and expenses which amounted to P7.380 billion in 2011, an increase of 12% and 23% from the P6.615 billion in 2010 and P6.013 billion in 2009, respectively. Nevertheless, income from operations of P7.943 billion in 2011 is 31% more than the P6.065 billion in 2010, and P236% more than the P2.365 billion in 2009. Ore milled by the Padcal mine in 2011 at 9.487 million tonnes was the highest since 1987 compared to 9.364 million tonnes in 2010 and 8.197 million tonnes in 2009.

In 2011, the Company booked an extraordinary gain of P523.7 million, the difference between the fair value and the carrying value of the Company's investment in Pitkin Petroleum Plc (Pitkin), after its reclassification to Available for Sale Investment (AFS) due to loss of significant influence when the Company's holdings in Pitkin was diluted from 21% to 18.46%. On the other hand in 2010, an extraordinary loss of P119.8 million was recognized on the difference between the fair value and the carrying amount of the investment in shares of stock of PetroEnergy Resources Corporation (PERC) following the loss of significant influence of the Company in PERC as a result of the decrease in the Company's percentage holding from 20.62% to 10.31%. The Company also recorded a P170.8 million loss in 2011 on the impairment of deferred exploration costs and other assets particularly on the Lascogon Project with none incurred in 2010 and 2009.

Foreign exchange loss amounted to P14.7 million in 2011 lower than the loss of P96.5 million in 2010 and a loss of P68.9 million in 2009. Share in net losses of associates, mostly from Pitkin, amounted to P44.1 million in 2011 compared to P37.6 million in 2010. In 2009, a loss of P72.6 million was recognized from FEP's sale of its interest in Forum Cebu Coal Corporation's Coal Operating Contract 131. Interest income earned from cash and cash equivalents amounted to P86.0 million in 2011, higher than the income of P27.1 million in 2010 but lower than the income of P188.1 million in 2009. Interest expense incurred from loans amounted to P36.2 million in 2011, higher than the expense of P20.9 million in 2010 but was lower than the expense of P108.0 million in 2009. On the disposal of its property, plant and equipment and others, the Company recorded a gain of P324 thousand in 2011 compared to the loss of P2.0 million and P1.7 million in 2010 and 2009, respectively.

In 2009, the Company recognized a non-recurring gain on bargain purchase of P765.9 million from the 50% interest in Silangan Project acquired from Anglo American Exploration (Philippines), Inc. (Anglo) in February of that year.

A gain on disposal of AFS Financial Assets was minimal at P77 thousand in 2011, none in 2010 and P126 thousand in 2009.

In 2011, the provision for losses includes P113.0 million for directors compensation, P7.1 million for value-added tax claims disallowances and other provisions of P37.8 million. In 2010, the Company provided P75.0 million for directors' compensation and P55.6 million for inventory losses and obsolescence. In 2009, a mark- to-market gain of P470.1 million from foreign currency hedging contracts that expired during the year was booked as a reversal of the marked-to-market loss recognized in 2008. In 2009, the Company also provided P25.1 million for losses on the abandonment of its Madagascar Project, P41.0 million for directors compensation and other charges of P15.0 million.

With the higher net income before tax of P8.131 billion in 2011, compared to P5.684 billion in 2010 and P3.502 billion in 2009, the provision for income tax at P2.331 billion in 2011 was correspondingly higher compared to P1.739 billion in 2010 and P766.6 million in 2009.

Core net income amounted to P5.568 billion in 2011, higher than the P4.151 billion in 2010 and P1.849 billion in 2009. EBITDA at P8.851 billion was likewise higher in 2011 than the P6.566 billion in 2010 and P4.159 billion in 2009.

To protect part of its future revenues from unfavorable metal price and foreign exchange fluctuations, the Company enters into metal and foreign currency hedging contracts in the form of forward, purchased put options and sold call options. The gains or losses from these transactions are reflected in revenue as addition or deduction in deriving the realized metal prices and realized foreign exchange for the Company's metal production during the respective reporting periods.

In 2011, gold revenue was reduced by a total of P203.9 million consisting of P106.7 million amortization of the unwinding cost of the gold collars prê-terminated in 2009 and P97.2 million amortization of the premiums for put options bought this year. On the other hand, copper revenue increased by a net P14.1 million consisting of P177.6 million gain from forward contracts and put options exercised minus the P163.5 amortization of the premiums for put options. The Company also recorded an additional P24.7million gain from currency forward and put options exercised during the period. In 2010, net hedging losses of P639.3 million was recognized consisting of P355.6 million for the amortization of the unwinding cost of the gold collars pre-terminated in 2009, and P64.8 million and P229.1 million, respectively, for the amortization of the premiums for gold and copper put options bought to cover the Company's 2010 metal production, partially offset by a P10.2 million gain on currency hedging contracts during the period. In October 2009, the Company unwound its outstanding March 2007 gold hedge collar at strike prices per ounce of sold Calls (as upper limit) of $800 and bought Puts (as lower limit) of $610, for 2,500 ounces a month or about 20% of the Company's monthly production up to April 2011. The corresponding unwinding cost of $12.3 million was amortized monthly until April 2011. In 2009, a hedging loss of P1.217 billion was recorded consisting of P243.2 million for gold, P531.5 million for copper and P442.3 million for currency.

The Company's outstanding derivative financial instruments as of December 31, 2011 are presented in the following table:

On Gold

Deal Dates	Contract	Total Quantity (in ozs)	Monthly Maturity (in ozs)	Strike Price in US$ per oz		Period Covered	
				Put	Call	From	To
July 27, 2011	Put	48,000	8,000	1,400.00		Jan 2012	June 2012
Dec 08, 2011	Collar	5,400	900	1,600.00	1,905.00	Jan 2012	June 2012
Dec 08, 2011	Collar	26,700	8,900	1,600.00	1,935.00	July 2012	Sept 2012
Total		80,100		1,480.15	1,929.95		

On Copper

Deal Dates	Contract	Total Quantity (in DMT)	Monthly Maturity (in DMT)	Strike Price in US$ per lb			Period Covered	
				Put	Call	Forward	From	To
July 27, 2011	Collar	3,900	650	4.00	4.81		Jan 2012	June 2012
July 27, 2011	Forward	3,900	650			4.43	Jan 2012	June 2012
Nov 03, 2011	Put	3,780	1,260	3.00			Jul 2012	Sept 2012
Total		7,800		3.51	4.81	4.43		

On Dollar

Deal Dates	Contract	Total Dollar (in million $)	Monthly Maturity (in million $)	Strike Price in Peso per $1		Period Covered	
				Put	Call	From	To
Aug 05, 2011	Collar	48	8	42.00	45.00	Jan 2012	June 2012
Aug 08, 2011	Collar	48	8	42.50	44.20	Jan 2012	June 2012
Dec 20, 2011	Collar	24	8	43.50	45.50	July 2012	Sept 2012
Total		120		42.50	44.78		

The Company had no outstanding derivative financial instruments as of December 31, 2010.

As of December 31, 2009, the Company had outstanding three contracts for purchased gold put options totaling 73,500 ounces maturing monthly at the average of 6,125 ounces up to December 2010 at the average strike price of $813 per ounce.

As of December 31, Current Assets of the Company amounted to P8.332 billion in 2011 compared to P7.751 billion in 2010 and P5.022 billion in 2009.

Cash and cash equivalents at the end of the year amounted to P3.947 billion in 2011, slightly higher than the P3.782 billion in 2010 due to higher net earnings. The lower balance in 2009 which amounted to P2.881 billion was primarily due to the lower earnings as well as the acquisition of investments and repayment of short-term loans.

