PHILEX MINING CORPORATION

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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 13, 2010

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, 2009 which we filed with the Securities and Exchange Commission today.

Very truly yours,

J. ERNESTO C. VILLALUNA, JR

President & COO

Encls.: a/s

COVER SHEET

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S.E.(C. Number	<u> 10044</u>
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, 2009

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, 2009				
2.	SEC	C Identification Number 10044				
3.	BIR Tax Identification No. <u>000-283-731-000</u>					
4.	Exa	ct name of issuer as specified in its charter: PHILEX MINING CORP	<u>ORATION</u>			
5.		Philippines				
	Pro	vince, Country or other jurisdiction of incorporation or organization				
6.		(SEC Use Only) Industry Classification Code:				
7.		lex Building, 27 Corner Brixton and Fairlane Streets, Pasig City lress of principal office	<u>1600</u> Postal Code			
8.		2) 631-1381 to 88 uer's telephone number, including area code				
9.		applicable mer name, former address, and former fiscal year, if changed since la	ast report			
10. RSA	Sec	curities registered pursuant to Sections 8 and 12 of the SRC, or Se	ec. 4 & 8 of the			
		Number of St Common Stock of April 6, 2010) Title of Each Class nmon shares, P1 par value (as of April 6, 2010) A,910,1 of Outstanding (as of December 31, 2009) Number of St Common Stock of April 6, 2010 4,910,1	Outstanding bbt Outstanding 28,250			
11.	Are	any or all of these securities listed on a Stock Exchange?				
	Yes	[X] No[]				
there	-	es, state the name of such stock exchange and the classes of	securities listed			
		Philippine Stock Exchange Common Shares				
12.	Che	eck whether the issuer:				
	(a)	has filed all reports required to be filed by Section 17 of the SRC are thereunder or Section 11 of the RSA and RSA Rule $11(a) - 1$ to Sections 26 and 141 of the Corporation Code of the Philippin preceding twelve (12) months (or for such shorter period that required to file such reports).	hereunder, and nes during the			
		Yes [X] No[]				
	(b)	has been subject to such filling as suite assets for the great OO days				
		has been subject to such filing requirements for the past 90 days.				
		Yes [X] No []				

PART 1 BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate Profile

Philex Mining Corporation (the Company) was incorporated in the Philippines in 1955 to engage primarily in mining activities. Its shares are listed in the Philippine Stock Exchange. As of December 31, 2009, the Company has 46,055 stockholders of record with 37.73% of its outstanding shares owned by foreign nationals and institutions.

The Company has operated for the past 52 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. Total ore extracted and processed from start of operation to 2009 aggregate to 340.4 million tonnes producing 912.8 million kilograms of copper (2,015.5 million pounds), 165.9 million grams of gold (5,337.6 thousand ounces) and 181.5 million grams of silver (5,849.7 thousand ounces).

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. This resulted in the Company's first gold operation, 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. In July 1996, these gold assets. including the Bulawan mine, were spun-off to Philex Gold Philippines, Inc. (PGPI). Through a swap of shares, ownership in PGPI was subsequently transferred to Philex Gold Inc. (PGI), currently a 81%-owned Canadian subsidiary. The PGI shares were initially listed in the Toronto Stock Exchange in October 1996 following a public offering to primarily North American and European investors but are now listed in the TSX Venture Exchange. 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 Silangan Mindanao Mining Company (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, giving the Company control over the project. In 2005, PGPI also entered into a joint venture agreement with FEC Resources, Inc. (FEC), a 51.24%owned subsidiary of the Company, to fund exploration of PGPI's Lascogon gold project.

The Company has long been a silent investor in oil properties owning participation in several service contracts. In 2007, Philex incorporated Philex Petroleum Corporation (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 purchased the 49% interest of Anatolian Property BV, giving back the Company full control over PPC which currently holds 36.77% of Forum Energy plc (FEP), a UK-based company listed at the Alternative Investment of the London Stock Exchange. FEP is an oil exploration company owning participation interests in several service contracts in the Philippines, particularly GSEC 101, now converted to Service Contract 72, covering the Sampaguita natural gas discovery in northwestern Palawan. As FEC also owns 25.84% of FEP, the total holdings of the Company in FEP through PPC and FEC would be 62.60%.

Products/Sales

The Company's Padcal mine produces copper concentrates, containing copper, gold and silver. 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 2011 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 2007 to 2009 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 (currently two months after month of arrival in Japan) which method is a common practice worldwide.

