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 15, 2011

PHILIPPINE STOCK EXCHANGE, INC.
4/F PSE Center
Exchange Road, Ortigas Center
Pasig City

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosures Group

Gentlemen:

We submit to you herewith a copy of our Company's SEC Form 17-A Annual Report for the year ended December 31, 2010 which we filed with the Securities and Exchange Commission today.

Very Truly Yours,

JOSE ERNESTO C. VILLALUNA, JR.
President & COO

Encl: a/s

COVER SHEET

1 0 0 4 4

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
A N D   S U B S I D I A R I E S

(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	(632) 631-1381
(Contact Person)	(Company Telephone Number)

1 2	3 1	1 7 - A		
Month	*Day*	(Form Type)	*Month*	*Day*
(Calendar Year)			(Annual Meeting)	

Not Applicable

(Secondary License Type, If Applicable)

	Not Applicable
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

45,607		
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, 2010
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, 2010**
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 31, 2011)	**4,922,542,460**
Debt Outstanding (as of December 31, 2010)	**P150,000,000**

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: **P74.8 billion** based on closing prices at the Philippine Stock Exchange on April 4, 2011.

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 mining business under Philex Mining Corporation, and the oil and gas business under Philex Petroleum Corporation.

Philex Mining Corporation was incorporated in the Philippines in 1955 and is listed in the Philippine Stock Exchange. 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 which are currently under the prefeasibility stage.

Philex Petroleum Corporation (PPC, a wholly-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 activities, all of whom hold participations in oil and gas production and exploration activities through their investee companies. A wholly-owned subsidiary of PPC incorporated in the Philippines, Brixton Energy & Mining Corporation (BEMC) is a coal operation in the debugging stage but has engaged in coal trading since 2008.

As of December 31, 2010, the Company has 45,607 stockholders of record with 38.74% 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 placed on a care and maintenance up to present) were spun-off to PGPI. Through a swap of shares, ownership in PGPI was subsequently transferred to Philex Gold Inc. (PGI), then 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 the Company full control over PPC. In September 2010, the Company transferred its investments in energy assets to PPC which currently holds 38.82% of FEP, a UK-based company listed at the Alternative Investment of the London Stock Exchange. FEP is an oil exploration company owning participation interests in several service contracts in the Philippines, particularly Service Contract 72 (previously GSEC 101), covering the Sampaguita natural gas discovery in northwestern Palawan. PPC also holds, 51.24% of FEC that also owns 25.63% of FEP and 40% of Lascogon Mining Corporation (LMC) under a joint venture agreement in 2005, 18.46% of Pitkin Petroleum Corporation, a UK-based company that has various exploration activities, and 100% of BEMC that operates a coal mining in Zamboanga Sibugay. The Company controls 64.45% of FEP through the direct holdings of PPC and FEC.

Products/Sales

The Company has operated for the past 53 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 2010 aggregate to 349.8 million tonnes producing 928.9 million kilograms of copper (2,050 million pounds), 170.1 million grams of gold (5,471.1 thousand ounces) and 185.6 million grams of silver (5,981.5 thousand ounces).

Majority of 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 2008 to 2010 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 for the period April 2010 to March 2011, two months after month of arrival in Japan for copper) which method is a common practice worldwide.

The 2010 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, if 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 one year contract for the supply of electricity, although the Padcal mine has the capacity to self-generate standby electricity in case of supply interruptions.

Employees

The total manpower of the Company as of December 31, 2010 consists of 2,230 full-time regular employees, as follows:

Padcal Operations	2,116
Pasig Corporate Head Office	114
Total	2,230

Of the Company's employees, 2,045 are in operations, while 185 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. With the expiration of the collective bargaining agreement with the NAMAWU 101 in January 2010, negotiation under the new PRFEU-ALU (TUCP) commenced following the Certification Order issued by the Department of Labor and Employment. The agreement with PMSEU-APSOTEU (TUCP) also expired in April 2010 and negotiation on the renewal of the agreement for another five years is ongoing.

Pasig rank-and-file employees are members of the Philex Pasig Employees Union whose agreement with the Company likewise covers a period of five years to expire in August 2011. 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 135,815 hectares of claimholdings covered by applications for or by approved Mineral Production Sharing Lease Agreements (MPSA), Exploration Permits or Mining Lease Contracts (MLC) with the government.

The Company's main operation area in Padcal is under twelve (12) mineral holdings 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, 2010, 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	55	0.25	0.54	300	1,000
782 ML	94	0.24	0.47	500	1,400
Total	149	0.24	0.49	800	2,400

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	25.4	0.21	0.43	93.7	259
782 ML	35.0	0.23	0.46	144.5	394
798 ML	29.8	0.20	0.32	108.3	204
Total	90.2	0.21	0.41	346.5	857

CuEq cut-off grade = 0.246%; Metal Prices: US$3.00 per pound Cu, US$1,000 per ounce Au; Metal Recoveries: 82% Cu, 73% Au

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

The life of the Padcal Mine is currently declared as up to 2017 which may be possibly extended beyond 2017.

The other areas in the vicinity of the Padcal Mine are covered by mining agreements over a total area of 15,396 hectares, all within the municipalities of Tuba and Itogon in Benguet:

Padcal Tenements	**Area (Has.)**
MPSA-156-2000-CAR	4,928
MPSA-157-2000 CAR	2,958
MPSA-276-2009-CAR	81
EPA-075 (formerly APSA No. 29)	437
EPA-078 (formerly APSA No. 68)	4,651
EPA-060	41
EPA-088	162
APSA-051	795
APSA-062	986
APSA-077	311
APSA-098	125
Total	15,477

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 its 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 in-house with expenses for 2010, 2009, and 2008 amounting to

P1.246 billion, P855 million and P416 million, respectively. Up to 2008, Anglo provided all 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 IV, Item 13 is also incorporated hereto by reference.

Silangan Project

The Silangan Project comprise of the Boyongan and Bayugo deposits 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:

	Area (Has.)	Operator / Contractor
MPSA-149-9-XIII	2,880	SMMCI
MPSA-034-95-X	405	SMMCI
MPSA-148-99-XIII	2,306	LMC
MPSA-344-2010	6,208	PGPI
EP-XIII-013 Lot-A&B	11,934	SMMCI
EPA-XIII-012	1,755	SMMCI
EPA-000039-XIII	6,309	SMMCI
APSA-0000105-XIII	10,142	PGPI
Total	41,938	

Since 2009 when Philex engaged itself directly in the exploration of the Silangan Project, its total expenditures has amounted to P1.9 billion to date. Combined with those incurred by Anglo, the total expenditures in this project amounted to P3.4 billion as of December 31, 2010. Total expenditures for 2010, 2009 and 2008 amounted to P1.4 billion, P586 million and P250 million, respectively. From June to December 2010, drilling focus had shifted into several prospects surrounding the Boyongan-Bayugo areas such as the exotice sone, east Bayugo extension, northeast Boyongan. Mt. Torre, Mt. Buhangin and Guinub-an. A total of 143 holes were drilled in 2010 amounting to 82,457.5 m of core samples.

The reported resources for Boyongan and Bayugo as of October 2008 and November 2009, respectively, are as follows:

	Cutoff %Cu	Classification	Tonnes (000)	Cu %	Au Grams/Tonne	Contained Cu (M lbs.)	Contained Au (M ounces)
Boyongan	0.50	Measured+Indicated	105,400	0.80	0.98	1,800	3.3
Bayugo	0.40	Indicated	85,700	0.88	0.73	1,700	2.0
Total		**Measured+Indicated**	**191,100**	**0.84**	**0.87**	**3,500**	**5.3**
Bayugo	0.40	**Inferred**	**32,700**	**0.75**	**0.63**	**500**	**0.6**

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

In 1999, 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 PMC acquiring all of Anglo's interest in the joint venture for $55 million. This gave PMC control over the property together with its 81% indirectly owned subsidiary, PGPI, which holds the other 50% interest.

Padcal Vicinity

Exploration in Padcal and its vicinity was pursued in two areas in 2010: the Sto. Toms II orebody at 773 meter level (ML) covered by MPSA-276-2009-CAR and Bumolu prospect within MPSA-156-2000-CAR. Within the Sto. Tomas II orebody, diamond drilling continued to explore possible extensions of the orebody below the lowest mining level, the 782 ML. Fifteen holes were completed for an aggregate distance of 8,085.30 meters.

Follow-up drilling of the deep gold zone in the northeast block of 773 ML indicates at least a 40-meter wide mineralized zone within Santa Fe fault zone. The gold zone averages 2.0 grams per tonne with very low copper values. Its depth near 450 asl, however, poses questions about its mineability. Exploration is continuing in the search for similar mineralization at shallower levels even beyond the Sto. Tomas II orebody.

In Bumolo prospect, the soil geochemical study is the bases for exploration drilling of five holes underground. They were drilled with an aggregate depth of 1,695.05 meters. Results showed a mineralized horizon between 1200 ML and 1300 ML at the northern part of the anomalous zone in the surface and between 1100 ML to 1200 ML at the southwestern side. The geology of the area suggests widespread dilution of originally good grade deposit by a series of late and essentially barren diorite and microdiorite porphyries.

Other Projects

Vista Alegre Project

Exploration activities within the MPSA area concentrated on the on-going geologic mapping and semi-detailed scale drainage-based geochemical survey of Vista Alegre gold zone. The programmed stream sediment sampling and accompanied geologic mapping focused on the undrilled portions to the northwest and southeast of the tenement area. The main objective of the survey is to map the overlying structures and lithologic contacts, and determine the seconday dispersion pattern of gold and base metals in catchmen basins to identify high mineral potential areas. A total of 644 pulp samples comprising 10 batches were sent to a private laboratory for multi-element analysis.

Bulog Project

An additional six holes were drilled from the previous year's eleven drillholes in the Parcel 2 of EP-04-VI with a total of 6,163.6 m. A total of 3,141 pulp samples comprising 25 batches were sent to ITS-Manila for analysis. Detailed geological grid mapping with 1:1000 scale and soil sampling through auger drilling were completed in the south parcel. These were used for geochemical analysis of the area to generate alternation and soil geochemical anomaly maps.

After the termination of drilling program at Bulog, a semi-detailed scale (1:10,000 m) stream geo chemical survey of Parcel 1 was embarked on. The program aims to cover the entire tenements area of about 1,200 has. Parcel 1 is located approximately 6 aerial km north of Bulog and within the Municipalities of Cauayan and Sipalay. The main objectives of the survey are to determine the secondary dispersion pattern of gold and base metals at the surface and to delinate potential res for further exploration work.

Sibutad Project

Exploration work within MPSA-063-97-IX during the year 2010 concentrated on the re-evaluation of the Lalab area and surface mapping and sampling of Calube, Minlasag, and Nanca Prospects. Re-evaluation of the Lalab block was proposed in January with the release of a new geologic model of the Larayan-Lalab areas. Detailed surface mapping and review of old drill holes were conducted to verify the new model, and in turn aid in generating a new resource estimate for the Larayan-Lalab prospect. Results of the detailed mapping showed that the area of hydrothermal crackle breccias (BRCR) zones is more extensive than originally reported. Distinction between closely-spaced and widely-spaced BRCRs is being done to test its likelihood as limits in resource estimation.

Additional preliminary mapping, sampling and shallow drilling were initiated at the massive silica-replaced rocks or MSRs scattered within the tenement. The MSRs will be explored further to evaluate the area as a potential silica deposit.

Lascogon Mining Corporation

Exploration since 2009 in the Lascogon Project, a joint venture between PGPI and FEC Resources, Inc., was limited to trenching activities as recommended by IRES to provide additional basis for resource estimation. The report of IRES is pending completion.

Brixton Energy & Mining Corporation (BEMC)

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

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

Compliance with Environmental Laws

The Company is committed to its environmental and policy statement of protecting and enhancing the environment and has spent total environmental expenses for the year of P271.7 million, 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 Padcal mine, as the Best Mining Forest first runner-up in 2010 and 2009, and champion in 2008 and 2007; for Bulawan, as the Best Mining Forest champion in 2009, and first runner-up in 2008 and 2007; for Sibutad, as second runner-up from 2006 to 2008, and for Silangan as second runner-up in 2010.

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 a portion of its annual production, a practice started way back 1996. While this allowed the Company to survive extended period of low metal prices in the past, on the other hand, in the subsequent period of rising prices, it had to give up some of the benefits from the higher prices. Another way the Company protects its revenue from significant downturn in prices is by buying put options which establishes a minimum level for a portion or all its production for a certain period as the Company may decide upon.

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. 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, which properties are currently used in operation. PGPI similarly owns real properties and support facilities in its Bulawan mine site and Sibutad Project 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 and alternatively 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 in the next 12 months. Machinery and equipment are acquired month to month as needed 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 under appeal before the Court of Appeals.

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 2010 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

Market Information

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, 2010 is 31.16%

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

Year	Quarter	High	Low
2011	February	15.40	13.74
	January	16.30	14.50
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
2009	4th Quarter	20.00	8.40
	3rd Quarter	11.25	6.80
	2nd Quarter	7.10	4.24
	1st Quarter	5.04	3.32

The Company's stock was traded at P14.98 per share as of March 31, 2011.

Holders

Of the Company's 45,607 shareholders as of the end of 2010 with 4,921,926,960 common shares issued and outstanding, the top 20 stockholders are as follows:

	Name of Stockholder	Number of Shares	% of Ownership
1	PCD Nominee Corporation (As record owner. Number of shares shown is inclusive of 519,313,362 shares owned by First Pacific Company Limited. See Item 11 for additional information.)	1,158,185,700	23.53
2	Social Security System (inclusive of 624,782,675 shares lodged with PCD Nominee Corporation)	1,093,761,948	22.22
3	Asia Link B. V.	1,023,275,990	20.79
4	Two Rivers Pacific Holdings Corp.	452,088,160	9.19
5	Government Service Insurance System	286,783,350	5.83
6	Richard Ng Lim	85,389,767	1.73
7	Cheng Han Sui &/or Diana Y. Cheng	22,000,042	0.45
8	The First National Investment Company	12,195,042	0.25
9	Albert Awad	8,844,478	0.18
10	Makati Supermarket Corp.	8,353,226	0.17
11	George K. Young	7,582,285	0.15
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	Frank Pao	3,639,260	0.07
16	The Roman Catholic Archbishop of Manila	3,221,135	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	Ack Construction, Inc.	2,997,225	0.06
	Total	4,194,225,629	85.21

Dividends

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

In 2007, the following cash dividends were declared:

1. Cash dividend of ten centavos (₱0.10) per share; for record date of April 10, 2007; payable on May 7, 2007.

2. Cash dividend of ten centavos (₱0.10) per share; for record date of June 7, 2007; payable on July 4, 2007.

3. Cash dividend of twenty-five centavos (₱0.25) per share; for record date of November 26, 2007; payable on December 18, 2007.