The lower balance of Accounts Receivable in 2011 amounting to P1.596 billion compared to P2.180 billion in 2010 is on account of the lower Trade Receivable balances collectible the following year. Accounts Receivable in 2010 is, however, higher compared to 2009 which amounted to P517.1 million on account of higher Trade Receivables collectible in the following year.

Padcal mine's copper concentrate shipments are provisionally valued based on prices in the second calendar week immediately prior to the week of shipment. These are then adjusted to the applicable final prices based on the "quotational period (QP)", which in 2011 was the calendar month following the month of the shipment's arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper. In 2010, the QP was the calendar month following the month of arrival for gold and silver, and the second calendar month following the month of arrival for copper. In 2009, the QP for copper, gold and silver was the calendar month following the month of arrival.

Inventories were at about the same level at P1.119 billion in 2011, P1.094 billion in 2010, P1.146 billion in 2009.

Derivative Asset amounting to P904.7 million in 2011,pertains to the mark-to-market gains on the outstanding hedging contracts for gold and copper, compared to nil in 2010 as there were no outstanding hedging contracts as of that time, and P20.0 million in 2009 for the mark-to-market gains on the outstanding hedging contracts for gold. The increase in Other Current Assets in 2011, 2010 and 2009 comprised mainly of increases in input value-added tax claims on importation of materials and supplies and equipment.

As of December 31, Non-Current Assets of the Company amounted to P24.123 billion in 2011 compared to P17.902 billion in 2010 and P16.356 billion in 2009.

Property, plant and equipment (PPE) as of December 31 increased to P5.400 billion in 2011 from P5.095 billion in 2010 and P4.669 billion in 2009. The yearly increases in the past three years were mainly due to capital expenditures of P1.055 billion, P1.107 billion and P1.195 billion, respectively, incurred by the Company and its subsidiaies.

The total capital expenditures budget for 2012 is currently at P6.757 billion, of which P1.673 billion is for Padcal operation and for Brixton coal mine operation in Zamboanga, P3.274 billion is for Silangan pre-development costs, P1.366 billion is for Kalayaan project and P444 million is for other exploration projects.

Available for Sale Investments reflected at fair values increased to P5.428 billion in 2011 from P886.7 million in 2010 and P756.9 million in 2009. The higher balance in 2011 versus 2010 is mainly due to the increase in fair values of investments in quoted shares of stocks amounting to P1.602 billion, as well as the additional acquisition costs in shares of stock in Lepanto Consolidated Mining Company of P1.433 billion and in Indophil of P254 million and reclassification of investment in Pitkin of P829.5 million to AFS Investments due to loss of significant influence. The increase in 2010 balance against 2009 balance was mainly due to the reclassification of investment in PERC to AFS consequent to the reduction of the Company's equity interest from 20.62% to 10.31%.

The reclassification in 2010 of the Company investment in PERC shares to AFS resulted in lower balance of Investment in Shares of Stocks at P833.4 million from P1.137 billion in 2009. In September 2010, as part of an internal reorganization of the Company to put all of its petroenergy investments in a separate corporate vehicle, it transferred by way of share purchase agreement its shares in BEMC, Pitkin and FEC Resources, Inc. to PPC, while retaining indirect beneficial ownership over these subsidiary/associate companies.

Deferred Exploration Costs and Other Non-current Assets increased to P13.024 billion compared to P10.828 billion and P9.535 billion in 2009. The increases in balance was on account of the on-going mine exploration activities in the Silangan project, as well as of the oil exploration activities of FEP.

At year-end, Total Assets of the Company amounted to P32.454 billion in 2011 compared to P25.653 billion in 2010 and P21.378 billion in 2009.

Total Current Liabilities as of December 31 amounted to P2.576 billion compared to P2.312 billion in 2010 and P1.154 billion in 2009. Short-term bank loans in 2011 and 2010 amounting to P350.0 million and P150.0 million, respectively, refers to BEMC's loan availment for its working capital requirements.

The increases in Accounts Payable and Accrued Liabilities to P1.160 billion in 2011 from P968.5 million in 2010 and P866.9 million in 2009 were mainly from higher purchases of goods and services. No significant amount of the Company's trade payables have been unpaid within their acceptable terms. Income Tax Payable amounted to P376.0 million in 2011 compared to P857.0 million in 2010 and P2.2 million in 2009. The lower balance in 2011 versus 2010 is because the fourth quarter income in 2011 was lower than in 2010, while the fourth quarter income in 2010 was higher than in 2009. Dividends Payable increased to P325.3 million in 2011 from P207.9 million in 2010 and P168.9 million in 2009, with the Parent Company's three declaration of the cash dividends in February, May and July 2011 compared to the two declaration in April and August 2010, with none in 2009. Provisions and Other Payables was higher at P317.1 million in 2011 compared to P128.3 million in 2010 and P115.7 million in 2009. The increase in 2011 and 2010 was mainly due to the higher provision for directors compensation of P113.0 million and P75.0 million, respectively.

Derivative Liability amounting to P47.3 million in 2011 refers to the marked-to-market losses on the outstanding currency hedging contracts entered into by the Parent Company during that year.

Total Non-Current Liabilities was higher at P2.827 billion in 2011 compared to P2.583 billion in 2010 and P2.541 billion in 2009 mainly due to the increase in Deferred Income Tax Liabilities account to P2.635 billion in 2011 compared to P2.013 billion in 2010 and P1.976 billion in 2009.

Provision for Mine Rehabilitation Costs was lower at P17.8 million in 2011 compared to P31.7 million in 2010 and P33.7 million in 2009.

Under PAS 19, Employees Benefits, the Company accrue for Retirement Costs amounting to P43.8 million in 2011, P65.3 million in 2010 and P88.2 million in 2009. As of December 31, 2011 and 2010, there were no outstanding Retirement Benefits Liability which in 2009 amounted to P30.3 million. As of 2011 and 2010, the accrued liability on the retirement plan of the Company has been fully funded.

The Provision for Losses in 2011, 2010 and 2009 was mainly for the contingent liability of a subsidiary acquired in 2008 that is consolidated into the Company's accounts.

Stockholders' Equity at year-end amounted to P27.051 billion in 2011 compared to P20.758 billion in 2010 and P17.684 billion in 2009. The increase in balance in 2011 versus 2010 was mainly on account of the higher net income and balances in the Net Unrealized gain on AFS Financial Assets and Cumulative Translation Adjustment accounts which amounted to P2.021 billion and P495.0 million, respectively, from P419.4 million and negative P66.2 million, respectively, in 2010. In 2010, the higher net income, the decrease in Cumulative Translation Adjustment account to negative P66.2 million from negative P231.6 million in 2009, and the increase in Effect of transactions with non-controlling interests (the difference between the acquisition cost and the book value of the interest acquired on PGI, FEP and FEC shares) to P106.0 million in 2010 from P41.5 million in 2009, all account for the increase in Total Stockholders' Equity in 2010 versus 2009.

For the year, Net cash provided by operating activities amounted P6.641 billion in 2011, P4.507 billion in 2010 and P2.133 billion in 2009. Cash used in investing activities, principally for the additions to PPE and Deferred Exploration Costs, which included the consolidation of the non-cash asset of the Silangan companies, amounted to P5.095 billion in 2011 compared to P2.956 billion in 2010 and P5.866 billion in 2009. Net cash used in financing activities amounted to P1.400 billion in 2011 on account of higher cash dividend payments compared to P441.7 million in 2010 and P3.933 billion in 2009.

Please refer to Note 2 of the Notes to the Consolidated Financial Statements for discussions on new and revised accounting standards that the Company adopted in 2011.