The 2009 consolidated revenue of the Company includes the net realizable value of mine products inventory at the end of the financial reporting period. About 1.5% of 2009 consolidated revenue came from petroenergy contributed by FEP and Brixton Energy & Mining Corporation (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, 2009 consists of 2,245 full-time regular employees, as follows:

Padcal Operations 2,137
Pasig Corporate Head Office 108
Total 2,245

Of the Company's employees, 2,064 are in operations, while 181 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 unions: the National Allied Mines and Workers Union (NAMAWU) 101 for rank-and-file and the Philex Mining Supervisory Employees Union (PMSEU) for supervisors. The collective bargaining agreement with the NAMAWU 101 cover a period of five years up to January 2010. The agreement with PMSEU is also for five years up to April 2010. Negotiation on the renewal of the agreements 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 136,744 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) 156-200-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, 2009, the Padcal Mine's mineral resources and proved reserves are estimated as follows:

ĺ	MINERAL RESOURCES								
			Contained						
		Million			Copper	Gold			
		Tonnes	Copper %	Gold g/t	(Million lbs.)	(000 ozs.)			
ĺ	908 ML	58	0.24	0.53	307	1,000			
	782 ML	98	0.23	0.49	500	1,500			
	Total	156	0.24	0.50	807	2,500			

CuEq cut-off grade = 0.33%; Metal Prices: US\$2.00 per pound Cu, US\$800 per ounce Au; Metal Recoveries: 82.35% Cu, 77.27% Au

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

	PROVED RESERVES							
	Recoverable							
	Million			Copper	Gold			
	Tonnes	Copper %	Gold g/t	(Million lbs.)	(000 ozs.)			
908 ML	28.0	0.21	0.42	100	282			
782 ML	41.2	0.23	0.46	174	462			
Total	69.2	0.22	0.44	274	744			

CuEq cut-off grade = 0.37%; Metal Prices: US\$2.00 per pound Cu, US\$800 per ounce Au; Metal Recoveries: 81.9% Cu, 75.4% Au

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

The life of the Padcal Mine is currently declared as up to mid-2017.

The other areas in the vicinity of the Padcal Mine are covered by mining agreements over a total area of 13,387 hectares, all within the municipalities of Tuba and Itogon in Benguet:

Padcal Tenements	<u>Area (Has.)</u>
MPSA-156-2000-CAR	3,848
MPSA-157-2000 CAR	2,555

81
437
4,725
1,027
795
<u>13,468</u>

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, intensifying from P49 million starting in 2006 to P116 million in 2007, P426 million in 2008 and P842 million in 2009 as the Company generated available funds for its exploration program. 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

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. Its 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.

The Silangan Project is covered by MPSA-149-99-XIII and EP-XIII-03 Lot-B. These two tenements under SMMCI are also surrounded by several tenements within the Surigao del Norte Province as well as the Agusan del Norte Province as listed below:

	<u>Area (Has.)</u>	Operator / Contractor
MPSA-149-9-XIII	2,880	SMMCI
MPSA-034-95-X	405	SMMCI
MPSA-148-99-XIII	2,306	LMC
EP-XIII-013 Lot-A	7,760	SMMCI
EP-XIII-013 Lot-B	4,174	SMMCI

EPA-XIII-012	1,755	SMMCI
EPA-000039-XIII	6,309	SMMCI
Total	25.589	

Since the time Philex engaged itself directly in the exploration of the project, its total expenditures has amounted to P587 million to date. Combined with those incurred by Anglo, the total expenditures in this project amounted to P2.0 billion as of December 31, 2009. Total expenditures for 2008 amounted to P250 million.

The reported resources for Boyongan and Bayugo are as follows:

	Cutoff	Classification	Tonnes	Cu	Au	Contained Cu	Contained Au	
	%Cu	Ciassification	(000)	%	Grams/Tonne	(M lbs.)	(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 Group Manager of Philex Mining Corporation, has given his consent to the release of this resource estimate, the contents of which he has reviewed and has found to be consistent with the resource estimates in the technical reports of the Boyongan and Bayugo deposits prepared by the Independent Resource Estimates (IRES) of South Africa, and compliant with the rules and guidelines as set forth in National Instrument (NI) 43-101. He has sufficient experience in resource evaluation relevant to the style of mineralization in the Surigao mineral district. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the Philippine Mineral Reporting Code (PMRC). He has given his consent to the Public Reporting of this estimate following the PMRC guidelines concerning Mineral Resource Estimation.

Padcal Vicinity

Exploration activities in the Padcal vicinity throughout 2009 completed the first phase od drilling in the Tapaya Prospect within MPSA-157-2000-CAR. Two types of mineralization were identified namely, (a) gold vein-type mineralization, and (b) porphyry copper mineralization with low gold grades. Underground drilling from the 773 meter level (ML) of the mine was also pursued to explore possible deeper and lateral extensions of the Santo Tomas II orebody. Eleven holes were completed totaling 5,333 meters, intersecting zones of copper and gold mineralization which will be evaluated to determine the potential mineral resource below 782 ML, the lowest mining level at the present. Additional drilling is programmed for 2010 to check the lateral extent of the mineralized zone. Within MPSA-156-2000-CAR, two holes were drilled at Butan prospect to check the lateral extent and depth of one of the northeast trending gold-bearing quartz vein, which will be further tested on the southwest and northeast ends through diamond drilling once the consent from the surface claimants is obtained.