In 2010, the following cash dividends were declared:

1. Cash dividend of nine centavos (P0.09) per share at 25% of 2009 core net income; for record date of May 12, 2010; payable on May 31, 2010

2. Cash dividend of five centavos (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

In 2011, a cash dividend of sixteen centavos (P0.16) per share at 25% of second half 2010 core net income was declared for record date of March 10, 2011 and payment date of April 5, 2011.

Up to December 2007, cash dividends were subject to prior approval of Landbank as a condition to the Company's outstanding loan obligation then. No cash dividends were declared in 2008 and 2009.

In 2008 and 2009, the Company declared stock dividends as follows:

1. Stock dividend of 30%, equivalent to 890,993,562 shares, on the Company's outstanding shares as of the record date of March 7, 2008 that was subsequently approved by the Company's stockholders at its February 24, 2008 meeting and approved for listing by the Philippine Stock Exchange (PSE) on April 4, 2008.

2. 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 November 28, 2008, the sale of 778,620,792 treasury shares of the Company to Asia Link BV, a subsidiary of First Pacific Company Limited of Hong Kong, for P7.92 per share or P6.2 billion was consummated. The Company recorded as additional paid-in-capital the total premium of P560 million over the treasury shares cost of P7.20 per share.

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 an 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, respectively, were 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, 2010, the total option shares granted amounted to 144,728,832, of which 100,241,224 option shares have been exercised and 23,412,250 option shares were forfeited.

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

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

Information on the Company's results of operations and financial condition presented in the 2010 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

The Company's consolidated operating revenue, almost all of which were provided by the Parent Company, amounted to P13.394 billion in 2010, the highest revenue level in the Company's 55 years operating history to date, compared to the P9.055 billion revenue in 2009 and the P9.717 billion revenue in 2008, the fifth and fourth highest, respectively. Gold revenue, comprising 54% of the total revenue, rose to P7.209 billion this year from P5.108 billion in 2009 and P5.364 billion in 2008. Copper revenue, accounting for 43% of the total, also improved to P5.721 billion this year compared to P3.742 billion in 2009 and P4.259 billion in 2008. Revenue from silver, coal and petroleum provided the remaining 3%. The contribution from petroleum (through Forum Energy) and coal has continued to improve but remains a relatively small part of the Group's revenue.

The stronger realized metal prices coupled with higher metal production resulted to the increase in operating revenue in 2010 versus 2009; while lower metal production, despite the stronger metal prices, resulted to the decrease in operating revenue in 2009 from 2008. During the respective periods in 2010, 2009 and 2008, realized gold price per ounce averaged $1,217, $946 and $788. Realized copper price per pound averaged $3.63, $2.24 and $2.22. Gold production were 133,516 ounces, 119,171 ounces and 145,003 ounces; while copper production were 35.6 million pounds, 33.8 million pounds and 41.2 million pounds.

Starting in January 2008, the Company changed its accounting policy on the measurement of its mine products inventory from lower of cost or net realizable value to at net realizable value, the adjustments from cost to realizable value correspondingly reflected in revenue. This policy effectively restated the Company's revenue recognition from based on shipment to that based on production. The Company believes that this policy, which was adopted retrospectively, would provide more reliable and relevant information on the Company's operating performance as it minimizes unusual fluctuations in reported revenue from timing differences that are brought about by when the Company's production are actually shipped.

Consolidated net income amounted to P3.945 billion in 2010 compared to P2.735 billion in 2009 and P2.800 billion in 2008, the second highest , the fifth highest and the fourth highest respectively. Total costs and expenses increased to P6.615 billion in 2010 from P6.013 billion in 2009 and P5.361 billion in 2008. Marketing charges likewise increased to P714.02 million in 2010 compared to 677.0 million in 2009 and P669.2 million in 2008. Nevertheless, income from operations resulted significantly higher at P6.065 billion in 2010 from the operating income of P2.365 billion in 2009 and P3.687 billion in 2008.

Foreign exchange loss amounted to P96.5 million in 2010 due to the stronger peso closing rate of P43.84:$1 as of December 31, 2010 that was used to translate the Company's dollar-denominated deposits, compared to the loss of P68.9 million in 2009 at peso closing rate of P46.20:$1, and gain of P238.4 million in 2008 at peso closing rate of P47.52. Share in net losses of associates in 2010 amounted to P37.6 million, mostly from Pitkin Petroleum Limited, compared to the P72.6 million share in net losses of associates in 2009, mainly from FEP's sale of its interest in Forum Cebu Coal Corporation's Coal Operating Contract 131. Net interest income amounting to P6.2 million in 2010 was lower than the P80.1 million in 2009 and P100.3 million in 2008. On the disposal of its property, plant and equipment and others, the Company recognized a loss of P2.0 million in 2010 and P1.7 million in 2009 but a gain of P5.7 million in 2008.

In 2010, the Company recognized a non-recurring loss of P119.8 million representing the difference between the fair value and the carrying value of the investment in shares of stock of PetroEnergy Resources Corporation (PERC) after its reclassification to Available-for-Sale (AFS) Investment following the dilution of the Company's interest from 20.62% to 10.31%. In 2009, the Company also recognized a non-recurring negative goodwill of P765.9 million from the 50% interest in Silangan Project acquired from Anglo American Exploration (Philippines), Inc. (Anglo) in February 2009. A gain on disposal of AFS Financial Assets in 2009 was minimal at P126 thousand, compared to the gains from the partial sale of the Company's investment in the Philodrill Corporation (Philodrill) of P84.6 million a year ago. In 2008, a P10.1 million equity in net earnings was recognized from PERC.

In 2010, the Company provided P75.0 million for directors' compensation and P55.6 million for inventory losses and obsolescence. In 2009, a marked- 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. In 2008, provisions for losses amounted to P226.9 million (P44.9 million of which provision were reversed in 2009), other charges amounted to P111.4 million for taxes paid, and losses from write-off of certain fixed assets amounted to P44.5 million.

A higher net income before tax of P5.684 billion resulted in 2010 compared to P3.502 billion in 2009 and P3.270 billion in 2008, requiring a higher provision for income tax of P1.739 billion for the year compared to P766.6 million in 2009 and P469.8 million in 2008. With the three years income tax holiday granted by the Board of Investments having ended in 2008, the full statutory income tax rate became applicable again to the Company in 2009.

Core net income amounted to P4.151 billion in 2010, higher than the P1.849 billion in 2009 and P3.055 billion in 2008. EBITDA before extraordinary and non-recurring items was likewise higher at P6.566 billion in 2010 than the P4.159 billion in 2009 and P3.876 billion in 2008.

To protect part of its future revenues from unfavorable metal price fluctuations, the Parent Company enters into metal hedging contracts, the gains or losses from which are reflected in revenue as addition or deduction in deriving the realized prices for the Company's metal production during the respective reporting periods.

In 2010, net hedging losses of P637.1 million was recognized consisting of P355.6 million for the amortization of the unwinding cost of the gold collars preterminated 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 the P12.4 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 $12.3 million unwinding cost is 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. In 2008, the hedging loss amounted to P313.6 million consisting of P115.6 million for gold, P59.3 million for copper and P138.7 million for currency.

The Company has no outstanding financial instruments as of December 31, 2010. The Company's outstanding financial instruments as of March 31, 2011 are presented in the following table:

On Gold

Deal Dates		Total Quantity (in oz)	Monthly Maturity (in oz)	Strike price (US$ per oz)	Period Covered From	To
Jan 5, 2011	Put	108,000	9,000	1,200.00	Jan 2011	Dec 2011
Total		108,000	9,000	1,200.00		

On Copper

Deal Dates		Total Quantity (in DMT)	Monthly Maturity (in DMT)	Price in US$			Period Covered	
				Per DMT	Per lb			
				Strike/Forward	Put	Forward	From	To
Jan 5, 2011	Put	9,000	750	8,268.00	3.75		Jan 2011	Dec 2011
Jan 5, 2011	Forward	4,500	375	9,342.93		4.24	Jan 2011	Dec 2011
Total		13,500	1,125		3.75	4.24		

On Dollar

Deal Dates		Total Dollar (in million $)	Monthly Maturity (in million $)	Price in Peso per $1			Period Covered	
				Strike Price		Forward		
				Put	Call		From	To
Feb 28, 2011	Put/Call	20	2	43.00	45.00		Mar 2011	Dec 2011
Mar 10, 2011	Put/Call	20	2	43.00	45.00		Mar 2011	Dec 2011
Mar 11, 2011	Put/Call	70	7	43.00	45.00		Mar 2011	Dec 2011
Mar 15, 2011	Put/Call	14	2	43.00	45.00		Mar 2011	Sept 2011
Mar 11, 2011	Forward	6	2			44.10	Oct 2011	Dec 2011
Total		130	13	43.00	45.00	44.10		

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, 2008, the Company had outstanding four contracts for purchased gold put options totalling 81,000 ounces at average strike price of $627 per ounce, with the corresponding sold call options at the average strike price of $830 per ounce, maturing up to 2011 (but was preterminated in October 2009 discussed in second preceding paragraph). The Company also had one currency forward contract amounting to $37 million with weekly maturity of $1 million at a forward rate of P42 per $1 maturing up to September 2009, with earlier termination provisions when the target profit is achieved and doubling of the notional amount if the forex rate at fixing rate is higher than the forward rate.

As of December 31, Current Assets of the Company amounted to P7.751 billion in 2010 compared to P5.022 billion in 2009 and P12.544 billion in 2008.

Cash and cash equivalents increased to P3.782 billion in 2010 primarily from higher net earnings compared to the P2.881 billion balance in 2009 due to lower revenue, acquisition of investments, capital and exploration expenditures and payment of short-term loans, but decreased from the P10.713 billion balance in 2008 which included the proceeds of a short-term loan availment of $55 million for the purchase by Philex of Anglo's interest in the Silangan Project.

Accounts Receivable increased to P2.180 billion in 2010 as higher Trade Receivables are collectible the following year compared to P517.1 million in 2009. Accounts Receivable in 2009 was similarly higher than the P127.7 million balance in 2008 due to the negative balance of Trade Receivables brought about by lower forward metal prices used to mark to market the value of provisional shipments awaiting settlement of their final values, which receivables were reclassified to Current Liabilities.

As per off take agreement, the value of Padcal mine's copper concentrate shipments are initially determined based on prices during the second calendar week immediately prior to the week of shipment as provisional value. These are then adjusted to the average prices at their "quotational period (QP)", which in 2010 was the calendar month following the month of the shipment's arrival in Japan 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. In 2008, the QP was the calendar month following the month of arrival for gold and silver, and the fourth calendar month following the month of arrival for copper.

Inventories were at about the same level at P 1.094 billion in 2010, P1.146 billion in 2009 and P1.263 billion in 2008. Effective in 2008. Mine Products Inventory is recognized at net realizable value, from at lower of cost or net realizable value in previous years.

The increase in Other Current Assets in 2010, 2009 and 2008 comprise mainly of increases in input value-added tax claims on importation of materials and supplies and equipment. Property, plant and equipment (PPE) as of December 31 increased to P5.095 billion in 2010 from P4.669 billion in 2009 and P4.066 billion in 2008. The yearly increases in the past three years were mainly due to additional capital expenditures of P1.107 billion, P1.195 billion and P966.7 million, respectively, incurred by the Parent Company, as well as the consolidation of FEP's PPE balance of P156.1 million in 2010, P192.6 million in 2009 and P178.9 million in 2008.

The total capital expenditures budget for 2011 is currently at P3.053 billion, of which P1.296 billion are for Padcal operation and for Brixton coal mine operation in Zamboanga, P1.007 billion are for Silangan pre-development costs and P700 million are for other exploration projects.

As of December 31, Available for Sale Investments reflected at fair values increased to P886.7 million in 2010 from P756.9 million in 2009 and P378.8 million in 2008. The higher balance in 2010 versus 2009 is mainly due to the reclassification of investment in PERC to AFS consequent to the reduction of the Company's ownership from 20.62% to 10.31%, which also explain the reason for the decrease of Investment in Shares of Stocks in 2010 compared to 2009. The higher balance of AFS in 2009 versus 2008 is due to the recovery in value of the Company's investment in Indophil shares.

The reclassification of the PERC shares in the Company's account resulted in lower balance of Investment in Shares of Stocks at P833.4 million in 2010 from P1.137 billion in 2009 but still higher compared to P260.3 million in 2008 due to the subscription of the Parent Company of additional shares in Pitkin Petroleum Limited (Pitkin) for US$14 million. Together with PPC, a wholly-owned subsidiary holding 6.42% ownership interest in Pitkin, the Company has now a total of 21% ownership interest in Pitkin requiring the reclassification of the Company's holdings from AFS Investments to Investments in Associates. In September 2010, as part of an internal reorganization of the Company to put all of its petroenergy investments in a separate corporate vehicle, the Company transferred by way of share purchase agreement with PPC, 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 P10.828 billion in 2010 compared to P9.535 billion in 2009 and P1.719 billion in 2008. The higher balance in 2010 was mainly for the continued exploration activities in the Silangan project which is currently in full steam in the preparation of an integrated development plan as part of its pre-feasibility study. The substantial increase in 2009 versus 2008 was due to the consolidation of SMECI deferred exploration costs of P7.5 billion, as a result of the Company's acquisition of Anglo's 50% interest in the Silangan Project.

Total Non-Current Assets of the Company amounted to P17.902 billion in 2010, P16.356 billion in 2009 and P6.854 billion in 2008.

At year-end, Total Assets of the Company amounted to P25.653 billion in 2010 compared to P21.378 billion in 2009 and P19.398 billion in 2008.