Top Five (5) Key Performance Indicators

Average Metal Price

The average realized prices for the Company's products are key indicators in determining the Company's revenue level. While the world spot market prices quoted in the London Metal Exchange for copper and the London Bullion Market Association for gold and silver are applied on the Company's shipments as well as on mine products inventory, and provisional prices initially used are adjusted to forward prices at the end of each reporting period, the effect of hedging prices are also taken into consideration on hedging transactions entered into from time to time to protect revenue from any significant fluctuations in prices and where reasonable floor levels could be provided on the Company's production. At certain points, the spot price or forward price, and the hedge price would comprise the Company's average realized prices, which in 2011 amounted to $1,536 per ounce gold (net of amortization of hedging costs of $32 per ounce) and $3.70 per pound copper (net of amortization of hedging costs of $0.01 per pound). In 2010, the realized price amounted to $1,217 per ounce gold (net of amortization of hedging costs of $68 per ounce) and $3.63 per pound copper (net of amortization of hedging costs of $0.14 per pound). In 2009, the realized price amounted to $946 per ounce gold (net of amortization of hedging costs of $44 per ounce) and $2.24 per pound copper (net of amortization of hedging costs of $0.29 per pound).

Spot prices for gold and copper both reached record highs of $1,921 per ounce in September 2011 and $4.60 per pound in February 2011, respectively.

At the budgeted realized price levels of $1,690 per ounce for gold and $3.73 per pound for copper, the budgeted operating revenue for 2012 is P15.651 billion, 3% lower than 2011 revenue. Gold is expected to contribute 56% of revenue versus copper's contribution of 39%.

Tonnes Milled and Ore Grade

Tonnes milled and ore grade determine concentrates production and sales volume. The higher the tonnage and the grade of ore, the more metals are produced and sold. Tonnes milled were 9.487 million in 2011, 9.364 million in 2010 and 8.197million in 2009. The tonnage milled for the whole year of 2011 actually reflects the highest level achieved in over the past ten years of Padcal's operation. Ore grade averaged 0.564 grams per tonne gold in 2011, 0.552 grams per tonne gold in 2010 and 0.567 grams per tonne gold in 2009. Copper average grade were 0.221% in 2011, 0.210% in 2010, and 0.228% in 2009. Thus, the higher milling tonnage in 2011 compared to 2010 and 2009, and the better ore grades in 2011 compared to 2010 although lower compared to 2009, produced more concentrates at 69,613 dry metric tons in 2011 from 65,340 dry metric tons in 2010 and 62,458 dry metric tons in 2009. Equivalent metal production were 140 thousand ounces gold and 38.0 million pounds copper in 2011; 134 thousand ounces gold and 35.6 million pounds copper in 2010; and 119 thousand ounces gold and 33.8 million pounds copper in 2009.

The budgeted milling tonnage for 2012 is at 9.4 million tonnes at the average grade of 0.502 grams per tonne gold and 0.22% copper. In terms of metal production, gold is budgeted at 120 thousand ounces while copper at 38 million pounds.

Foreign Exchange Rate

As the Company's sales proceeds and bank loans are in U.S. dollars, a higher Philippine peso to U.S. dollar exchange rate means higher peso sales revenue, but would also reflect a foreign exchange loss on the restatement of the Company's dollar obligations. Conversely, a lower exchange rate reduces the Company's revenue in pesos, but brings about foreign exchange income on the loans. As a significant portion of the Company's cash and cash equivalents are also in U.S. dollar, higher exchange rates would reflect foreign exchange gain, and at lower exchange rate, a loss. The Company's average realized exchange rates were P43.32 in 2011, P44.49 in 2010 and P45.63 in 2009, which were after the effects of the average currency hedging gains of P0.07 in 2011 and P0.05 in 2010, and a currency hedging loss of P2.08 in 2009. As of December 31, 2011, the peso to dollar exchange rate was P43.84, the same as that in 2010 compared to P46.20 in 2009.

<u>Total Production Cost Per Tonne and Operating Cost Per Tonne of Ore Milled, and Per Ounce Gold and Per Pound Copper Produced</u>

The Company's average cost per tonne is a key measure of the operating performance of the Company. At the same cost level, the higher the production volume the lower the cost per tonne, as would also be the result at the same production volume but lower operating cost. Thus, a lower cost per tonne would generally reflect an improvement in operating efficiency. The same essentially applies to cost per ounce gold as well, but with the gold grade, as it affects metal production, and the exchange rate, as it affects the conversion from peso to dollars, getting into consideration.

In 2011, the total production cost (minesite cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was P560 from the total production cost of P5.313 billion over ore milled of 9.5 million tonnes, compared to the lower cost per tonne of P534 from the total production cost of P4.999 billion over ore milled of 9.4 million tonnes in 2010, and the cost per tonne of P559 from the production cost of P4.524 billion over ore milled of 8.2 million tonnes in 2009.

In 2011, the total operating cost per tonne of ore milled was P735 from the total operating cost of P6.977 billion, compared to the 7% lower operating cost per tonne of ore milled of P686 from the total operating cost of P6.426 billion in 2010, and 5% lower operating cost per tonne of P700 from the total operating cost of P5.741 billion in 2009.

Expressed in operating cost (all cost and expenses excluding corporate overhead) per ounce of gold produced, operating cost before copper revenue credits was $1,149 per ounce in 2011 compared to $1,082 per ounce in 2010 and $1,056 per ounce in 2009. After copper revenue credit, the corresponding cost per ounce was $114 in 2011 compared to $92 in 2010 and $404 in 2009. On the other hand, expressed in terms of operating cost per pound of copper produced before gold revenue credit, the cost per pound was $4.24 per pound in 2011, compared to $4.06 in 2010 and $3.72 in 2009. After gold revenue credit, the cost per pound was negative $1.55 in 2011 compared to the cost of $0.59 in 2010 and $0.33 in 2009.

In 2012, the budgeted total production cost per tonne is P598 from the total production cost of P5.620 billion, while the budgeted operating cost per tonne is P767 from the total operating cost of P7.212 billion. The budgeted operating cost per ounce of gold produced for 2012 is $1,401 per ounce before copper and silver revenue credits, or $195 per ounce after copper and silver revenue credits . In per pound copper , the budgeted operating cost is $4.44 per pound of copper produced before gold and silver revenue credits, but after gold and silver revenue credits is negative $1.01 per pound.

<u>Basic /Diluted Earnings Per Share</u>

The basic earnings per share reflect the Net income attributable to equity holders of the Company expressed in amount per share of the Company's average outstanding capital stock. Assuming a constant outstanding number of shares, as the Company's earnings increase, the earnings per share correspondingly increase.

The basic earnings per share in 2011 was P1.171 based on the 4,926,583,729 weighted average shares outstanding for the period. In 2010, the basic earnings per share was P0.806 based on the 4,914,719,911 weighted average shares outstanding for the period. In 2009, the basic earnings per share was P0.581 based on the 4,867,306,154 weighted average shares outstanding for the period.

Considering the effect of the Company's potentially dilutive stock options outstanding for the period, an assumed exercise of the options would have resulted in additional 5,703,668, 5,484,741 and 5,014,911 common shares in 2011, 2010 and 2009, respectively. The diluted earnings per share in 2011 was P1.170 based on the 4,932,287,397 weighted average shares adjusted for the effect of such assumed exercises of stock options. The diluted earnings per share in 2010 was P0.805 based on the 4,920,204,652 weighted average shares adjusted for the effect of such assumed exercises of stock options. In 2009, the diluted earnings per share was P0.581 based on the 4,872,321,065 weighted average shares adjusted for the effect of exercises of stock options for the period.