Current Liabilities as of December 31 amounted to P2.312 billion in 2010 compared to P1.154 billion in 2009 and P5.878 billion in 2008. Short-term bank loan in 2010 represents the availment by BEMC of a P150 million short-term loan for its working capital requirements. The Parent Company's short-term bank loan of P4.039 billion in 2008 was fully repaid in 2009.

The increases in Accounts Payable and Accrued Liabilities to P968.5 million in 2010 from P866.9 million in 2009 and P780.1 million in 2008 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 is higher at P857.0 million in 2010 compared to P2.2 million in 2009 and P52.0 million in 2008 because of the higher fourth quarter income in 2010 compared to 2009 and 2008. With the declaration of cash dividends in April and August 2010, Dividends Payable increased to P207.9 million in 2010 from P168.9 million in 2009 and P173.3 million in 2008. Provisions and Other Payables is higher at P128.3 million in 2010 compared to P115.7 million in 2009, which was on the other hand, lower compared to P199.4 million in 2008. The increase in 2010 was mainly due to the higher provision for directors compensation of P75.0 million. In 2009, the decrease was due to the reversal of a P44.9 million provision for legal claims booked in 2008 that was settled in 2009.

The increase in Total Current Liabilities contributed to the increase in Total Liabilities to P4.895 billion in 2010 compared to P3.695 billion in 2009, though, lower compared to P6.870 billion in 2008.

Total Non-current Liabilities slightly increased to P2.583 billion in 2010 compared to P2.541 billion in 2009 and P992.4 million in 2008 because of the increases in Deferred Income Tax Liabilities account to P2.013 billion in 2010 from P1.976 billion in 2009 and P842 thousand in 2008.

Provision for Mine Rehabilitation Costs is slightly lower at P31.7 million in 2010 compared to P33.7 million in 2009 but higher compared to P26.6 million in 2008 mainly from BEMC's P4.9 million provision for asset retirement obligation on its coal project.

Under PAS 19, Employees Benefits, the Company provided Accrued Retirement Costs amounting to P65.3 million in 2010, P88.2 million in 2009 and P86.2 million in 2008. As of December 31, 2010, there is no outstanding Retirement Benefits Liability which in 2009 amounted to P30.3 million and P80.2 million in 2008. As of 2010, the accrued liability of the retirement plan of the Company has been fully funded.

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

Stockholders' Equity is higher at P20.758 billion in 2010 compared to P17.684 billion in 2009 and P12.528 billion in 2008 . Higher net income in 2010, 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 Stockholder's Equity in 2010 versus 2009. In 2009, aside from the net income for the year, several factors contributed to the P3.298 billion increase in Stockholder's Equity from 2008: (a) stock options exercised in 2009 increased Additional Paid-in Capital to P774.5 million in 2009 from P681.7 million in 2008; (b) unrealized gain on AFS Financial Assets increased to P445.3 million in 2009 from P1.7 million in 2008 on account of the P362.8 million increase in fair value of the Company's investment in Indophil; (c) the decrease in Cumulative translation adjustment to negative P231.6 million in 2009 from negative P300.1 million in

2008; (d) the increase in Revaluation Surplus to P1.611 billion from P39.0 million in 2008 arising from the fair revaluation of the Silangan Project acquired from Anglo in 2009; and (e) the increase in non-controlling interest to P700.2 million in 2009 from P640.6 million 2008. Capital Stock increased to P4.901 billion from P3.881 billion in 2008 due to the 25% stock dividend distributed in June 2009.

For the year, Net cash provided by operating activities amounted P4.507 billion in 2010, P2.132 billion in 2009 and P5.493 billion in 2008. Cash used in investing activities, principally for the additions to PPE and Deferred Exploration Costs, amounted to P2.956 billion in 2010 compared to P5.865 billion in 2009, which included the cost of acquisition of the Silangan companies and P1.762 in 2008. Net cash used in financing activities amounted to P441.7 million in 2010 on account of cash dividends payments, compared to P3.933 billion in 2009 mainly due to the repayment of short-term bank loans of P4.039 billion availed in 2008.

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 2010.

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 gold, copper, and silver are applied on the Company's shipments as well as on mine products inventory, and provisional prices are adjusted to forward prices at the end of each reporting period, a portion of the Company's production is also hedged from time to time to protect revenue from any wild fluctuations in prices and where reasonable floor levels could be provided. The spot price, forward price and the hedge price comprise the Company's average realized prices, which in 2010 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 $1,447 per ounce in March 2011 and $4.60 per pound in February 2011, respectively.

At the budgeted price levels of $1,350 per ounce for gold and $3.30 per pound for copper, operating revenue for 2011 has been budgeted at P12.749 billion, 5% lower than the 2010 revenue. Gold is expected to contribute 53% of revenue versus copper's contribution at 40%.

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. Ore milled in 2010 averaged 0.552 grams gold per tonne production, lower than the 0.567 grams gold per tonne average ore grade in 2009 and 0.643 grams gold per tonne average ore grade in 2008. Copper grade of 0.210% in 2010 was likewise lower than the 0.228% average grade in 2009 and 0.257% average grade in 2008. With higher tonnage of 9.364 million tonnes mined in 2010 from 8.197 million tonnes in 2009 and 8.913 million tonnes in 2008, concentrate production was consequently higher at 65,340 dry metric tons this year compared to 62,458 dry metric tons last year but lower compared to 77,920 dry metric tons in 2008. The total tonnage milled for the whole year of 2010 actually reflects the highest level achieved in over the past ten years of Padcal's operation. Metal production were 134 thousands ounces gold and 35.6 million pounds copper in 2010, 119 thousand ounces gold and 33.8 million pounds copper in 2009 and 145 thousand ounces gold and 41.2 million pounds copper in 2008.
The budgeted milling tonnage for 2011 is lower at 9.0 million tonnes at the average grade of 0.517 grams per tonne gold and 0.22% copper. In terms of metal production, gold is budgeted at 118 thousand ounces while copper at 36 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 P44.49 in 2010, P45.63 in 2009 and P43.96 in 2008, which are after the effects of the average currency hedging gain of P0.05 in 2010, currency hedging loss of P2.08 in 2009, and currency hedging loss of P0.67 in 2008, without the effect of the marked-to-market loss of P470.1 million in 2008 as reversed to income in 2009. As of December 31, 2010, the peso to dollar exchange rate was at P43.84 compare to P46.20 as of December 31, 2009.

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

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 2010, the total production cost (minesite cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was P534 from the total production cost of P4.999 billion over ore milled of 9.4 million tonnes, 4% higher compared to 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 2010, the total operating cost per tonne of ore milled was P686 from the total operating cost of P6.426 billion, 2% lower than the 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 gold produced, operating cost before copper revenue credits was $1,082 per ounce in 2010 compared to $1,056 per ounce in 2009. After copper revenue credit, the corresponding cost per ounce was $92 in 2010 compared to $404 in 2009. On the other hand, operating cost per pound of copper produced before gold revenue credit was $4.06 per pound in 2010 compared to $3.72 per pound in 2009. After gold revenue credit, cost per pound was negative $0.59 in 2010 versus $0.33 in 2009.

In 2011, the projected total production cost per tonne is P561 from the total production cost of P5.066 billion, while the budgeted operating cost per tonne is P709 from the total operating cost of P6.403 billion. The budgeted operating cost per ounce of gold produced is $1,257 per ounce before copper revenue credits, but after copper revenue credits is $227 per ounce. On the other hand, the budgeted operating cost per pound of copper produced is $4.10 per pound before gold revenue credits, but after gold revenue credits is negative $0.30 per pound.

Basic /Diluted Earnings Per Share

The basic earnings per share reflect the Net income attributable to equity holders of the Parent 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 2010 was P0.806 per share based on the 4,914,719,911 weighted average shares outstanding for the period. The basic earnings per share in 2009 was P0.581 per share based on the 4,867,306,154 weighted average shares outstanding for the period.

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

Known Trends, Events or Uncertainties

On February 24, 2011, Pitkin raised $19.6 million of funds by way of a share placement in order to advance its business plan and for new opportunities. Pitkin issued 15.7 million new ordinary shares at US$1.25 per share giving the Pitkin an implied equity capitalization of US$162.5 million following completion of the transaction. As a result, PPC's ownership interest in Pitkin was reduced from 21.00% to 18.46%.

On February 23, 2011, the Board of Directors of the Parent Company approved the declaration of cash dividends amounting to P0.16 per share to all stockholders of record as of March 10, 2011 based on 25% of second half core net income.

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 IV, Exhibits and Schedules.

Item 8. Information on Independent Accountants and other Related Matters

External Audit Fees and Services

Audit and Audit-Related Fees

For 2010 and 2009, the audit was basically 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 P5.960 million for 2010 and P5.345 million for 2009.

Tax Fees

In 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 2006 income tax return. The external auditors' tax group was also engaged to perform a tax compliance review on the Company's position, practices and procedures in relation to specific tax laws, regulations and rulings in 2008. The tax fees for these engagements were P2.3 million in 2009 and P300 thousand in 2008.

All Other Fees

There were no other services rendered by the external auditors other than the usual audit services as mentioned above.

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 substitution of the previous audit engagement partner, Mr. Aldrin M. Cerrado, by Mr. Martin C. Guantes, as the new audit engagement partner, of SGV starting the 2008 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 - 64, 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 23, 2010. 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.

MARILYN A. VICTORIO-AQUINO – 55, Filipino citizen. She has been a Director of the Company and PGPI since December 7, 2009 and re-elected on June 23, 2010. She joined Sycip Salazar Hernandez and Gatmaitan Law Offices in 1980 and became partner since 1989.

NELSON B. BAYOT – 71, Filipino citizen. He has been a Director of the Company since March 5, 2010 and was re-elected on June 23, 2010. He was a Director of the Philippine National Oil Company (PNOC) from 2001 to 2006 and was Presiding Judge of the Regional Trial Court (Pasay City) from October 1994 to May 2001. He is an Independent Director of the Company since his initial election, having possessed the required qualifications.

EMILIO S. DE QUIROS, JR. - 62, Filipino citizen. He was elected as Director of the Company and PGPI on November 23, 2010. 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 – 73, Filipino citizen. He has been a Director of the Company since December 7, 2009 and was re-elected on June 23, 2010. 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 - 55, British citizen. He has been a Director of the Company and PGPI since November 28, 2008 and was re-elected on June 23, 2010. 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.

JUAN B. SANTOS - 72, Filipino citizen. Vice-Chairman. He was elected as Director of the Company and PGPI on September 28, 2010. Hi 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 – 71, American citizen. He has been a Director of the Company and PGPI since December 7, 2009 and was re-elected on June 23, 2010. 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. – 71, Filipino citizen. President & Chief Operating Officer effective July 26, 2005 to present. He was Executive Vice President & Chief Operating Officer from August 1, 2004 up to July 25, 2005. He has been a Director of the Company since 2004 and was re-elected on June 23, 2010. 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.

Ambassador Albert F. Del Rosario, 71, Filipino citizen, had been a Director of the Company and PGPI from December 7, 2009 up to March 25, 2011 when he resigned to join the Philippine government services as Acting Secretary of Foreign Affairs.

Executive Officers

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

MANUEL V. PANGILINAN - 64, 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.

JOSE ERNESTO C. VILLALUNA, JR. – 71, Filipino citizen. President & Chief Operating Officer since July 26, 2005. He was Executive Vice President & Chief Operating Officer from August 1, 2004 up to July 25, 2005. He is also the President and Chief Operating Officer of PGPI, President and Chief Executive Officer of FEC Resources, Inc., President of 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.

RENATO N. MIGRIÑO – 61, 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 – 56, 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.

EULALIO B. AUSTIN, JR. – 49, Filipino citizen. Senior Vice President for Operations and Padcal Resident Manager since November 1, 2010, previously 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.

EDGARDO C. CRISOSTOMO – 61, 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 – 49, 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.

REDEMPTA P. BALUDA – 55, 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 – 46, 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 – 34, 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.

ENRIQUE C. RODRIGUEZ, JR. – 51, 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.

GUADAFLOR C. MALONZO – 79, Filipino citizen. Assistant Corporate Secretary since 1972 to present. He is a director and Corporate Secretary of Philex Gold Holding, Inc. He is a director of Fidelity Stock Transfer, Inc. and also the Assistant Corporate Secretary of PGPI.

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 28.b of the Notes to the Consolidated Financial Statements of the Exhibits in Part IV, Item 13 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 ₱8,000 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 2010, 2009 and 2008 amounted to P31.7 million , P49.1 million and P79.6 million, respectively.

Other than the previous Chairman and Chief Executive Officer 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 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 IV, Item 13 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
2011 (Estimated)	P 88,426
2010	P 66,670
2009	P 206,190
2008	P 120,408

OFFICERS

NAME	POSITION
Manuel V. Pangilinan	*Chairman & CEO*
Jose Ernesto C. Villaluna, Jr.	*President & COO*
Renato N. Migriño	*Treasurer, CFO and SVP - Finance*
Barbara Anne C. Migallos	*Corporate Secretary*
Eulalio B. Austin, Jr.	*SVP - Operations & Padcal Resident Manager*
Edgardo C. Crisostomo	*SVP - Materials Mgmt. & Corporate Office Administration*
Benjamin Deodato R. Garcia	*SVP - Human Resource*
Redempta P. Baluda	*VP - Exploration*
Victor A. Francisco	*VP- Environment & Community Relations*
Denis Ricardo G. Lucindo	*VP - Business Development*
Enrique C. Rodriguez, Jr.	*VP - Legal*
Guadaflor C. Malonzo	*Assistant Corporate Secretary*

	Total Officers'	
Year	Salary	Bonus
2011 (Estimated)	P 32,640	P 16,320
2010	P 24,351	P 40,062
2009	P 27,420	P 42,403
2008	P 23,239	P 35,630

ALL DIRECTORS & OFFICERS AS A GROUP

Year	Total Amount
2011 (Estimated)	P 137,386
2010	P 131,083
2009	P 276,013
2008	P 179,277

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, 2010 follows:

Title of Class	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Amount of Ownership	%
Common	Asia Link B.V. *Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands* *Stockholder*	First Pacific Company Limited See Note 1 below.	Netherlands	1,542,589,352	31.34
Common	Two Rivers Pacific Holdings Corp. *10/F MGO Building, Legazpi corner de la Rosa Streets, Legazpi Village, Makati City* *Stockholder*	Two Rivers Pacific Holdings Corp. See Note 2 below.	Filipino	738,871,510 (Inclusive of 286,783,350 shares acquired from the Government Service Insurance System (GSIS) under a Conditional Sale Agreement dated January 21, 2010. Two Rivers holds the proxy of GSIS, which remains the registered owner.)	15.01
Common	Social Security System *East Avenue, Quezon City* *Stockholder*	Social Security System, See Note 3 below.	Filipino	1,093,761,951	22.22
Common	PCD Nominee Corp. *G/F MSE Building, 6767 Ayala Ave., Makati City.* *Stockholder*	See Note 4 below.	Filipino	638,872,338	12.98

[1] 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. The other 519,313,362 shares under First Pacific were lodged with the PCD Nominee Corporation as the record owner as of December 31, 2010. First Pacific is represented by Messrs. Manuel V. Pangilinan, Robert C. Nicholson and Edward A. Tortorici on the Company's Board of Directors.

[2] Two Rivers Pacific Holdings Corporation, is represented by Mr. Albert F. del Rosario (up to March 25, 2011) and Ms. Marilyn A. Victorio-Aquino on the Company's Board of Directors.

[3] The total shares held by the Social Security System (SSS) presented above is inclusive of 617,221,075 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. currently represent the SSS in the Company as members of the Board of Directors.

[4] 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 638,872,338 shares shown above as of December 31, 2010 are exclusive of the following participants under the PCD account that own more than 5% of the voting securities of the Company: (1) First Pacific Company Limited which has 519,313,362 shares or about 10.55%, and (3) Social Security System which has 617,221,075 or about 12.54% included as part of their total holdings 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.

[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, 2010 follows:

Title of Class	Name of Beneficial Owner	Nature of Ownership	Number of Shares	Citizenship	%
Common	Manuel V. Pangilinan	Direct	2,011,250	Filipino	0.041%
Common	Marilyn A. Victorio-Aquino	Direct	100	Filipino	0.000%
Common	Nelson B. Bayot	Direct	1	Filipino	0.000%
Common	Emilio S. De Quiros, Jr.	Direct	1	Filipino	0.000%
Common	Albert F. Del Rosario[1]	Direct	675,100	Filipino	0.014%
Common	Oscar J. Hilado	Direct	100	Filipino	0.000%
Common	Robert C. Nicholson	Direct	1,250	British	0.000%
Common	Juan B. Santos	Direct	1	Filipino	0.000%
Common	Edward A. Tortorici	Direct	300,100	American	0.006%
Common	Jose Ernesto C. Villaluna, Jr.	Direct	6,768,750	Filipino	0.138%
Common	Renato N. Migriño	Direct	950,000	Filipino	0.019%
Common	Barbara Anne C. Migallos	Direct	423,875	Filipino	0.009%
Common	Eulalio B. Austin, Jr.	Direct	56	Filipino	0.000%
Common	Edgardo C. Crisostomo		0	Filipino	0.000%
Common	Benjamin Deodato R. Garcia	Direct	67,000	Filipino	0.001%
Common	Redempta P. Baluda	Direct	307,220	Filipino	0.006%
Common	Victor A. Francisco	Direct	155,000	Filipino	0.003%
Common	Denis Ricardo G. Lucindo		0	Filipino	0.000%
Common	Enrique C. Rodriguez, Jr.	Direct	615,000	Filipino	0.012%
Common	Guadaflor C. Malonzo	Direct	194,523	Filipino	0.004%
Directors and Officers as a Group			12,469,327		0.253%

[1]Resigned effective March 25, 2011

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. 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.

b. Non-interest-bearing cash advances amounting to P932.7 million and P879.0 million as of December 31, 2010 and 2009, 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.

c. 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.

d. Up to 2008, the Company and PGPI were reimbursed by Anglo for the advances made to SMMCI, while advances pertaining to the other joint venture company, Northern Luzon Exploration & Mining Co. Inc., continue to be reimbursed by Anglo to the Company to date. Total reimbursements amounted to P1.3 million in 2010, P7.1 million in 2009 and P4.1 million in 2008. As of December 31, 2010 and 2009, the Company's receivables from these transactions amounted to P3.3 billion and P2.0 billion, respectively, while PGPI's receivables as of December 31, 2010 and 2009 amounted to P8.1 million and P 7.1 million, respectively. In 2008, PGPI's receivables amounted to P4.1 million that was fully collected in 2009. PGPI also has an outstanding liability to SMMCI as of December 31, 2009 and 2008 amounting to P500 thousand.

e. The Company made non-interest-bearing cash advances to PPC amounting to P635.9 million and P573.3 million as of December 31, 2010 and 2009, 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 P139.2 million and P119.8 million as of December 31, 2010 and 2009, respectively, for funding of its exploration and development activities.

g. In April 2010, the Parent Company sold $20 million to First Pacific Company Limited at the forward rate of P45.03 per dollar in converting part of the Company's dollar fund for routine working capital requirement.

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 the 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.

Note 21 of the Notes to Consolidated Financial Statements of the Exhibits in Part IV, Item 13 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 2010 and 2009 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 in the Securities.

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, 2010
Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)
Schedule E. Other Assets
Schedule F. Long Term Debt
Schedule I. Capital Stock
Reconciliation of Retained Earnings Available for Dividends Declaration

(b) Reports on SEC Form 17-C

There were nineteen (17) reports filed by the Company on SEC Form 17-C during the last six months in 2010 covered by this report, part of which follows:

Report Date	Item Reported
November 25, 2010	Announcement made by Forum Energy plc, a 64.45%-controlled subsidiary of the Company through Philex Petroleum Corporation, on the US$10 million loan facility being provided by the Company to Forum's wholly-owned subsidiary, Forum Philippines Holdings Ltd., for the Service Contract 72 work Programme.
November 23, 2010	Resignation of Mr. Sergio Ortiz-Luis, Jr. as member of the Board of Directors of the Company effective December 31, 2010; approval of the promotion of Messrs. Renato N. Migriño, Edgardo C. Crisostomo and Eulalio B. Austin, Jr. to the rank of Senior Vice President effective November 1, 2010 and the confirmation of the appointment of Mr. Benjamin R. Garcia as Senior Vice President for Human Resource effective November 3, 2010;

	and election of Mr. Emilio S. de Quiros, Jr. as member of the Company's Board of Directors at the special stockholders' meeting held on November 23, 2010.
October 26, 2010	Submission of the Company's unaudited financial results for the third quarter and nine months ended September 30, 2010.
September 28, 2010	Approval by the Company's Board of Directors of a resolution to call a special stockholders' meeting on November 23, 2010, to fill up the vacancy due to the expiration of the term of Mr. Romulo L. Neri, a former director of the Company.
September 28, 2010	Election of Mr. Juan B. Santos as member of the Company's Board of Directors, vice Mr. Thelmo Y. Cunanan whose resignation was disclosed on August 31, 2010.
September 24, 2010	Transfer of the Company's energy assets to its wholly-owned subsidiary, Philex Petroleum Corporation.
August 31, 2010	Submission of the Summary of Proved Reserves and Remaining Mineral Resource of the Padcal Mine as of June 30, 2010 furnished to the Philippine Stock Exchange.
	Resignation of Mr. Thelmo Y. Cunanan as Vice Chairman and member of the Company's Board of Directors effective August 31, 2010.
August 5, 2010	Submission of the Company's unaudited financial results for the six months ended June 30, 2010
August 4, 2010	Declaration of a cash dividend of five centavos (P0.05) for record date of August 18, 2010 and payment date of September 13, 2010

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 13, 2011.

MANUEL V. PANGILINAN
Chairman & Chief Executive Officer

JOSE ERNESTO C. VILLALUNA, 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 14th day of April 2011 at Pasig City. Affiants exhibiting to me their respective Community Tax Certificates with the number, place and date of issue indicated opposite their names:

Name	Community Tax Certificate No.	Date Issued	Place Issued	SSS ID #
Manuel V. Pangilinan	05941695	Jan. 10, 2011	Makati City	03-1881608-3
Jose Ernesto C. Villaluna, Jr.	20084665	Mar. 25, 2011	Quezon City	06-0113754-7
Renato N. Migriño	20781335	Mar. 18, 2011	Parañaque City	03-1950823-5
Barbara Anne C. Migallos	05941210	Jan. 10, 2011	Makati City	03-5864202-6
Paraluman M. Navarro	14087449	Mar. 01, 2011	Cainta, Rizal	33-1139186-1

ARVIN A. BARRIENTOS
NOTARY PUBLIC FOR AND IN THE CITY OF PASIG
APPOINTMENT NO. M-103 (2010-2011)
COMMISSION EXPIRES ON DECEMBER 31, 2011
No. 27 Brixton Street
Barangay Kapitolyo, Pasig City 1600
PTR No. 6647285; 1-11-11; Pasig City
IBP Lifetime No. 08800; Rizal Chapter
ROLL NO. 51169, MAY 2005

Doc. No. 326
Page No. 67
Book No. I
Series of 2011

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 all information and representations contained in the consolidated financial statements for the years ended December 31, 2010 and 2009. These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

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

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

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

Subscribed and sworn to............

Subscribed and sworn to before me this APR 14 2011 at Pasig City, affiants exhibiting to me their respective Social Security System (SSS) number indicated opposite their names:

Name	**SSS ID No**
Manuel V. Pangilinan	03-1881608-3
Jose Ernesto C. Villaluna, Jr.	06-0113754-7
Renato N. Migriño	03-1950823-5

ATTY. LUCILA M. LAWAS-YUTOK
Notary Public
686-B Shaw Blvd. Kapitolyo, Pasig City Tel No 492-6473
Until December 31, 2012
PTR No 6616206 issued on 01-04-11 at Pasig City
IBP No. 858112, issued on 03-10-11 at Pasig City
TIN No 162-942-995-000
Roll No. 28494
MCLE Compliance No. I-0006299

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Page No. 102
Book No. 69
Series of 2 0 1 1

COVER SHEET

1 0 0 4 4

SEC Registration Number

PHILEX MINING CORPORATION
AND SUBSIDIARIES

RECEIVED
APR 14 2011
EXCISE TAXPAYERS REGULATORY DIV.

(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
Month *Day*
(Calendar Year)

A A C F S
(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

45,607
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation

We have audited the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information. We did not audit the December 31, 2009 and 2008 financial statements of Forum Energy plc and its subsidiaries whose financial statements reflected total assets comprising 9.1% of the related consolidated totals as of December 31, 2009, and reduced the consolidated net income by 6.5% and 2.7% for the years ended December 31, 2009 and 2008, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Forum Energy plc and its subsidiaries is based solely on the reports of the other auditors as of and for the years ended December 31, 2009 and 2008.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained and the reports of the other auditors in 2009 and 2008 are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors in 2009 and 2008, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010, in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.

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

February 23, 2011

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱3,782,248**	₱2,881,115
Accounts receivable (Notes 7 and 21)	**2,180,432**	517,115
Inventories (Note 8)	**1,093,636**	1,146,219
Derivative assets (Note 18)	**–**	19,975
Other current assets (Note 9)	**694,625**	457,845
Total Current Assets	**7,750,941**	5,022,269
Noncurrent Assets		
Property, plant and equipment (Note 10)	**5,095,029**	4,668,892
Available-for-sale (AFS) financial assets (Note 11)	**886,737**	756,948
Investments in shares of stock (Notes 11 and 26)	**833,355**	1,136,755
Goodwill (Note 4)	**258,593**	258,593
Deferred income tax assets - net (Note 22)	**–**	43
Deferred exploration costs and other noncurrent assets (Notes 1, 12 and 16)	**10,828,065**	9,534,913
Total Noncurrent Assets	**17,901,779**	16,356,144
TOTAL ASSETS	**₱25,652,720**	₱21,378,413
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term bank loan (Note 13)	**₱150,000**	₱–
Accounts payable and accrued liabilities (Note 14)	**968,506**	866,890
Income tax payable	**856,954**	2,243
Dividends payable (Note 23)	**207,875**	168,856
Provisions and subscriptions payable (Notes 11 and 28)	**128,335**	115,736
Total Current Liabilities	**2,311,670**	1,153,725
Noncurrent Liabilities		
Provision for mine rehabilitation costs (Note 10)	**31,709**	33,700
Net retirement benefits liability (Note 16)	**–**	30,324
Provision for losses (Note 28)	**538,141**	500,808
Deferred income tax liabilities - net (Notes 4 and 22)	**2,013,230**	1,976,321
Total Noncurrent Liabilities	**2,583,080**	2,541,153
Total Liabilities	**4,894,750**	3,694,878

(Forward)

	December 31	
	2010	2009
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (held by 45,607 and 46,055 equity holders in 2010 and 2009, respectively) (Note 23)	**₱4,922,131**	₱4,900,605
Additional paid-in capital	**812,378**	774,494
Retained earnings (Note 23)	**12,716,722**	9,441,593
Net unrealized gain on AFS financial assets (net of related deferred income tax of ₱158,181 and ₱169,113 in 2010 and 2009, respectively) (Notes 11 and 22)	**419,404**	445,277
Cumulative translation adjustments (net of related deferred income tax of ₱32,002 and ₱145,085 in 2010 and 2009, respectively) (Notes 18 and 22)	**(66,174)**	(231,617)
Net revaluation surplus (Note 4)	**1,611,397**	1,611,397
Effect of transactions with non-controlling interests (Note 2)	**106,027**	41,536
	20,521,885	16,983,285
Non-controlling Interests (Note 23)	**236,085**	700,250
Total Equity	**20,757,970**	17,683,535
TOTAL LIABILITIES AND EQUITY	**₱25,652,720**	₱21,378,413