Known Trends, Events or Uncertainties

On January 16, 2012, BEMC entered into a purchase agreement with Republic Cement Corporation for the delivery in 2012 of 50,000 metric tons with an additional optional tonnage of 10,000 metric tons at 6,000 metric tons each shipment at the buyer's option, priced at a certain formula where the base price set in the agreement is subject to adjustment for the calorific value of the coal delivered. The base price of the coal was pegged at P3,200 per metric ton at the calorific value of 5,000 Kcal/kg (NAR) and 29% ash.

On February 29, 2012, the Board of Directors of the Company approved the declaration of cash dividends amounting to P0.42 per share to all stockholders of record as of March 15, 2012, comprising of P0.14 per share regular dividend based on 25% of second half core net income and P0.28 per share special dividend for a full year pay-out at 50%.

In March 2012, the Company entered into additional metal and currency hedging contracts for 2012 as follows:

On Gold

Deal Dates	Contract	Total Quantity (in ozs)	Monthly Maturity (in ozs)	Strike Price in US$ per oz		Period Covered	
				Put	Call	From	To
Mar 29, 2012	Collar	8,900	8,900	1,500.00	1,843.00	Oct 2012	Oct 2012

On Copper

Deal Dates	Contract	Total Quantity (in DMT)	Monthly Maturity (in DMT)	Strike Price in US$ per lb			Period Covered	
				Put	Call	Forward	From	To
Mar 16, 2012	Forward	3,840	1,280			3.89	Oct 2012	Dec 2012

On Dollar

Deal Dates	Contract	Total Dollar (in million $)	Monthly Maturity (in million $)	Strike Price in Peso per $1		Period Covered	
				Put	Call	From	To
Mar 22, 2012	Collar	48	8	42.75	44.63	Jul 2012	Dec 2012
Mar 22, 2012	Collar	24	8	43.00	44.63	Oct 2012	Dec 2012

There is no known event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that have not been booked, although the Company could be contingently liable for lawsuits and claims arising from the ordinary course of business, which contingencies are not presently determinable.

Other than what have been discussed above, there are no known significant trends, demands, commitments or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way. There are no material commitments for capital expenditures not reflected in the Company's financial statements.

There are likewise no significant seasonality or cyclicality in its business operation that would have material effect on the Company's financial condition or results of operation. There were no other significant elements of income or loss that did not arise from the Company's continuing operations. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period. There are no line items in the Company's financial statements not already explained for causes either above or in the Notes to the Consolidated Financial Statements other than due to the usual period-to-period fluctuations in amounts natural in every business operations.

Item 7. Financial Statements

The audited financial statements are presented in Part V, Exhibits and Schedules.

Item 8. Information on Independent Accountants and other Related Matters

External Audit Fees and Services

Audit and Audit-Related Fees

For 2011, 2010 and 2009, the auditors werebasically engaged to express an opinion on the financial statements of the Company and its subsidiaries. In addition, the audit included providing assistance to the Company in the preparation of its income tax return in as far as agreement of the reported income and costs and expenses with the recorded amounts in the books. The procedures conducted include those that are necessary under auditing standards generally accepted in the Philippines. This, however, did not include detailed verification of the accuracy and completeness of the reported income and costs and expenses. The audit fees for these services for the entire Philex group were P9.66 million for 2011, P5.960 million for 2010 and P5.345 million for 2009.

Tax Fees

In 2011 and 2009, the Company engaged the external auditors' tax group to advise the Company in handling the Bureau of Internal Revenue's tax assessment on the Company's income tax returns. The tax fees for these engagements were P950 thousand in 2011 and P2.3 million in 2009.

All Other Fees

The external auditors were also engaged to render financial and tax due diligence services to the Company for its merger and acquisitions prospects in 2011 for fees amounting to P4.5 million.

All audit engagements were approved by the Company's Audit Committee.

Audit Committee's Approval of Policies and Procedures

Prior to the commencement of audit work, the external auditors present their program and schedule to the Company's Board Audit Committee which include discussion of issues and concerns regarding the audit work to be done. The Company's audited financial statements for the year are presented by the external auditors to the Audit Committee for committee approval and endorsement to the full Board for final approval. The external auditors also prepare a report on their review of the Company's quarterly financial reports based on audit procedures as agreed upon with the Audit Committee before the reports are filed with the SEC.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There was no change in the Company's independent accountants during the two most recent calendar years or in any subsequent interim period, except for the change in the Company's audit engagement partner to Mr. Aldrin M. Cerrado starting the 2011 audit in compliance with the 5-year rotation rule of the SEC.

There has been no disagreement with the independent accountants on accounting and financial disclosure.

PART III

CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors

The following are the present directors of the Company whose terms of office are for one (1) year or until their successors are elected and qualified:

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.

Executive Officers

The following persons are the present executive officers of the Company:

MANUEL V. PANGILINAN - 65, Filipino citizen. Chairman & Chief Executive Officer since December 7, 2009. He was Chairman from June 24, 2009 up to December 7, 2009. He is the Managing Director and Chief Executive Officer of First Pacific Company Limited and the Chairman of the Philippine Long Distance Company. He is also the Chairman of Metro Pacific Investments Corporation, Smart Communications, Inc. Pilipino Telephone Corporation, First Philippine Infrastructure, Inc., Manila North Tollways Corporation, First Philippine Infrastructure Development Corporation, Tollways Management Corporation, Landco Pacific Corporation and Medical Doctors Inc., as well as the President Commissioner of PT Indofood Sukses Makmur Tbk.

EULALIO B. AUSTIN, JR. – 50, Filipino citizen. 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.

RENATO N. MIGRIÑO – 62, Filipino citizen. Treasurer, Chief Financial Officer and Senior Vice President - Finance since November 2010, previously Treasurer, Chief Financial Officer and Vice President for Finance in November 2003 from Vice President – Finance in March 1998. He is a Director and the Chief Financial Officer of Philex Gold Inc. since 2006. He is also a Director and the Treasurer of FEC Resources, Inc., Philex Petroleum Corporation, Brixton Energy & Mining Corporation, Silangan Mindanao Mining Co., Inc., and Lascogon Mining Corporation. He was formerly Senior Vice- President & Controller of Benguet Corporation. He is a director of Mabuhay Vinyl Corporation since September 2005.

BARBARA ANNE C. MIGALLOS – 57, Filipino citizen. Corporate Secretary since July 1998. She was Director of the Company and PGPI from March 12, 2001 to July 31, 2003. She is also currently a Director of Philex Petroleum Corporation and Brixton Energy & Mining Corporation. She is also the Corporate Secretary of Philex Petroleum Corporation, Brixton Energy & Mining Corporation, Silangan Mindanao Mining Co., Inc. and Lascogon Mining Corporation. She is the Managing Partner of the Migallos & Luna Law Offices. She is a director of Mabuhay Vinyl Corporation since 2000, a director of Philippine Resins Industries, Inc. since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since March 2010.

EDGARDO C. CRISOSTOMO – 63, Filipino citizen. Senior Vice President for Materials Management and Corporate Office Administration since November 1, 2010, previously Vice President – Admin. & Materials Management in March 1, 2007, Vice President – Purchasing & Materials Management in 2000, Assistant Vice President – Purchasing in 1996 and Purchasing Manager in 1995.

BENJAMIN DEODATO R. GARCIA – 50, Filipino citizen. Senior Vice President - Human Resource since November 3, 2010. He was Human Resource Director of Mead Johnson Nutrition for Asia Pacific from 2000 to 2010, Regional Human Resource Director for North Asia, Philippines, Malaysia and Singapore in 1999 and Human Resource and Corporate Affairs Director for Philippines from 1996 to 1999.