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2010	2009	2008
REVENUE (Notes 7, 18 and 27)			
Gold	**₱7,208,532**	₱5,108,322	₱5,363,774
Copper	**5,721,373**	3,741,625	4,259,135
Silver	**134,553**	82,939	85,128
	13,064,458	8,932,886	9,708,037
Less marketing charges	**714,018**	677,002	669,212
	12,350,440	8,255,884	9,038,825
Petroleum	**298,449**	85,074	9,330
Coal	**31,062**	37,024	–
	12,679,951	8,377,982	9,048,155
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 15)	**4,966,704**	4,524,193	4,164,353
Mine products taxes and royalties (Note 15)	**712,536**	487,225	578,062
General and administrative expenses (Note 15)	**664,698**	848,930	537,027
Petroleum production costs	**189,471**	75,725	15,973
Handling, hauling and storage	**62,159**	54,471	65,915
Cost of coal sales	**19,422**	22,392	–
	6,614,990	6,012,936	5,361,330
OTHER INCOME (CHARGES)			
Loss on dilution of interest in an associate (Note 11)	**(119,804)**	–	–
Foreign exchange gains (losses) - net	**(96,485)**	(68,875)	238,430
Equity in net earnings (losses) of associates - net (Note 11)	**(37,594)**	(72,624)	10,113
Interest income (Note 6)	**27,133**	188,124	153,850
Interest expense (Notes 10 and 13)	**(20,898)**	(108,047)	(53,543)
Gain (loss) on disposal of property and equipment (Note 10)	**(2,009)**	(1,698)	5,656
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	–	765,897	–
Gain on disposal of AFS financial assets (Note 11)	–	126	84,565
Others - net (Notes 11, 12, 18 and 28)	**(131,242)**	434,032	(855,676)
	(380,899)	1,136,935	(416,605)
INCOME BEFORE INCOME TAX	**5,684,062**	3,501,981	3,270,220

(Forward)

	Years Ended December 31		
	2010	2009	2008
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)			
Current	**₱1,804,632**	₱457,514	₱491,376
Deferred	**(65,199)**	309,098	(21,549)
	1,739,433	766,612	469,827
NET INCOME	**₱3,944,629**	₱2,735,369	₱2,800,393
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱3,963,201**	₱2,830,309	₱2,892,887
Non-controlling interests (Note 23)	**(18,572)**	(94,940)	(92,494)
	₱3,944,629	₱2,735,369	₱2,800,393
BASIC EARNINGS PER SHARE (Note 25)	**₱0.806**	₱0.581	₱0.666
DILUTED EARNINGS PER SHARE (Note 25)	**₱0.805**	₱0.581	₱0.665

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱3,944,629**	₱2,735,369	₱2,800,393
OTHER COMPREHENSIVE INCOME (LOSS)			
Realized loss (gain) on fair value of hedging instruments transferred to the consolidated statements of income (Note 18)	**263,756**	(3,242)	175,198
Gain (loss) on translation of foreign subsidiaries	**(186,466)**	71,738	35,072
Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)	**(25,873)**	433,937	(46,144)
Revaluation surplus from acquisition of subsidiaries (Note 4)	–	1,572,385	39,012
Realized loss (gain) on disposal of AFS financial assets transferred to the consolidated statements of income (Note 11)	–	9,613	(127,247)
Adjustments on fair valuation of subsidiaries' net assets (Note 4)	–	–	(904,717)
Unrealized loss on AFS financial asset, net of related deferred income tax, removed from equity and transferred to the consolidated statements of income (Note 11)	–	–	30,716
	51,417	2,084,431	(798,110)
TOTAL COMPREHENSIVE INCOME	**₱3,996,046**	₱4,819,800	₱2,002,283
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱4,102,771**	₱4,914,740	₱2,999,494
Non-controlling interests (Note 23)	**(106,725)**	(94,940)	(997,211)
	₱3,996,046	₱4,819,800	₱2,002,283

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

(Amounts in Thousands, Except Par Value Per Share)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings (Note 23)	Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11 and 22)	Cumulative Translation Adjustments (Notes 18 and 22	Net Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Non-controlling Interests (Note 2)	Subtotal	Non-controlling Interests (Note 23)	Total
BALANCES AT DECEMBER 31, 2007	**₱2,968,571**	**₱102,306**	**₱5,582,293**	**₱144,402**	**(₱510,383)**	**₱–**	**(₱339)**	**₱–**	**₱8,286,850**	**₱155,130**	**₱8,441,980**
Net income (loss)	–	–	2,892,887	–	–	–	–	–	2,892,887	(92,494)	2,800,393
Other comprehensive income (loss):											
Realized loss on fair value of hedging instruments transferred to the consolidated statement of income (Note 18)	–	–	–	–	175,198	–	–	–	175,198	–	175,198
Gain on translation of foreign subsidiaries	–	–	–	–	35,072	–	–	–	35,072	–	35,072
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	(46,144)	–	–	–	–	(46,144)	–	(46,144)
Revaluation surplus from acquisition of subsidiaries (Note 4)	–	–	–	–	–	39,012	–	–	39,012	–	39,012
Realized gain on disposal of AFS financial assets transferred to the consolidated statement of income (Note 11)	–	–	–	(127,247)	–	–	–	–	(127,247)	–	(127,247)
Adjustments on fair valuation of subsidiaries' net assets (Note 4)	–	–	–	–	–	–	–	–	–	(904,717)	(904,717)
Unrealized loss on AFS financial asset, net of related deferred income tax, removed from equity and transferred to the consolidated statement of income (Note 11)	–	–	–	30,716	–	–	–	–	30,716	–	30,716
Total comprehensive income (loss)	–	–	2,892,887	(142,675)	210,270	39,012	–	–	2,999,494	(997,211)	2,002,283
Issuance of additional shares of stock (Note 23)	21,286	32,098	–	–	–	–	–	–	53,384	–	53,384
Increase in additional paid-in capital due to stock option plan (Note 23)	–	43,190	–	–	–	–	–	–	43,190	–	43,190

(Forward)

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings (Note 23)	Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11 and 22)	Cumulative Translation Adjustments (Notes 18 and 22	Net Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Non-controlling Interests (Note 2)	Subtotal	Non-controlling Interests (Note 23)	Total
Declaration of 30% stock dividend during the year (Note 23)	₱890,994	₱–	(₱890,994)	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Buyback of treasury stock (Note 23)	–	–	–	–	–	–	(5,621,956)	–	(5,621,956)	–	(5,621,956)
Reissuance of treasury stock (Note 23)	–	504,155	–	–	–	–	5,622,295	–	6,126,450	–	6,126,450
Increase in non-controlling interests (Note 23)	–	–	–	–	–	–	–	–	–	1,482,680	1,482,680
BALANCES AT DECEMBER 31, 2008	**3,880,851**	**681,749**	**7,584,186**	**1,727**	**(300,113)**	**39,012**	**–**	**–**	**11,887,412**	**640,599**	**12,528,011**
Net income (loss)	–	–	2,830,309	–	–	–	–	–	2,830,309	(94,940)	2,735,369
Other comprehensive income (loss):											
Realized gain on fair value of hedging instruments transferred to the consolidated statement of income (Note 18)	–	–	–	–	(3,242)	–	–	–	(3,242)	–	(3,242)
Gain on translation of foreign subsidiaries	–	–	–	–	71,738	–	–	–	71,738	–	71,738
Unrealized gain on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	433,937	–	–	–	–	433,937	–	433,937
Revaluation surplus from acquisition of subsidiaries (Note 4)	–	–	–	–	–	1,572,385	–	–	1,572,385	–	1,572,385
Realized loss on disposal of AFS financial assets transferred to the consolidated statement of income (Note 11)	–	–	–	9,613	–	–	–	–	9,613	–	9,613
Total comprehensive income (loss)	–	–	2,830,309	443,550	68,496	1,572,385	–	–	4,914,740	(94,940)	4,819,800
Issuance of additional shares of stock (Note 23)	46,852	64,080	–	–	–	–	–	–	110,932	–	110,932
Increase in additional paid-in capital due to stock option plan (Note 23)	–	28,665	–	–	–	–	–	–	28,665	–	28,665
Declaration of 25% stock dividend during the year (Note 23)	972,902	–	(972,902)	–	–	–	–	–	–	–	–
Increase in non-controlling interests (Note 23)	–	–	–	–	–	–	–	–	–	154,591	154,591
Acquisition of shares of stock of non-controlling interest in a subsidiary (Note 2)	–	–	–	–	–	–	–	41,536	41,536	–	41,536

(Forward)

	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings (Note 23)	Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11 and 22)	Cumulative Translation Adjustments (Notes 18 and 22)	Net Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Non-controlling Interests (Note 2)	Subtotal	Non-controlling Interests (Note 23)	Total
	Equity Attributable to Equity Holders of the Parent Company										
BALANCES AT DECEMBER 31, 2009	**₱4,900,605**	**₱774,494**	**₱9,441,593**	**₱445,277**	**(₱231,617)**	**₱1,611,397**	**₱–**	**₱41,536**	**₱16,983,285**	**₱700,250**	**₱17,683,535**
Net income (loss)	–	–	3,963,201	–	–	–	–	–	3,963,201	(18,572)	3,944,629
Other comprehensive income (loss):											
Realized loss on fair value of hedging instruments transferred to the consolidated statement of income (Note 18)	–	–	–	–	263,756	–	–	–	263,756	–	263,756
Loss on translation of foreign subsidiaries	–	–	–	–	(98,313)	–	–	–	(98,313)	(88,153)	(186,466)
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	(25,873)	–	–	–	–	(25,873)	–	(25,873)
Total comprehensive income (loss)	–	–	3,963,201	(25,873)	165,443	–	–	–	4,102,771	(106,725)	3,996,046
Increase in additional paid-in capital due to exercise of stock option (Note 23)	21,526	35,841	–	–	–	–	–	–	57,367	–	57,367
Increase in additional paid-in capital due to stock option plan (Note 23)	–	2,043	–	–	–	–	–	–	2,043	–	2,043
Declaration of ₱0.14 per share cash dividend during the year (Note 23)	–	–	(688,072)	–	–	–	–	–	(688,072)	–	(688,072)
Acquisitions of shares of stock of non-controlling interests in subsidiaries (Note 2)	–	–	–	–	–	–	–	(256,039)	(256,039)	(36,910)	(292,949)
Deemed acquisitions of shares of stock of non-controlling interests in subsidiaries (Note 2)	–	–	–	–	–	–	–	320,530	320,530	(320,530)	–
BALANCES AT DECEMBER 31, 2010	**₱4,922,131**	**₱812,378**	**₱12,716,722**	**₱419,404**	**(₱66,174)**	**₱1,611,397**	**₱–**	**₱106,027**	**₱20,521,885**	**₱236,085**	**₱20,757,970**

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱5,684,062**	₱3,501,981	₱3,270,220
Adjustments for:			
Depletion and depreciation (Notes 10, 15 and 29)	**887,868**	736,622	705,627
Unrealized foreign exchange losses (gains) and others - net	**470,194**	(531,919)	539,375
Loss on dilution of interest in an associate (Note 11)	**119,804**	–	–
Provision for net retirement benefits cost (Note 16)	**65,268**	88,172	86,179
Equity in net losses (earnings) of associates - net (Note 11)	**37,594**	72,624	(10,113)
Interest income (Note 6)	**(27,133)**	(188,124)	(153,850)
Interest expense (Notes 10 and 13)	**20,898**	108,047	53,543
Dividend income	**(2,823)**	–	–
Stock-based compensation expense	**2,043**	28,665	43,190
Loss (gain) on disposal of property and equipment	**2,009**	1,698	(5,656)
Excess of acquirer's interest in the fair value of identifiable net assets acquired over the cost of business combination (Note 4)	**–**	(765,897)	–
Gain on disposal of AFS financial assets (Note 11)	**–**	(126)	(84,565)
Impairment loss on AFS financial assets (Note 11)	**–**	–	226,979
Operating income before working capital changes	**7,259,784**	3,051,743	4,670,929
Decrease (increase) in:			
Accounts receivable	**(1,762,965)**	(135,711)	1,761,860
Inventories	**50,106**	116,199	(358,467)
Derivative assets	**19,975**	(19,975)	–
Other current assets	**(215,369)**	228,160	(90,829)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**190,488**	(243,290)	81,188
Derivative liabilities	**–**	(478,836)	16,450
Cash generated from operations	**5,542,019**	2,518,290	6,081,131
Income taxes paid	**(949,921)**	(357,067)	(507,401)
Retirement benefits contributions (Note 16)	**(96,000)**	(138,000)	(132,000)
Interest received	**29,142**	225,635	103,812
Interest paid	**(18,417)**	(116,170)	(52,273)
Net cash from operating activities	**4,506,823**	2,132,688	5,493,269
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Note 10)	**(1,397,949)**	(1,480,152)	(968,259)
AFS financial assets	**(24,664)**	(170,500)	(100,327)
Investments in shares of stock (Note 11)	**(775)**	(742,686)	(100,327)

(Forward)

	Years Ended December 31		
	2010	2009	2008
Increase in deferred exploration costs and other noncurrent assets	**(₱1,223,377)**	(₱841,417)	(₱426,059)
Acquisition of additional interests in the following subsidiaries:			
Philex Gold Inc. (Note 2)	**(256,039)**	–	–
Forum Energy plc (Note 2)	**(36,910)**	–	–
Philex Petroleum Corporation (Note 2)	**–**	(172,704)	–
Payment of subscriptions payable (Note 11)	**(32,921)**	–	(28,524)
Net proceeds from sales of:			
Property, plant and equipment	**8,195**	596	50,487
Investments in shares of stock	**–**	–	248,138
AFS financial assets	**–**	–	103,116
Dividends received	**8,468**	5,645	–
Purchase of receivables from Anglo American Exploration (Philippines) B.V. (Note 4)	**–**	(1,288,416)	–
Acquisition of non-cash net assets of:			
Silangan Mindanao Exploration Co., Inc. (Note 4)	**–**	(783,762)	–
Silangan Mindanao Mining Co., Inc. (Note 4)	**–**	(392,352)	–
Forum Energy plc (Note 4)	**–**	–	(393,480)
Net cash used in investing activities	**(2,955,972)**	(5,865,748)	(1,762,654)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of short-term bank loans (Note 13)	**1,527,845**	711,703	4,042,596
Exercise of stock options (Note 23)	**57,367**	110,932	53,384
Reissuance of treasury shares (Note 23)	**–**	–	6,126,450
Payments of:			
Short-term bank loans (Note 13)	**(1,377,845)**	(4,750,903)	(268,028)
Dividends (Note 23)	**(649,053)**	(4,445)	(44,496)
Payments for buyback of treasury shares (Note 23)	**–**	–	(5,621,956)
Net cash from (used in) financing activities	**(441,686)**	(3,932,713)	4,287,950
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(208,032)**	(166,218)	64,233
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**901,133**	(7,831,991)	8,082,798
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,881,115**	10,713,106	2,630,308
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱3,782,248**	₱2,881,115	₱10,713,106

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Corporate Information

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

Philex Mining Corporation (the Parent Company) was incorporated in the Philippines and is listed in the Philippine Stock Exchange. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary through a holding company and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary through a holding company and PGPI, and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co., Inc. (SMMCI) are primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. SMECI, through SMMCI, owns the Silangan Project covering the Boyongan and Bayugo deposits which are currently under the prefeasibility stage.

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

The foregoing companies are collectively referred to as the "Group" (see Note 2) whose income is derived mainly from the Padcal Mine. Income from petroleum and coal and other sources are relatively insignificant.

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

Business Operations

Padcal Mine Operations

The Parent Company currently has the Padcal Mine as its only operating segment. The Padcal Mine is on its 53rd year of operation producing gold, copper and silver as principal products.

BEMC

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

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

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

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

The Group's ability to realize its deferred mine and oil exploration costs amounting to ₱10,789,502 and ₱9,474,214 as of December 31, 2010 and 2009, respectively (see Note 12), depends on the success of exploration and development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issue of the Financial Statements
The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on February 23, 2011.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories and materials and supplies that are measured at net realizable value (NRV), and for AFS financial assets and derivative financial instruments that are measured at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional and reporting currency, rounded to the nearest thousand, except when otherwise indicated.

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

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new and amended accounting standards that became effective beginning January 1, 2010:

- PFRS 3, *Business Combinations (Revised)*, and Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements (Amended)*, introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

  PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the PFRS 3 (Revised) must be applied prospectively and PAS 27 (Amended) must be applied retrospectively with a few exceptions.

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

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

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

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

- PFRS 2, *Share-based Payments (Amendment) - Group Cash-settled Share-based Payment Transactions*
- PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

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

Issued in May 2008
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*

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

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

Summary of Significant Accounting Policies

<u>Basis of Consolidation</u>

Basis of consolidation starting January 1, 2010

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

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

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

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

Basis of consolidation prior to January 1, 2010

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

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

Subsidiaries	Nature of Business
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines to serve as an intermediary holding company through which its subsidiaries and the Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owns 100% of the outstanding shares of PGPI effective April 27, 2010.
Philippines Gold Mining Company B.V. (PGMC-BV)	Incorporated in The Netherlands, as previously the intermediary holding company of PGI.
Philex Gold Inc. (PGI)	Incorporated in Canada and previously owns 100% of the outstanding shares of PGPI.
PGPI	Incorporated in the Philippines as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both now on care and maintenance status. Currently owns 50% effective interest in SMMCI through SMECI.
LMC	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, principally the Lascogon Project in Surigao.
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources; currently the holding company of SMMCI.
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.
PPC	Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, oil and other sources of energy.
FEP	A United Kingdom (UK)-based oil and gas exploration and production company registered in England and Wales, with focus on the Philippines and whose shares are listed in the Alternative Investment Market of the London Stock Exchange.
FEC	Incorporated under the laws of Alberta, Canada and is engaged primarily in the business of exploration and development of oil and gas and other mineral related opportunities, either directly or indirectly through companies in which FEC invests.
BEMC	Incorporated in the Philippines on July 19, 2005 to engage in exploration, development and utilization of energy-related resources.
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines to act as a stock transfer agent and/or registrar of client corporations.

(Forward)

Subsidiaries	Nature of Business
Philex Land, Inc. (PLI)	Incorporated in the Philippines to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures.
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently under dormant status.

The ownership of the Parent Company over the foregoing companies in 2010 and 2009 is summarized as follows:

As of December 31, 2010:

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

As of December 31, 2009:

	Percentages of Ownership	
	Direct	Indirect
PGHI	100.0	–
PGMC-BV	–	100.0
PGI	–	81.0
PGPI	–	100.0
LMC	–	60.0
SMECI	–	60.0
SMMCI	–	83.3

(Forward)

	Percentages of Ownership	
	Direct	Indirect
PPC	100.0	–
FEP	–	36.8
FEC	50.7	–
LMC	–	40.0
FEP	–	25.8
BEMC	100.0	–
SMECI	40.0	–
SMMCI	16.7	–
FSTI	100.0	–
PLI	100.0	–
PIAI	100.0	–

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

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

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

On November 27, 2009, PPC acquired additional 2,227,934 shares of stock of FEP for £1,114 (or ₱87,058). With the additional acquisition, PPC holds a total of 36.77% of the outstanding shares of FEP as of December 31, 2009.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and

b. the carrying amount of the investment at the date when significant influence is lost.

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

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

The Group has investment in the shares of stock of a joint venture entity, Minphil Exploration Co., Inc. (MECI). MECI's wholly-owned subsidiary, Northern Luzon Exploration & Mining Co., Inc. (NLEMCI), has not started productive operations as of December 31, 2010 (see Notes 11 and 26).

Business Combination and Goodwill
Business combinations starting January 1, 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

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

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

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

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

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

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

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

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

Business combinations prior to January 1, 2010
Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of income any excess remaining after that reassessment.

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

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

<u>Foreign Currency Translation of Foreign Operations</u>
Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate on the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at balance sheet date. All exchange differences are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the

initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

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

c. all resulting exchange differences in the consolidated statement of comprehensive income.

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

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

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

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

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

As of December 31, 2010 and 2009, the Group's financial assets and financial liabilities consist of derivative instruments designated as cash flow hedges, loans and receivables, AFS financial assets and other financial liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2010 and 2009, included under loans and receivables are the Group's cash and cash equivalents excluding cash on hand, and accounts receivable.

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

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

Note 11 discusses the details of the Group's AFS financial assets as of December 31, 2010 and 2009.

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

As of December 31, 2010 and 2009, included in other financial liabilities are the Group's short-term bank loan, accounts payable and accrued liabilities, dividends payable and subscriptions payable.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

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

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

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

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

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

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

cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from equity and recognized in the consolidated statement of income.

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If subsequently, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

Financial liabilities

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

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

Inventories

Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated at NRV. Coal inventory and materials and supplies are valued at the lower of cost and NRV.

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

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

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

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

Input Tax Recoverable

Input tax recoverable is stated at 10% in prior years up to January 2006 and 12% starting February 2006 of the applicable purchase cost of goods and services, net of output tax liabilities and allowance for probable losses. Input tax recoverable represents the value-added tax (VAT) paid on purchases of applicable goods and services, net of output tax liabilities, which can be recovered as tax credit against future tax liabilities of the Group upon approval by the Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Property, Plant and Equipment

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

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

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

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

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

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

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

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

Level and block development (included as part of mine and mining properties) and construction in progress are stated at cost, which includes the cost of construction, plant and equipment, other direct costs and borrowing costs, if any. Block development and construction in progress are not depleted nor amortized until such time as these are completed and become available for use.

Deferred Exploration Costs

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

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

Borrowing Costs

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

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Noncurrent Non-financial Assets

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

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

Provision for Mine Rehabilitation Costs

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

Capital Stock

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

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

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

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

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

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

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

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

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

Revenue from sale of coal
Revenue from sale of coal is recognized when the risks and rewards of ownership is transferred to the buyer, on the date of shipment to customers when the coal is loaded into the Group's or customers' loading facilities.

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

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

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

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

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

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

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

The net retirement benefits liability is either the aggregate of the present value of the defined benefits obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets from which the obligations are to be settled, or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan. If such aggregate is negative, the net retirement plan assets are measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. If there is no change or there is an increase in the present value of economic benefits, the entire net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the asset is measured with the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

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

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

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

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

Income Taxes

Current income tax

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

Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

Provisions and Contingencies

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

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

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

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

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

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

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

Future Changes in Accounting Policies

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2010. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have any significant impact on its consolidated financial statements.

Effective in 2011

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

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

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

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

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

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

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

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

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

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

Effective in 2012

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

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

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

Effective in 2013

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

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

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

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

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

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

Recognition of deferred income tax assets
The Group reviews the carrying amounts at each balance sheet date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The

sufficiency of future taxable profits requires the use of assumptions, judgments and estimates, including future prices of metals, volume of inventories produced and, sold and amount of costs and expenses that are subjectively determined like depreciation. As of December 31, 2010 and 2009, deferred income tax assets recognized in the consolidated balance sheets amounted to ₱371,146 and ₱464,504, respectively (see note 22).

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

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

Accounting Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Measurement of mine products revenue
Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine products revenue, gross of marketing charges, amounted to ₱13,064,458, ₱8,932,886 and ₱9,708,037 in 2010, 2009 and 2008, respectively.

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

The Group did not assess its loans and receivables for collective impairment due to the few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. The amount of loss is recognized in the consolidated statement of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱5,962,680 and ₱3,398,230 as of December 31, 2010 and 2009, respectively (see Note 17). Allowance for impairment on these financial assets as of December 31, 2010 and 2009 amounted to ₱2,303 and ₱2,446, respectively (see Note 7).

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats

"significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. There were no impairment losses on AFS financial assets in 2010 and 2009 (see Note 11). As of December 31, 2010 and 2009, the carrying value of AFS financial assets amounted to ₱886,737 and ₱756,948, respectively (see Note 11).

Impairment of goodwill
The Group reviews the carrying values of goodwill for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Where an indicator exists, impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2010 and 2009 and the carrying value of goodwill as of December 31, 2010 and 2009 amounted to ₱258,593.

Measurement of NRV of mine products inventory
The NRV of mine products inventory is the estimated sales value less cost to sell, which can be derived from such inventory based on its weight and assay for metal content and the London Metal Exchange (LME) prices which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as of December 31, 2010 and 2009 amounted to ₱169,104 and ₱136,217, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

Write-down of carrying values of materials and supplies inventories
The Group carries material and supplies inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence or other causes. When it is evident that the NRV is lower than its cost based on physical appearance and condition of materials and supplies, an allowance for inventory obsolescence is provided. Inventory write-down amounting to ₱59,730 was recognized in 2010 and nil in 2009. The carrying value of materials and supplies inventories amounted to ₱909,906 and ₱1,008,326 as of December 31, 2010 and 2009, respectively (see Note 8).

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

Estimation of useful lives of property, plant and equipment
The Group estimates the useful lives of depreciable property, plant and equipment, except for mine and mining properties, based on internal technical evaluation and experience. These estimated useful lives are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other

limits on the use of the assets. For mine and mining properties which were depreciated based on units-of production, the Group estimates and periodically reviews the remaining recoverable reserves to ensure that remaining reserves are reflective of the current condition of the mine and mining properties. The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2.

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

Estimation of provision for mine rehabilitation costs
The Group recognized a liability relating to the estimated costs of mine rehabilitation. The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates.

Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at balance sheet date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated balance sheet by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to the consolidated statement of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income. Provision for mine rehabilitation costs amounted to ₱31,709 and ₱33,700 as of December 31, 2010 and 2009, respectively (see Note 10).

Impairment of noncurrent non-financial assets
The Group's non-financial assets include property, plant and equipment, investments in shares of stock, and deferred mine and oil exploration costs and other noncurrent assets. The Group assesses whether there are indications of impairment on its noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. No impairment losses were recognized in 2010 and 2009 in view of the significantly improved profitability of the Group. As of December 31, 2010 and 2009, the carrying value of noncurrent non-financial assets amounted to ₱16,756,449 and ₱15,340,560, respectively (see Notes 10, 11 and 12).

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

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

Provisions for losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. In 2010 and 2009, payments were made for a total of ₱27,380 and ₱81,145, respectively, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation in 2009 and nil in 2010. Additional provision in 2010 and 2009 amounted to ₱75,000 and ₱41,000, respectively. Total provision for losses amounted to ₱644,481 and ₱561,628 as of December 31, 2010 and 2009, respectively (see Note 28).

Estimation of net retirement benefits liability (plan assets) and costs
The Group's net retirement benefits costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Group's net retirement plan asset which is recorded as part of "Deferred exploration costs and other noncurrent assets" amounted to ₱408 as of December 31, 2010 (see Note 12), while the Group's net retirement benefits liability amounted to ₱30,324 as of December 31, 2009. The related net retirement benefits costs amounted to ₱65,268, ₱88,172 and ₱86,179 for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 16).

4. Business Combinations

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

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

	SMECI		SMMCI	
	Fair Values	Carrying Values	Fair Values	Carrying Values
Assets				
Current assets	₱1,440,247	₱1,440,247	₱1,569	₱1,569
Investment	3,236,355	2,500	–	–
Land	–	–	7,510	7,510
Deferred mine exploration costs	–	–	6,977,717	1,426,007

(Forward)

	SMECI		SMMCI	
	Fair Values	Carrying Values	Fair Values	Carrying Values
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

(Forward)

	Fair Values	Carrying Values
Liabilities		
Accounts payable and accrued liabilities	₱12,427	₱12,427
Contingent liability	387,374	–
Other payables	183,817	183,817
	583,618	196,244
Net Assets	₱851,451	₱2,188,561

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

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

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

5. Segment Information

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year, earnings before interest, taxes and depreciation and depletion (EBITDA), and core net income (loss).