MICHAEL T. TOLEDO - 51, Filipino citizen. Senior Vice President – Corporate Affairs since February 15, 2012. He was the President and Chief Executive Officer of Weber Shandwick Manila office from 2006 to 2012. He also held positions in various government owned and controlled corporations

REDEMPTA P. BALUDA – 56, Filipino citizen. Vice President for Exploration since January 2, 2009, previously Assistant Vice President – Exploration in March 2007, Division Manager – Environment and Community Relations and Geology for Padcal Operations in 1998 and Department Manager - Geology in July 1996.

VICTOR A. FRANCISCO – 47, Filipino citizen. Vice President for Environment and Community Relations since January 2, 2009 previously Group Manager – Corporate Environment and Community Relations in July 2007, Department Manager – Corporate Environment and Community Relations in 1999 and Assistant Manager – Corporate Environmental Affairs in 1997.

DENIS RICARDO G. LUCINDO – 35, Filipino citizen. Vice President for Business Development since February 1, 2010. He was Vice President - Business Development of Metro Pacific Investments Corporation in May 2009 from Assistant Vice President - Investor Relations in June 2007, Managing Director of Custom Publishing & Marketing Inc. in 2004 and Brand Manager for Smart Communications, Inc. in 2002.

LIBBY R. RICAFORT - 59, Filipino citizen. Vice President for Padcal Operations and Resident Manager since January 1, 2012, previously Assistant Resident Manager concurrently as Mill Division Manager in April 2011, Mill Division Manager of Padcal mine in July 1999, and Mill Division Manager of Bulawan mine under PGPI in March 1995. He was previously a Metallurgical Engineer of Atlas Consolidated Mining & Development Corporation – Copper operation in Cebu and Gold operation in Masbate.

ENRIQUE C. RODRIGUEZ, JR. – 52, Filipino citizen. Vice President for Legal since January 2, 2009, previously Assistant Vice President – Legal in March 2007. He was formerly Corporate Legal Counsel and Senior Manager of SunRise Holiday Concepts, Specified Holdings and Management Inc. and Specified Construction and Development Inc. from 2000 to 2006.

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

The Company is not aware of any adverse events or legal proceedings during the past five (5) years that are material to the evaluation of the ability or integrity of its directors or executive officers. Note 29.b of the Notes to the Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also hereto incorporated by reference.

There are no family relationships up to the fourth civil degree of consanguinity among any of the directors and executive officers.

No director has resigned or declined to stand for re-election because of disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Item 10. Executive Compensation

Directors are paid per diem of P8,000 per board meeting or committee participation attended.

There are no arrangements for additional compensation of directors other than that provided in the Company's by-laws which provides compensation to the directors, at the Board's discretion to determine and apportion as it may deem proper, an amount up to one and a half (1 ½ %) percent of the Company's net income before tax of the preceding year. Payments made in 2011, 2010 and 2009 amounted to P62.0 million, P31.7 million and P49.1 million, respectively.

Other than the previous Chairman and Chief Executive Officer up to 2009 who was entitled to incentive bonus based on net income, there is no executive officer with contracts or with compensatory plan or arrangement having terms or compensation significantly dissimilar to the regular compensation package, or separation benefits under the Company's group retirement plan, for the managerial employees of the Company.

On June 23, 2006, the Company's stockholders approved the stock option plan of the Company which was thereafter duly approved by the Securities and Exchange Commission on March 8, 2007. Note 24 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 on the Company's Stock Option Plan, and also on PGI's Stock Option Plan, is incorporated hereto by reference.

The following table shows the compensation of the directors and officers for the past three years and estimated to be paid in the ensuing year. Starting 2008, stock option exercises of the Company's non-management directors, consisting of the difference between the market and exercise prices at the time of option exercise, are considered as director's fee for purposes of the table.

SUMMARY OF COMPENSATION TABLE
(In Thousands)

DIRECTORS

Year	Directors' Fee
2012 (Estimated)	P 125,695
2011	P 70,892
2010	P 66,670
2009	P 206,190

OFFICERS

NAME	POSITION
Manuel V. Pangilinan	*Chairman & CEO*
Eulalio B. Austin, Jr.	*President & COO*
Renato N. Migriño	*Treasurer, CFO and SVP - Finance*
Barbara Anne C. Migallos	*Corporate Secretary*
Edgardo C. Crisostomo	*SVP - Materials Mgmt. & Corporate Office Administration*
Benjamin Deodato R. Garcia	*SVP - Human Resource*
Michael T. Toledo	*SVP - Corporate Affairs (effective 02/15/2012)*
Redempta P. Baluda	*VP - Exploration*
Denis Ricardo G. Lucindo	*VP - Business Development*
Victor A. Francisco	*VP- Environment & Community Relations*
Libby R. Ricafort	*VP - Padcal Operations & Resident Manager*
Enrique C. Rodriguez, Jr.	*VP - Legal*
Jose Ernesto C. Villaluna, Jr.	*President & COO (up to 12/31/2011)*
Guadaflor C. Malonzo	*Assistant Corporate Secretary (up to 10/04/2011)*

	Total Officers'	
Year	Salary	Bonus/Others
2012 (Estimated)	P 52,932	P 39,699
2011	P 55,565	P 52,554
2010	P 24,351	P 40,062
2009	P 27,420	P 42,403

ALL DIRECTORS & OFFICERS AS A GROUP

Year	Total Amount
2012 (Estimated)	P 218,326
2011	P 179,011
2010	P 131,083
2009	P 276,013

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The list of registered stockholders owning five (5%) percent or more of the Company's stock as of December 31, 2011 follows:

Title of Class	Owner and Relationship with Issuer	Owner and Relationship with Record Owner	Citizenship	of Ownership	%
Common	Social Security System *East Avenue, Quezon City* *Stockholder*	Social Security System, See Note 1 below .	Filipino	1,063,839,568	21.58
Common	Asia Link B.V. *Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands* *Stockholder*	First Pacific Company Limited See Note 2 below .	Netherlands	1,023,275,990	20.76
Common	PCD Nominee Corp. *G/F MSE Building, 6767 Ayala Ave., Makati City.* *Stockholder*	See Note 3 below .	Filipino	757,702,912	15.37
Common	Tw o Rivers Pacific Holdings Corp. *10/F MGO Building, Legazpi corner de la Rosa Streets, Legazpi Village, Makati City* *Stockholder*	Tw o Rivers Pacific Holdings Corp. See Note 4 below .	Filipino	738,871,510	14.99

[1] The total shares held by the Social Security System (SSS) presented above is inclusive of 202,394,639 shares lodged with the PCD Nominee Corporation as the record owner as of December 31, 2010. Messrs. Juan B. Santos and Emilio S. de Quiros, Jr., and Ms. Eliza R. Antonino currently represent the SSS in the Company as members of the Board of Directors.

[2] Asia Link B.V., a wholly-owned subsidiary of First Pacific Company Limited (First Pacific), is the registered owner of 1,023,275,990 shares. First Pacific is represented by Messrs. Manuel V. Pangilinan, Robert C. Nicholson and Edward A. Tortorici on the Company's Board of Directors.

[3] PCD Nominee Corporation (PCD), the nominee of the Philippine Depository & Trust Corp., is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are PCD's participants who hold the shares on their own behalf or in behalf of their clients. The 757,702,912 shares shown above as of December 31, 2011 are exclusive of the 202,394,639 shares owned by SSS which shares were included as part of the total holdings of SSS as indicated above. PCD is a private company organized by the major institutions actively participating in the Philippine capital markets to implement an automated book-entry system of handling securities transaction in the Philippines.