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

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

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

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

December 31, 2010:

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

December 31, 2009:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱8,255,884	₱122,098	₱–	₱–	₱8,377,982
Inter-segment	–	–	–	–	–
Consolidated revenue	₱8,255,884	₱122,098	₱–	₱–	₱8,377,982
Results					
EBITDA	₱3,601,395	(₱248,360)	(₱426)	₱805,917	₱4,158,526
Interest income - net	79,145	742	190	–	80,077
Income tax benefit (expense)	(769,280)	2,668	–	–	(766,612)
Depreciation and depletion	(633,564)	(103,058)	–	–	(736,622)
Consolidated net income (loss)	₱2,277,696	(₱348,008)	(₱236)	₱805,917	₱2,735,369
Core net income (loss)	₱1,989,425	(₱180,780)	(₱766,133)	₱806,741	₱1,849,253
Consolidated total assets	₱20,532,947	₱4,716,480	₱5,938	(₱3,876,952)	₱21,378,413
Consolidated total liabilities	₱6,801,938	₱1,257,093	₱77	(₱4,364,230)	₱3,694,878

(Forward)

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Other Segment Information					
Capital expenditures	₱1,209,843	₱1,111,726	₱–	₱–	₱2,321,569
Investments in shares of stocks	4,983,176	1,035,317	–	(4,881,738)	1,136,755
Equity in net losses of associates	–	(72,624)	–	–	(72,624)
Non-cash expenses other than depletion and depreciation	53,465	–	–	–	53,465

December 31, 2008:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱9,038,825	₱9,330	₱–	₱–	₱9,048,155
Inter-segment	–	–	–	–	–
Consolidated revenue	₱9,038,825	₱9,330	₱–	₱–	₱9,048,155
Results					
EBITDA	₱3,958,049	(₱88,000)	(₱283)	₱5,774	₱3,875,540
Interest income - net	97,364	2,813	130	–	100,307
Income tax expense	(466,513)	(3,314)	–	–	(469,827)
Depreciation and depletion	(639,214)	(66,413)	–	–	(705,627)
Consolidated net income (loss)	₱2,949,686	(₱154,914)	(₱153)	₱5,774	₱2,800,393
Consolidated total assets	₱20,143,982	₱2,454,634	₱6,130	(₱3,206,264)	₱19,398,482
Consolidated total liabilities	₱9,198,816	₱976,705	₱33	(₱3,305,083)	₱6,870,471
Other Segment Information					
Capital expenditures	₱1,255,582	₱138,736	₱–	₱–	₱1,394,318
Investments in shares of stocks	1,231,362	1,028,926	–	(2,000,000)	260,288
Equity in net earnings of associates	–	10,113	–	–	10,113
Non-cash expenses other than depletion and depreciation	1,319,938	–	–	–	1,319,938

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

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

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

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

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

Cash in banks and short-term deposits earn interest at bank deposit rates. Short-term deposits are made for varying periods, usually of up to three months depending on the cash requirements of the Group. Interest income arising from cash in banks and short-term deposits amounted to ₱27,133, ₱188,124 and ₱153,850 in 2010, 2009 and 2008, respectively.

7. Accounts Receivable

Accounts receivable consist of:

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

The Parent Company's trade receivables arise from shipments of copper concentrates which are initially paid based on 90% of their provisional value, currently within one week from shipment date. The 10% final balance does not bear any interest until final settlement, which usually takes around three months from shipment date.

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

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

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

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

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

8. Inventories

Inventories consist of:

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

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

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

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

9. Other Current Assets

Other current assets consist of:

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

10. Property, Plant and Equipment

Property, plant and equipment consist of:

As of December 31, 2010:

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost							
January 1	**₱7,163,560**	**₱258,212**	**₱5,585,163**	**₱99,779**	**₱261,505**	**₱2,197,683**	**₱15,565,902**
Additions	**635,091**	**31,083**	**674,519**	**11,429**	**113,576**	**–**	**1,465,698**

* *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.*

(Forward)

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Disposals	**₱–**	**₱–**	**(₱170,066)**	**₱–**	**₱–**	**₱–**	**(₱170,066)**
Reclassifications within the "Property, plant and equipment" account	**39,534**	**–**	**290,144**	**414**	**(330,092)**	**–**	**–**
December 31	**7,838,185**	**289,295**	**6,379,760**	**111,622**	**44,989**	**2,197,683**	**16,861,534**
Accumulated Depletion and Depreciation							
January 1	**4,933,946**	**212,128**	**3,463,126**	**90,127**	**–**	**2,197,683**	**10,897,010**
Depletion and depreciation for the year (Note 15)	**586,527**	**3,082**	**437,045**	**2,703**	**–**	**–**	**1,029,357**
Disposals	**–**	**–**	**(159,862)**	**–**	**–**	**–**	**(159,862)**
December 31	**5,520,473**	**215,210**	**3,740,309**	**92,830**	**–**	**2,197,683**	**11,766,505**
Net Book Values	**₱2,317,712**	**₱74,085**	**₱2,639,451**	**₱18,792**	**₱44,989**	**₱–**	**₱5,095,029**

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

As of December 31, 2009:

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost							
January 1	₱6,458,598	₱234,857	₱4,897,435	₱97,761	₱238,869	₱2,197,683	₱14,125,203
Additions	652,336	23,355	710,158	1,379	70,237	–	1,457,465
Disposals	–	–	(16,766)	–	–	–	(16,766)
Reclassifications within the "Property, plant and equipment" account	52,626	–	(5,664)	639	(47,601)	–	–
December 31	7,163,560	258,212	5,585,163	99,779	261,505	2,197,683	15,565,902
Accumulated Depletion and Depreciation							
January 1	4,455,843	211,033	3,105,735	88,652	–	2,197,683	10,058,946
Depletion and depreciation for the year (Note 15)	478,103	1,095	371,863	1,475	–	–	852,536
Disposals	–	–	(14,472)	–	–	–	(14,472)
December 31	4,933,946	212,128	3,463,126	90,127	–	2,197,683	10,897,010
Net Book Values	₱2,229,614	₱46,084	₱2,122,037	₱9,652	₱261,505	₱–	₱4,668,892

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

Mine and mining properties as of December 31, 2010 and 2009 include mine development cost of the 782 Meter Level project amounting to ₱846,229 and ₱663,340, respectively. In 2009, the estimated mine life of the Parent Company's Padcal Mine was extended until 2017, or an additional three years from the original estimated mine life of until 2014. Correspondingly, the extension in mine life was considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost amounting to ₱141,489 and ₱115,914 in 2010 and 2009, respectively, are capitalized under deferred exploration costs which relate to projects that are currently ongoing for BEMC, SMMCI, PGPI and LMC.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to ₱8,900 and ₱10,293 as of December 31, 2010 and 2009, respectively. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2015 up to 2024, discounted using the Parent Company's historical average borrowing rate of 8% per annum. The related accumulated accretion of interest amounted to ₱12,942 and ₱10,640 as of December 31, 2010 and 2009, respectively.

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

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

11. **Investments**

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

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

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

As of December 31, 2010 and 2009, the cumulative increase in value of AFS financial assets amounted to ₱577,585 and ₱614,390, respectively, net of deferred income tax liability of ₱158,181 and ₱169,113 as of December 31, 2010 and 2009, respectively. These changes in fair values in the same amounts have been recognized and shown as "Unrealized gain on AFS financial assets" account in the equity section of the consolidated balance sheets and are also shown in the consolidated statements of comprehensive income.

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

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

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

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

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

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

December 31, 2009:

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

December 31, 2008:

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

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

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

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

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

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

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

The Group's proportionate ownership interests in MECI and its subsidiary as of December 31, 2010 and 2009 follow:

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

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

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

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

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

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

Acquisition of additional 7.3% in Pitkin
On March 17, 2009, the Parent Company subscribed to additional 14,000,000 shares of Pitkin for the aggregate amount of US$14,000 (or ₱679,601). The subscription brings the total holdings of the Parent Company to 18,000,000 shares. PPC also holds 6,000,000 shares in Pitkin, bringing the total holdings of the Group to 24,000,000 shares, or 21.00% ownership interest. The investment in Pitkin was reclassified from AFS financial asset to investment in associate and was accounted for under the equity method.

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

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

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

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

12. **Deferred Exploration Costs and Other Noncurrent Assets**

Deferred exploration costs and other noncurrent assets consist of:

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

Deferred Mine and Oil Exploration Costs

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

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

   Among the relevant provisions of the HOA are:

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

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

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

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

   In compliance with the above provisions of the HOA:

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

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

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

Others

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

b. Included in "Others" are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (RA) No. 7942, otherwise known as "The Philippine Mining Act of 1995." The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad Mines, and for research in the social, technical and preventive aspects of their rehabilitation. As of December 31, 2010 and 2009, the Parent Company's MRF amounted to ₱5,769 and ₱5,685, respectively, while PGPI's MRF amounted to ₱6,449 and ₱6,440, respectively.

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

13. **Short-term Bank Loan**

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

The Parent Company also obtained unsecured US dollar-denominated short-term bank loans from various local banks in 2010 and 2009. These bank loans were repriced every 30 to 120 days, with interest rates ranging from 2.5% to 2.85%, and 3.30% to 6.40% in 2010 and 2009, respectively.

As of December 31, 2010 and 2009, all of the Parent Company's bank loans have been fully paid. Interest expense arising from short-term bank loans amounted to ₱14,457 and ₱105,916 in 2010 and 2009, respectively.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

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

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

15. Costs and Expenses

Costs and expenses include the following:

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

	2010	2009	2008
Mine products taxes and royalties:			
Royalties	**₱459,282**	₱322,480	₱367,029
Excise taxes	**253,254**	164,745	211,033
	₱712,536	₱487,225	₱578,062

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

16. Retirement Benefits

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

Net retirement benefits costs:

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

Net retirement benefits liability (plan assets):

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

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

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

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

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

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

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

	2010	2009
Cash and cash equivalents	**3%**	1%
Investments in debt securities	**80%**	95%
Investments in equity securities	**15%**	2%
Receivables	**2%**	2%
	100%	100%

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

The Parent Company's and PGPI's actuarial funding requirement in 2011 is nil, however, the intention is to continue regular contributions to the fund.

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

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

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

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

	2010	2009	2008	2007	2006
Defined benefits obligation	**(₱1,085,575)**	(₱943,686)	(₱939,377)	(₱928,311)	(₱895,965)
Plan assets	**1,054,479**	897,172	695,148	586,790	478,542
Deficit	**(31,096)**	(46,514)	(244,229)	(341,521)	(417,423)
Experience adjustment on plan liabilities	**(57,887)**	101,120	53,531	(39,806)	6,203

17. **Financial Instruments**

Fair Values of Financial Instruments

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

	December 31, 2010		December 31, 2009	
	Fair Values	**Carrying Values**	Fair Values	Carrying Values
Assets				
Cash and cash equivalents:				
Cash on hand and in banks	**₱270,568**	**₱270,568**	₱2,122,499	₱2,122,499
Short-term deposits	**3,511,680**	**3,511,680**	758,616	758,616
Accounts receivable:				
Trade	**2,095,625**	**2,095,625**	409,192	409,192
Accrued interest	**10,248**	**10,248**	12,257	12,257
Others	**74,559**	**74,559**	95,666	95,666
Derivative assets	–	–	19,975	19,975
AFS financial assets:				
Quoted equity investments	**872,177**	**872,177**	742,388	742,388
Unquoted equity investments	**14,560**	**14,560**	14,560	14,560
Total	**₱6,849,417**	**₱6,849,417**	₱4,175,153	₱4,175,153
Liabilities				
Short-term bank loan	**₱150,000**	**₱150,000**	₱–	₱–
Accounts payable and accrued liabilities:				
Trade	**386,072**	**386,072**	302,754	302,754
Accrued expenses	**161,007**	**161,007**	243,819	243,819
Accrued interest	**99**	**99**	–	–
Trust receipts and acceptances	–	–	59,354	59,354
Other nontrade liabilities	**106,729**	**106,729**	82,340	82,340
Dividends payable	**207,875**	**207,875**	168,856	168,856
Subscriptions payable	**21,995**	**21,995**	54,916	54,916
Total	**₱1,033,777**	**₱1,033,777**	₱912,039	₱912,039

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

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

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

December 31, 2010:

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

December 31, 2009:

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

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

Categories of Financial Assets:

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

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

18. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies

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

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

Financial Risks

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

Credit and concentration risks
Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual mineral products sales are committed to, and 100% of the outstanding trade receivables are from, Pan Pacific (see Note 7) with whom the Parent Company has a long-term sales agreement. Related discussion on the sale of the Parent Company's mine products to Pan Pacific is in Note 27. This agreement is effective until the end of the Padcal mine life currently declared as 2017 but with possibility of future extension. The balance of the Parent Company's annual mineral products sales is with Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) which is covered by a long-term sales agreement up to April 1, 2012.

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

The table below summarizes the Group's exposure to credit risk for the components of the consolidated balance sheets as of December 31, 2010 and 2009:

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

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

As of December 31, 2010:

	Neither past due nor impaired		**Past due and individually impaired**	
	High-Grade	**Standard**		**Total**
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	**₱267,507**	**₱–**	**₱–**	**₱267,507**
Short-term deposits	**3,511,680**	**–**	**–**	**3,511,680**
Accounts receivable:				
Trade	**2,095,625**	**–**	**628**	**2,096,253**

(Forward)

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

As of December 31, 2009:

	Neither past due nor impaired		Past due and individually	
	High-Grade	Standard	impaired	Total
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	₱2,120,045	₱–	₱–	₱2,120,045
Short-term deposits	758,616	–	–	758,616
Accounts receivable:				
Trade	409,192	–	771	409,963
Accrued interest	12,257	–	–	12,257
Others	95,666	–	1,675	97,341
AFS financial assets:				
Quoted equity investments	–	742,388	–	742,388
Unquoted equity investments	–	14,560	–	14,560
Derivative assets	19,975	–	–	19,975
Total	₱3,415,751	₱756,948	₱2,446	₱4,175,145

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

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

The Group has no past due but not impaired financial assets as of December 31, 2010 and 2009.

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

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

As of December 31, 2010:

	On demand	**Within 1 year**	**More than 1 year**	**Total**
Cash and cash equivalents	**₱3,782,248**	**₱–**	**₱–**	**₱3,782,248**
Accounts receivable:				
Trade	**–**	**2,095,625**	**–**	**2,095,625**
Accrued interest	**–**	**10,248**	**–**	**10,248**
Others	**–**	**74,559**	**–**	**74,559**
AFS financial assets:				
Quoted equity investments	**–**	**–**	**872,177**	**872,177**
Unquoted equity investments	**–**	**–**	**14,560**	**14,560**
Total undiscounted financial assets	**₱3,782,248**	**₱2,180,432**	**₱886,737**	**₱6,849,417**
Short-term bank loan	**₱–**	**₱150,099**	**₱–**	**₱150,099**
Accounts payable and accrued liabilities	**–**	**653,808**	**–**	**653,808**
Dividends payable	**207,875**	**–**	**–**	**207,875**
Subscriptions payable	**21,995**	**–**	**–**	**21,995**
Total undiscounted financial liabilities	**₱229,870**	**₱803,907**	**₱–**	**₱1,033,777**

As of December 31, 2009:

	On demand	Within 1 year	More than 1 year	Total
Cash and cash equivalents	₱2,881,115	₱–	₱–	₱2,881,115
Accounts receivable:				
Trade	–	409,192	–	409,192
Accrued interest	–	12,257	–	12,257
Others	–	95,666	–	95,666
AFS financial assets:				
Quoted equity investments	–	–	742,388	742,388
Unquoted equity investments	–	–	14,560	14,560
Derivative assets	–	19,975	–	19,975
Total undiscounted financial assets	₱2,881,115	₱537,090	₱756,948	₱4,175,153
Accounts payable and accrued liabilities	₱–	₱688,267	₱–	₱688,267
Dividends payable	168,856	–	–	168,856
Subscriptions payable	54,916	–	–	54,916
Total undiscounted financial liabilities	₱223,772	₱688,267	₱–	₱912,039

<u>*Market risks*</u>
Foreign currency risk
Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency (see Note 7). All of the Parent Company's sales are denominated in US dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US dollar-denominated cash and cash equivalents, and trade receivables. For the years ended December 31, 2010, 2009 and 2008, the Parent Company recognized net foreign exchange gains (losses) of (₱63,589), (₱55,459) and ₱313,511, respectively, arising from the translation of these foreign currency-denominated financial instruments.

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

The following tables summarize the impact on income before income tax of reasonably possible changes in the exchange rates of US dollar against the Peso. The reasonable movement in exchange rates was determined using 1-year historical data.

Year ended December 31, 2010:

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

Year ended December 31, 2009:

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

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

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2010, the Group's exposure to the risk in changes in market interest rates relates primarily to BEMC's short-term bank loan. In 2009, the Parent Company paid in full its short-term bank loans amounting to ₱4,039,200 (see Note 13).

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

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

Year ended December 31, 2010:

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

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

Equity price risk
Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company and PPC, which are classified in the consolidated balance sheets as AFS financial assets (see Note 11). As of December 31, 2010 and 2009, investments totaling ₱872,177 and ₱742,388 represent 3.40% and 3.47% of the total assets of the Group, respectively. Reasonable possible changes were based on technical stock analyses focusing on the support and resistance price levels of each underlying stock and evaluation of data statistics using 1-year historical stock price data.

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

As of December 31, 2010:

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

As of December 31, 2009:

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

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

The following table shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Parent Company as of December 31, 2010 and 2009. The change in metal prices is based on 1-year historical price movements.

Year ended December 31, 2010:

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

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

Year ended December 31, 2009:

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

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

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

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

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

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

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

On October 7, 2009, the Parent Company pre-terminated its gold collars with 1,000 ounces monthly notional amount covering October 2009 to March 2011 deliveries and 1,500 ounces monthly notional amount covering October 2009 to April 2011 deliveries and paid a total unwinding fee of US$12,334 (or ₱573,013), US$11,845 (or ₱551,144) of which is attributed to fair value of the gold collars and taken to equity, and the remaining amount treated as transaction cost taken to consolidated statement of income. These transactions would have matured in early part of 2011. The pre-termination of the gold collars discontinued the hedge relationship of such derivatives. The effective portion of the unwinding cost of the hedge will remain in equity and will be transferred to profit or loss upon occurrence of the forecasted transaction. The unwinding cost will be amortized monthly until April 2011 based on contractual monthly notional amount of the collars. Total amortization in 2010 and 2009 amounted to ₱355,577 and ₱88,894, respectively.

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

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

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

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

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

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

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

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

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

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

The details of the net changes in the fair values of all derivative instruments as of December 31, 2010 and 2009 are as follows:

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

Hedge effectiveness of cash flow hedges
Below is a rollforward of the Parent Company's cumulative translation adjustments on cash flow hedges for the years ended December 31, 2010 and 2009:

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

As of December 31, 2010 and 2009, the ineffective portion of the fair value change of outstanding hedges is not material.

19. Capital Management

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

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

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

20. Foreign Currency-Denominated Monetary Assets

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

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

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

21. Related Party Transactions

The following are the significant transactions with related parties:

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

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

c. In conjunction, Anglo assigned to the Parent Company its receivables from SMMCI for cash advances to finance SMECI's operations and exploration activities. From this point, the Parent Company continued providing the non-interest-bearing, unguaranteed cash advances to SMMCI and SMECI. As of December 31, 2010 and 2009, the outstanding cash advances to SMMCI and SMECI amounted to ₱3,335,141 and ₱2,021,948, respectively. These advances are payable on demand and will be settled through cash payment by SMMCI and SMECI.

d. The Parent Company advances PGPI's working capital and capital expenditure requirements which amounted to ₱932,737 and ₱878,985 as of December 31, 2010 and 2009, respectively. A portion of these advances are secured by mortgage participation certificates on certain mining assets of PGPI's Bulawan mine which is currently on care and maintenance basis. The mining assets are fully depreciated as of December 31, 2010 and 2009.

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

   As of December 31, 2010 and 2009, total reimbursements made by Anglo for the Parent Company's and PGPI's advances amounted to ₱1,263 and ₱7,141, respectively. These reimbursements, which are non-interest-bearing, unguaranteed and reimbursable on demand, are presented as part of "Others" under "Accounts receivable" account in the consolidated balance sheets (see Note 7).

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

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

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

For the years ended December 31, 2010, 2009 and 2008, the Group had not made any provision for doubtful debts relating to the amounts owed by related parties. This assessment is undertaken each financial year through the examination of the financial positions of the related parties.

Compensations of Key Management Personnel
Compensations of the members of key management personnel follow:

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

22. **Income Taxes**

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

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

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

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

	2010	2009
Deferred income tax assets on:		
Unamortized past service costs	**₱86,256**	₱86,924
Impairment loss on AFS financial assets	**68,094**	68,094
Provisions	**49,459**	33,196
Allowances for:		
Losses on input VAT	**43,739**	43,739
Probable losses on other noncurrent assets	**14,231**	14,231
Materials and supplies obsolescence	**26,353**	9,682
Unrecoverable deferred mine and oil exploration costs	**8,868**	8,868
Doubtful accounts	**410**	410
Unrealized foreign exchange losses - net	**35,082**	39,635
Cumulative translation adjustment on hedging instruments	**32,002**	145,085
Accumulated accretion of interest on provision for mine rehabilitation costs	**3,883**	3,192
Accumulated amortization of mine rehabilitation cost	**2,769**	2,351
Net retirement benefits liability	–	9,097
Total deferred income tax assets	**371,146**	464,504
Deferred income tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	**(1,665,513)**	(1,665,513)

(Forward)

	2010	2009
Accelerated depreciation	**(₱489,013)**	(₱442,360)
Unrealized gain on AFS financial assets	**(158,181)**	(169,113)
Measurement of mine products inventory at NRV	**(33,003)**	(23,956)
Loss on termination of gold hedging contracts	**(32,002)**	(138,675)
Unrealized foreign exchange gain	**(6,542)**	(1,208)
Net retirement plan assets	**(122)**	–
Total deferred income tax liabilities	**(2,384,376)**	(2,440,825)
Net deferred income tax assets (liabilities)	**(₱2,013,230)**	(₱1,976,321)

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

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

c. Deferred income tax liability amounting to ₱1,850 and ₱1,208 as of December 31, 2010 and 2009, respectively, pertains to unrealized foreign exchange gain of LMC. The Group's deferred income tax liability arising from the difference in fair value and carrying value of the net assets of a subsidiary acquired amounted to ₱1,665,513 as of December 31, 2010 and 2009.

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

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

	2010	2009
Deductible temporary differences on allowances for write-down of:		
Deferred mine exploration costs	**₱858,500**	₱858,500
Property and equipment	**766,909**	766,909
Non-operating materials and supplies	**107,256**	103,099
Input VAT	**9,045**	9,045
Doubtful accounts	**628**	628
NOLCO	**136,255**	121,635
Deductible temporary difference relating to depreciation of non-operating property and equipment	**9,551**	9,551
Provision for losses	**2,100**	2,100
Excess MCIT	**53**	70

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

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

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

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

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

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

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

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

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

	2010	2009	2008
Provision for income tax computed at the statutory income tax rates	**₱1,705,219**	₱1,050,594	₱1,144,577

(Forward)

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

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

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

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

j. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. The Group did not avail of the OSD in 2010 and 2009.

23. **Equity**

Capital Stock

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

	Number of Shares	
	2010	2009
Common stock - ₱1 par value		
Authorized:		
January 1	**8,000,000,000**	5,000,000,000
Increase in authorized capital stock	–	3,000,000,000
December 31	**8,000,000,000**	8,000,000,000

(Forward)

	Number of Shares	
	2010	2009
Issued, outstanding and fully paid:		
January 1	**4,900,604,961**	3,880,851,172
Issuance during the year	**21,525,999**	46,851,875
Stock dividend	–	972,901,914
December 31	**4,922,130,960**	4,900,604,961

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

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

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

<u>Retained Earnings</u>
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.

<u>Treasury Stock</u>
On March 25, 2008, the Parent Company's BOD approved the buyback of 10% of the Parent Company's outstanding shares from the open market. The Parent Company extended its share buyback program on August 5, 2008 to acquire another 10% of its outstanding issued shares in the open market. The Parent Company acquired a total of 778,444,065 shares for a cost of ₱5,621,956. The average cost per share amounted to ₱7.22.

On November 28, 2008, the Parent Company sold treasury stock totaling 778,620,792 shares, representing 20.06% of its total outstanding shares at the price of ₱7.92 per share to Asia Link B.V. (a wholly-owned subsidiary of FPC). Total proceeds from the reissuance of treasury stock amounted to ₱6,126,450.

<u>Non-controlling Interests</u>
Non-controlling interests consist of the following:

	Percentage of Ownership		December 31	
	2010	2009	**2010**	2009
Non-controlling interests on net assets of:				
FEC	**48.8%**	49.3%	**₱142,606**	₱104,352
FEP and its subsidiaries	**48.1%**	50.1%	**93,963**	227,306

(Forward)

	Percentage of Ownership		December 31	
	2010	2009	**2010**	2009
LMC	**19.5%**	31.1%	**(₱484)**	₱–
SMECI and its subsidiary	–	11.4%	–	368,592
PGPI	–	19.0%	–	–
PGI	–	19.0%	–	–
			₱236,085	₱700,250

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

24. Share-based Payments

Parent Company Stock Option Plan

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

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

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

iii. Term: Five years from adoption date;

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

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

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

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

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

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

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

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

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

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

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

PGI Stock Option Plan

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

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

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

	2009		2008	
	Number of Tandem Options	Weighted Average Exercise Price	Number of Tandem Options	Weighted Average Exercise Price
January 1	100,000	Cdn$0.60	171,500	Cdn$0.78
Forfeited	(100,000)	0.60	(71,500)	1.02
December 31	–	Cdn$–	100,000	Cdn$0.60
Exercisable	–	Cdn$–	100,000	Cdn$0.60

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

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

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

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

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

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

25. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share are computed as follows:

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

Diluted earnings per share amounts are calculated as follows:

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

The Parent Company considered the effect of its potentially dilutive stock options outstanding as of December 31, 2010, 2009 and 2008 (see Note 24). The assumed exercise of these stock options would have resulted in additional 5,484,741, 5,014,911 and 10,416,475 common shares in 2010, 2009 and 2008, respectively.

26. **Joint Ventures with Anglo**

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

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

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

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

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

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

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

27. Long-Term Gold and Copper Concentrates Sales Agreement

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

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

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

c. Contract Year 2009 (starting on April 1, 2009 and ending on March 31, 2010), at least 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2009.

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

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

28. Other Matters

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

a. The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and the Group's legal counsel reassess their estimates on an annual basis to consider new relevant information. In 2010 and 2009, payments in these regard were made for a total of ₱27,380 and ₱81,145, respectively, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation in 2009. Additional provision in 2010 and 2009 amounted to ₱75,000 and ₱41,000, respectively. Total provision for losses amounted to ₱644,481 and ₱561,628 as of December 31, 2010 and 2009, respectively.

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

29. Notes to Consolidated Statements of Cash Flows

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

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

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

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

30. Events after the Balance Sheet Date

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

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

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

**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 included in this Form 17-A and have issued our report thereon dated February 23, 2011. 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 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 68.1 and SEC Memorandum Circular No. 11, Series of 2008 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 financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

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

February 23, 2011

PHILEX MINING CORPORATION
Schedule B. Amounts Receivable from Directors, Officers, employees, Related Parties and
Principal Stockholders (Other than Affiliates)
As of December 31, 2010

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 E. Other Assets
As of December 31, 2010
(in Thousands)

Description	Beginning Balance (Restated)	Additions at cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes Additions (Deduction)	Ending Balance
Deferred Mine exploration and development costs	9,423,316	1,333,820				10,757,136
Deferred oil exploration costs	1,025,525	265			(18,798)	1,006,993
	10,448,841	1,334,086	-	-	(18,798)	11,764,128
Less: allowance for unrecoverable costs and accumulated depletion	(974,627)					(974,627)
	9,474,214	1,334,086	-	-	(18,798)	10,789,501
Others	108,134				(22,137)	85,998
Less: allowance for writedown	(47,435)					(47,435)
	60,699		-	-		38,563
	9,534,913	1,334,086	-	-	(18,798)	10,828,065

PHILEX MINING CORPORATION
Schedule I. 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	4,921,926,960	-	-	12,469,327	-
	8,000,000,000	4,921,926,960	-	-	12,469,327	-

PHILEX MINING CORPORATION
Schedule F. Long Term Debt
As of December 31, 2010
(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, 2010.						
		P -	**P -**			

PHILEX MINING CORPORATION
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDENDS DECLARATION
(In Thousand Pesos)

	Years Ended December 31	
	2010	2009
Beginning balance	8,566,273	7,006,096
Net income	4,240,574	2,276,581
Reconciling items:		
Unrealized foreign exchange gains, except those attributable to cash and cash equivalents	(20,474)	-
Mark-to-market valuation gain		
Deferred tax assets	93,358	173,206
Accretion income		
Unrealized acturial losses if recognized in profit and loss		
NRV of inventory	(30,003)	83,292
Dividends declared	(688,072)	(972,902)
Treasury stock	-	-
Ending balance	12,161,656	8,566,273