[4] Two Rivers Pacific Holdings Corporation is represented by Ms. Marilyn A. Victorio-Aquino and Mr. Eulalio B. Austin Jr. on the Company's Board of Directors.

[5] The foregoing record owners have no relationship with the Company other than being stockholders.

Security Ownership of Management

The beneficial ownership of the Company's directors and executive officers as of December 31, 2011 follows:

Title of Class	Name of Beneficial Owner	Nature of Ownership	Number of Shares	Citizenship	%
Common	Manuel V. Pangilinan	Direct	4,505,000	Filipino	0.091%
Common	Eliza R. Antonino	Direct	1	Filipino	0.000%
Common	Marilyn A. Victorio-Aquino	Direct	100	Filipino	0.000%
Common	Eulalio B. Austin, Jr.	Direct	1,360,937	Filipino	0.028%
Common	Emilio S. De Quiros, Jr.	Direct	1	Filipino	0.000%
Common	Oscar J. Hilado	Direct	173	Filipino	0.000%
Common	Robert C. Nicholson	Direct	1,250	British	0.000%
Common	Wilfredo A. Paras	Direct	1	Filipino	0.000%
Common	Juan B. Santos	Direct	1	Filipino	0.000%
Common	Edward A. Tortorici	Direct	795,100	American	0.016%
Common	Jose Ernesto C. Villaluna, Jr.	Direct	4,818,070	Filipino	0.098%
Common	Renato N. Migriño	Direct	450,000	Filipino	0.009%
Common	Barbara Anne C. Migallos	Direct	203,875	Filipino	0.004%
N/A	Edgardo C. Crisostomo	-	0	Filipino	0.000%
Common	Benjamin Deodato R. Garcia	Direct	92,500	Filipino	0.002%
Common	Redempta P. Baluda	Direct	207,220	Filipino	0.004%
Common	Victor A. Francisco	Direct	155,000	Filipino	0.003%
N/A	Denis Ricardo G. Lucindo	-	0	Filipino	0.000%
Common	Enrique C. Rodriguez, Jr.	Direct	615,000	Filipino	0.012%
Directors and Officers as a Group			13,204,229		0.268%

Voting Trust/Changes in Control

There is no voting trust holder of 5% or more of the Company's stock. There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

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

a. The Company was reimbursed by Anglo for the advances made to Northern Luzon Exploration & Mining Co. Inc.(NLEMCI), which amounted to P1.2 million in 2011, P1.3 million in 2010, and P7.1 million in 2009. As of December 31, 2011 and 2010, the Company's receivables from these transactions amounted to P281 thousand and P364 thousand, respectively.

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

b. Assignment to PGHI in 2001 of the Company's net advances to PGPI amounting to P2.2 billion as of December 31, 2000, to be offset by the amount of cash advances in 1996 of P795.6 million received by the Company from PGMC-BV in behalf of PGHI representing the net proceeds from PGI's secondary public offering. With the intention of the Company to convert these net advances to equity in PGI should it be warranted in the future, these net advances were reclassified from current advances in 2000 to the "Investments in shares of stock" account. As of December 31, 2011 and 2010, the advances to PGHI amounted to P1.7 billion and presented as part of the carrying amounts of investments in shares of stocks.

c. Non-interest-bearing cash advances amounting to P1.1 billion and P932.7 million as of December 31, 2011 and 2010, respectively, to PGPI for its working capital and capital expenditure requirements. Part of these advances is secured by collateral participation certificates on certain mining assets of PGPI.

d. On February 6, 2009, the Company acquired the 50% equity interest of Anglo over the Silangan Project for US$55 million under a share and asset purchase agreement which also included the assignment of receivables from the Philex-Anglo joint venture company, Silangan Mindanao Mining Co., Inc. (SMMCI), amounting to P1.3 billion. Upon completion of the purchase, the Company assumed the responsibility to provide funds to SMMCI for the advancement of the Silangan project.

e. The Company made non-interest-bearing cash advances to PPC amounting to P646.4 million and P635.9 million as of December 31, 2011 and 2010, respectively, for its working capital requirements and for the acquisition of investment in shares in FEP.

f. The Company provided non-interest-bearing cash advances to BEMC amounting to P185.2 million and P139.2 million as of December 31, 2011 and 2010, respectively, for funding of its exploration and development activities.

g. In April 2011, the Company sold $30 million to First Pacific Company Limited (FPC) at forward rate of P43.06 per dollar in converting part of the Company's dollar fund for routine working capital requirement. Also sold to FPC in April 2010 was $20 million at the forward rate of P45.03 per dollar.

h. In November 2010, the Company entered into a US$10 million loan facility agreement with Forum Philippines Holdings Ltd., a wholly-owned subsidiary of FEP, to finance the funding requirement for the first sub-phase of its work programme over SC 72. The facility is available over a 3-year period at an interest rate of 4.5% over US LIBOR on drawn amount. A total of $6 million has been drawn from the facility as at end 2011.

Note 21 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 on Related Party Transactions, is incorporated hereto by reference.

PART IV

CORPORATE GOVERNANCE

Item 13. Corporate Governance

Compliance by the Company with its Manual on Corporate Governance for the years 2011 and 2010 was monitored and no significant deviation was noted, with the Company, as well as all its directors, officers and employees substantially complying with the leading practices and principles on good corporate governance as embodied in the manual. The Company has also complied with the appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance.

In 2003, the Company's Board of Directors and management reaffirmed their commitment to the principles and best practices contained in the Company's manual on corporate governance by adopting the first addendum to its Manual on Corporate Governance.

In February 2004, the Company adopted as second addendum to the Manual on Corporate Governance the revised disclosure rules of the Philippine Stock Exchange prohibiting the communication of material non-public information without simultaneously disclosing the same information to the stock exchange.

In 2005, the Company engaged the services of a risk management consultant as part of the Company's risk management system under corporate governance. Further to this endeavor, the Company formalized in 2007 a risk management structure for its Padcal operations and the Corporate office and organized committees to oversee its risk management activities, a comprehensive review of which was done in 2008.

In May 2008, the Company was adjudged one of the top 20 of the 2007 ICD Corporate Governance Scorecard for publicly-listed companies in the Philippines given by the Institute of Corporate Directors together with the SEC, PSE and Ateneo de Manila.

In February 2011, the Company submitted a Revised Manual on Corporate Governance with the SEC to further adjust certain provisions of the Code of Corporate Governance.

The Company plans to adopt whatever new principles and practices applicable that may evolve to improve its corporate governance.

PART V

EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits and Schedules
Statement of Management's Responsibility for Financial Statements
Report of Independent Auditors
Audited Consolidated Financial Statements and Notes for the year ended December 31, 2011
Schedule A. Financial Assets
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
Schedule D. Deferred Mine Exploration Costs and Other Noncurrent Assets
Schedule E. Long Term Debt
Schedule F. Indebtedness to Related Parties
Schedule H. Capital Stock
Other Schedules:

(1) Reconciliation of Retained Earnings Available for Dividends Declaration
(2) Financial Soundness Indicators
(3) Corporate Structure
(4) Current Adoption of PFRS

(b) Reports on SEC Form 17-C

There were eight (8) reports filed by the Company on SEC Form 17-C during the last six months in 2011 covered by this report, part of which follows:

Report Date	Item Reported
October 28, 2011	Retirement of Mr. Jose Ernesto C. Villaluna, Jr. as President and Chief Operating Officer of the Company effective December 31, 2011 and appointment of Mr. Eulalio B. Austin, Jr. as President and Chief Operating Officer effective upon Mr. Villaluna's retirement.
August 19, 2011	Payment procedure for the property dividend declared by the Company.
August 16, 2011	Declaration of the extension of the life of Padcal mine to December 2020.
August 9, 2011	Announcement on the Philippine Mineral Reporting Code compliant mineral resource estimate on the Boyongan-Bayugo deposit in the Silangan Project of the Silangan Mindanao Mining Co., Inc., a 100%-owned subsidiary of the Company.
July 28, 2011	Declaration of a cash dividend of fourteen centavos (P0.14) for record date of August 10, 2011 and payment date of August 31, 2011.
	Press Release on the Company's unaudited financial results for the six months ended June 30, 2011.
July 22, 2011	Approval by the SEC of the property portion of the dividend declared on May 25, 2011 by the Company wherein one share in Philex Petroleum Corporation will be distributed for every eight shares in Philex Mining Corporation.
July 1, 2011	Approval of resolutions on matters taken up during the Company's Annual Stockholders' Meeting on June 29, 2011 which includes the election of the Directors of the Company.

There were eight routinary reports on the Company's monthly production and shipments that were also filed on various dates with the SEC.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on April 16, 2012.

MANUEL V. PANGILINAN
Chairman & Chief Executive Officer

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

BARBARA ANNE C. MIGALLOS
Corporate Secretary

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

PARALUMAN M. NAVARRO
Division Manager – Corporate Finance

SUBSCRIBED AND SWORN TO before me this 16th day of April 2012 at Pasig City. Affiants exhibiting to me their Competent Evidence of Identity indicated opposite their names:

:

Name	Competent Evidence of Identity
Manuel V. Pangilinan	Passport No. EB0160000
Eulalio B. Austin, Jr.	Passport No. EB0177105
Renato N. Migriño	Passport No. EB0510118
Barbara Anne C. Migallos	Passport No. XX4141156
Paraluman M. Navarro	Passport No. XX2810152

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Book No. II
Series of 2 0 1 2

ARVIN A. BARRIENTOS
NOTARY PUBLIC FOR AND IN THE CITY OF PASIG
APPOINTMENT NO. 73 (2012-2013)
COMMISSION EXPIRES ON DECEMBER 31, 2013
No. 27 Brixton Street
Barangay Kapitolyo, Pasig City 1600
PTR No. 7548686
IBP Lifetime No. 08800; Rizal Chapter
ROLL NO. 51169, MAY 200:

PHILEX MINING CORPORATION
PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600
P.O. Box MCPO 2398, Makati City 1200
Tel. Nos. 631-1381 to 88 • Fax Nos. (632) 634-4441 (Exec.), 631-9501 (Purch.)
Email: philex@philexmining.com.ph • Corporate Website: http://www.philexmining.com.ph

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 Velayo & 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

Subscribed and sworn to before me this APR 12 2012 at Pasig City, affiants exhibiting to me their respective Social Securtiy ID No. indicated opposite their names:

Name	SSS No.
Manuel V. Pangilinan	03-1881608-3
Eulalio B. Austin, Jr.	01-0618335-5
Renato N. Migrino	03-3471795-9

ARVIN A. BARRIENTOS
NOTARY PUBLIC FOR AND IN THE CITY OF PASIG
APPOINTMENT NO. 73 (2012-2013)
COMMISSION EXPIRES ON DECEMBER 31, 2013
No. 27 Brixton Street
Barangay Kapitolyo, Pasig City 1600
PTR No. 7548686
IBP Lifetime No. 08800; Rizal Chap.
ROLL NO. 51169, MAY 20[illegible]

Doc. No. 79
Page No. 16
Book No. II
Series of 2 0 1 2

COVER SHEET

1 0 0 4 4

SEC Registration Number

PHILEX MINING CORPORATION AND SUBSIDIARIES

(Company's Full Name)

Philex Building, 27 Brixton corner Fairlane Streets, Pasig City

(Business Address: No. Street City/Town/Province)

Renato N. Migriño

(Contact Person)

(632) 631-1381

(Company Telephone Number)

1 2	3 1		A A C F S			
Month	*Day*		(Form Type)		*Month*	*Day*
(Calendar Year)					(Annual Meeting)	

Not Applicable

(Secondary License Type, If Applicable)

Not Applicable

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

45,085	**₱350,000,000**	**–**
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

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 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 (Carried Forward)	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

	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, 2009 (Brought Forward)	₱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
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 (Carried Forward)	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

	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, 2010 (Brought Forward)	₱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

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 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.

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.

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

As of December 31, 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.

<u>Other Comprehensive Income</u>
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.

<u>Events After the Balance Sheet Date</u>
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

<u>AFS Financial Assets</u>
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.

<u>SC 14</u>
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.

<u>SC 40</u>
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**	
	High-Grade	**Standard**	**Impaired**	**Total**
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	
	High-Grade	**Standard**	**Impaired**	**Total**
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	
	High-Grade	Standard	Impaired	Total
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%	–

<u>Derivative Financial Instruments</u>
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:

Deal date	Contract	Total quantity (in ozs)	Monthly maturity (in ozs)	Average Strike price in US$ per oz Put	Call	Period covered 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:

Deal date	Contract	Total quantity (in dmt)	Monthly maturity (in dmt)	Average Strike price in US$ per lb Put	Call	Forward	Period covered 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:

Deal date	Contract	Total dollar (in million $)	Monthly maturity (in million $)	Average Strike price in Php per $1 Put	Call	Period covered 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.

<u>Compensations of Key Management Personnel</u>
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	2010	(1 year)	(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%.

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BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philex Mining Corporation and its subsidiaries as at December 31, 2011 and 2010 and each of the three year in the period ended December 31, 2011 included in this Form 17-A and have issued our report thereon dated February 29, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, as amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

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
Schedule A. Financial Assets
As of December 31, 2011
(In thousands)

Name of Issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the Balance Sheet	Income received and accrued
Investments in quoted shares:			
Lepanto Consolidated Mining Corporation	2,169,703,990	3,358,412	-
Indophil Resources NL	29,240,806	514,247.00	-
PetroEnergy Resources Corporation	28,226,551	148,189.00	-
Philippine Realty & Holdings Corporation	68,575,890	34,974.00	-
Others		6,099.00	-
Investments in quoted shares:			
Pitkin Petroleum Limited	24,000,000	1,313,700.00	-
Pacific Global One Aviation		37,500.00	-
Philippine Associated Smelting and Refining Corporation	14,047,247	14,055.00	-
Others		893.00	-
		5,428,069	**-**

PHILEX MINING CORPORATION

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)

As of December 31, 2011

Name	Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts Written off	Current	Not Current	Balance at end of period
There are no receivables from Directors, Officers, Employees, Related Parties, and Principal Stockholders other than subject to usual terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business, and eliminated in consolidation.								

PHILEX MINING CORPORATION

Schedule C. Amounts Receivable from Related Parties Which Are Eliminated During Consolidation

As of December 31, 2011

(in Thousands)

	Amount Eliminated
Receivables	
Silangan Mindanao Exploration Corp Inc	4,012,855
Philex Gold Philippines, Inc.	1,087,763
Philex Petroleum Corporation	646,428
Brixton Energy Mining Corporation	185,190
Philex Gold Inc	20,316
FEC Resources	14,018
PGMC-BV	3,642
Payables	
Silangan Mindanao Exploration Corp Inc	nil
Philex Gold Philippines, Inc.	nil
Philex Petroleum Corporation	nil
Brixton Energy Mining Corporation	nil
Philex Gold Inc	nil
FEC Resources	nil
PGMC-BV	nil

PHILEX MINING CORPORATION
Schedule D. Other Assets
As of December 31, 2011
(in Thousands)

Description	Beginning Balance	Additions at cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions (Deduction)	Ending Balance
Deferred Mine exploration and development costs	10,757,136	1,893,323				12,650,459
Deferred oil exploration costs	1,006,993	322,523				1,329,516
	11,764,128	2,215,847	-	-	-	13,979,975
Less: allowance for unrecoverable costs and accumulated depletion	(974,627)				(128,545)	(1,103,172)
	10,789,501	2,215,847	-	-	(128,545)	12,876,803
Others	85,998	108,138				194,136
Less: allowance for writedown	(47,435)					(47,435)
	38,563	108,138	-	-		146,701
	10,828,065	2,323,985	-	-	(128,545)	13,023,505

PHILEX MINING CORPORATION
Schedule E. Long Term Debt
As of December 31, 2011
(In Thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt"	Amount shown caption "Long-term Debt"			
			Amount	Interest rate	No, of Periodic Installments	Maturity Date
There are no outstanding loans as of December 31, 2011.						
		P -	**P -**			

PHILEX MINING CORPORATION
Schedule F. Indebtedness to Related Parties
As of December 31, 2011
(In Thousands)

Related Party	Amount authorized by indenture	Amount	Interest Rate	Maturity Date
There are no indebtedness to Related Parties as of December 31, 2011.				
		P -		

PHILEX MINING CORPORATION
Schedule H. Capital Stock

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates	Directors, officers and employees	Others
Common	8,000,000,000	4,929,750,743	-	-	13,204,229	-
	8,000,000,000	4,929,750,743	-	-	13,204,229	-

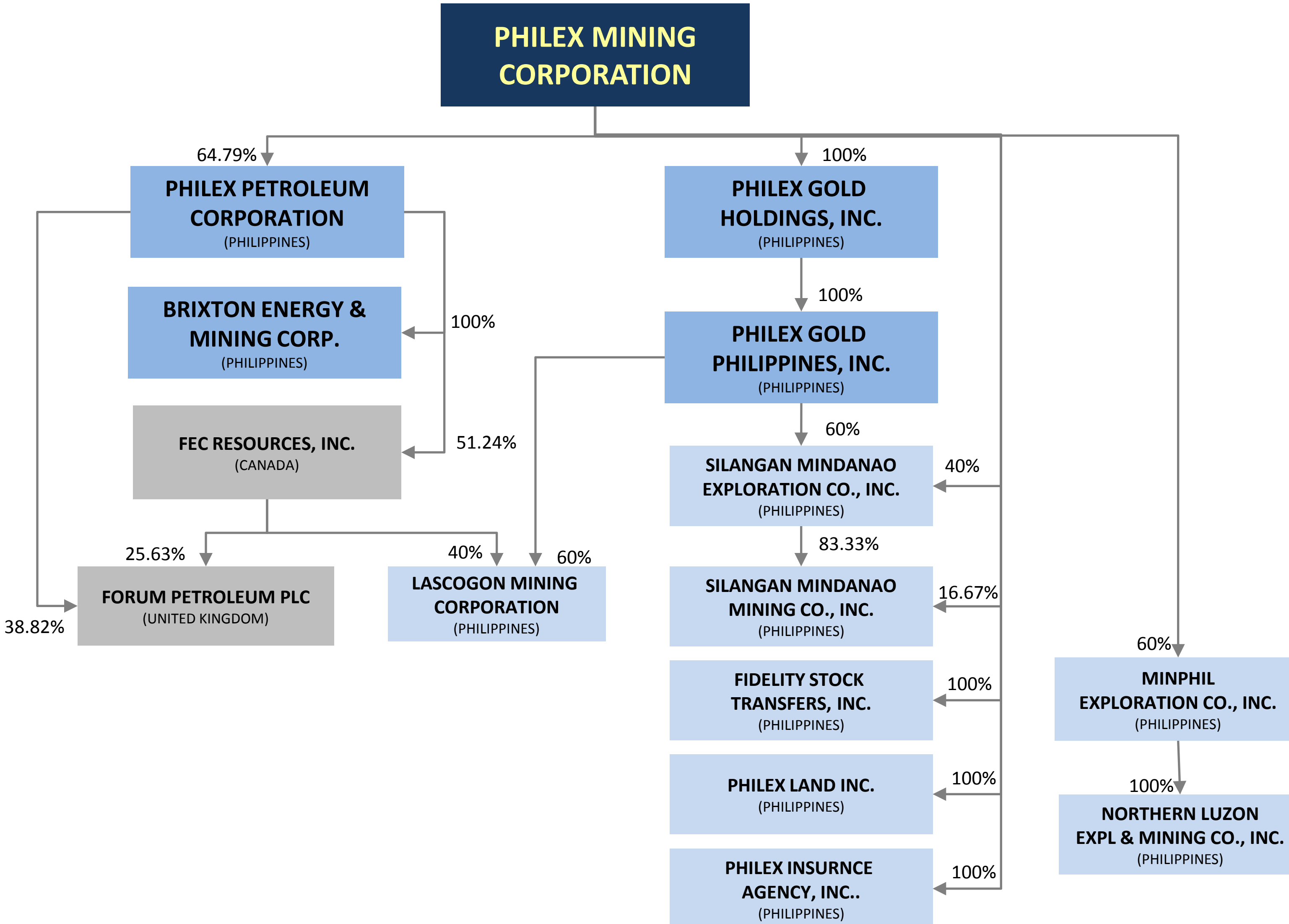
PHILEX MINING CORPORATION
Retained Earnings Available for Dividends Declaration
December 31, 2011
(In Thousand Pesos)

Beginning balance	12,161,656
Net income	5,454,035
Reconciling items:	
Share in net earnings of an associate	
Unrealized foreign exchange gains, except those attributable to cash and cash equivalents	(3,834)
Deferred tax assets	14,532
NRV of inventory	71,359
Dividends declared	(2,325,111)
Ending balance	15,372,637

PHILEX MINING CORPORATION AND SUBSIDIARIES
Schedule . Financial Soundness Indicators

	December 31	
	2011	2010
Current Ratio	3.23	3.35
Debt-to-Equity Ratio	0.20	0.24
Asset-to-Equity Ratio	1.20	1.24
Interest Rate Coverage Ratio	225.85	272.99
Net Income Ratio	0.37	0.30

CORPORATE STRUCTURE



PHILEX MINING CORPORATION
AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE OF ALL
EFFECTIVE STANDARDS AND INTERPRETATIONS

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as of December 31, 2011:

PFRSs and PIC Q&As	Adopted/Not adopted/Not applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Not applicable
PFRS 2, *Share-based Payment*	Adopted
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Not applicable
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Not applicable
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Adopted
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Not applicable
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Adopted
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not Applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Adopted

PFRSs and PIC Q&As	**Adopted/Not adopted/Not applicable**
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Adopted
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Adopted
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Not applicable
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Adopted
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Adopted
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded Derivatives*	Adopted
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Adopted
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not applicable
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Not applicable
Philippine Interpretation IFRIC–14, *PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Adopted
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Adopted
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Not applicable
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Adopted

PFRSs and PIC Q&As	Adopted/Not adopted/Not applicable
Philippine Interpretation SIC–7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Adopted
Philippine Interpretation SIC–15, *Operating Leases – Incentives*	Adopted
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not applicable
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Adopted
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Not applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Not applicable
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts	Not applicable
PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements	Not applicable
PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA)	Not applicable
PIC Q&A No. 2008-01 (Revised): PAS 19.78 – Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20	Not applicable
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern	Not applicable
PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines	Not applicable
PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position	Not applicable