Other Projects

Vista Alegre Project

Exploration drilling in the Vista Alegre area and confirmatory drilling in the mothballed Bulawan Mine of the PGPI were terminated in May 2009. A total of 5,172 meters was drilled in the Vista Alegre area, resulting in the delineation of two low-grade deposits at an average of 0.7 grams per tonne gold. A total of 636 meters was drilled in and around the vicinity of the North Block of Bulawan Mine with mixed results.

Bulog Project

Scout drilling in the Bulog Prospect located a few kilometers southwest of Maricalum Copper Mine was commenced in 2009 totalling 4,608 meters from 11 drillholes. The scout drilling was able to identify a very shallow but thin disseminated epithermal gold occurrence. Two scout drillholes also intercepted low grade porphyry Cu-Au style of mineralization. Further exploration activities programmed for 2010 in this prospect will include verification of the large

soil gold anomaly field east of the Bulog Ridge, and search for richer potassic zone in its porphyry copper system.

Sibutad Project

Drilling for porphyry style mineralization in the Sibutad Project of PGPI was terminated in May 2009 with negative results. The second half of 2009 was devoted to surface exploration activities outside the confines of the PGPI-controlled areas. A prospective locus for porphyry style mineralization was encountered atop Mt. Nanca, about 5 aerial kilometers southeast of the old Sibutad Mine, which area will be subjected to more studies in the first semester of 2010 for possible drilling by the second semester.

Lascogon Mining Corporation

Exploration in 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 (Brixton)

Brixton, is a wholly owned subsidiary of the Company, engaged in exploration and development of energy related resources. In May 2008, its Coal Operating Contract No. 130 was converted into Coal Operating Contract for Development and Production No. 130, for a period of 10 years, followed by another 10-year extension. The contract covers two coal blocks in Sibugay, Zamboanga, the 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, Brixton obtained the Environmental Compliance Certificate for the advancement of the coal project to development stage in 2009, with an estimated capital requirement of P280 million. Expenditures on this project to December 31, 2009 amounted to P149.8 million, with P100 million spent during the year. Commencement of commercial operation is expected in 2010.

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 P303.6 million, bringing the Company's expenditures from 1967 to date to P3.04 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 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; and for Sibutad, as second runner-up from 2006 to 2008.

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 mining, milling 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 mining, milling and support facilities in its Bulawan mine site and Sibutad Project which are currently on care and maintenance basis.

Real property and certain 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.

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 2009 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 is traded in the Philippine Stock Exchange.

On September 11, 2006, the Philippine SEC approved the declassification of the Company's shares of stock into a single class following the ratification and approval on June 23, 2006 by the Company's stockholders of the resolution by the Board of Directors on March 27, 2006 to declassify the Class A and Class B common stock of the Company into a single class.

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

Year	Quarter	High	Low
2010	February	15.00	12.50
	January	15.75	13.00
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
2008	4th Quarter	7.30	3.85
	3rd Quarter	7.80	6.40
	2nd Quarter	7.60	6.20
	1st Quarter *	10.50	5.80

^{*}before the 30% stock dividend on March 4, 2008

The Company's stocks were traded at P14.00 per share as of April 6, 2010.

Holders

The Company has 46,055 shareholders as of the end of 2009, with 4,900,207,961 common shares issued and outstanding.

The top 20 stockholders of the Company as of December 31, 2009 are as follows:

		Number of	% of
	Name of Stockholder	Shares	Ownership
1	PCD Nominee Corporation (As record owner. Number of shares shown is	2,405,832,903	49.10
	inclusive of 1,542,589,352 shares owned by First Pacific Company Limited.		
	See Item 11 for additional information.)		
2	Social Security System (inclusive of 624,782,675 shares lodged with PCD	1,101,323,548	22.48
	Nominee Corporation)		
3	Two Rivers Pacific Holdings Corp.	452,088,160	9.23
4	Nelson Dy Lim &/or Richard Ng Lim	83,750,000	1.71
5	The First National Investment Company	12,195,042	0.25
6	Albert Awad	8,844,478	0.18
7	Makati Supermarket Corp.	8,353,226	0.17
8	George K. Young	7,582,285	0.15
9	Estate of Allen Cham	6,720,476	0.14
10	Estate of Eudaldo Boix	5,025,422	0.10
11	Cede & Company	4,954,650	0.10
12	Philippine Remnants Co., Inc.	4,875,000	0.10
13	Betty Chen	4,706,637	0.10
14	Frank Pao	3,639,260	0.07
15	The Roman Catholic Archbishop of Manila	3,221,135	0.07
16	Religious of the Virgin Mary - B	3,125,777	0.06
17	Estate of Eudaldo Boix & Petra Hernando	3,093,203	0.06
18	Paulino de Ugarte &/or Elena de Ugarte	3,068,143	0.06
19	Ack Construction, Inc.	2,997,225	0.06
20	Carol Joan Reif	2,974,086	0.06
	Total	4,128,370,656	84.25

Dividends

The Company's Board of Directors has a standing policy to declare cash dividend at 25% of its annual cash flow before debt service should the circumstances allow for its declaration.

In 2007, the following cash dividends were declared:

- 1. Cash dividend of ten centavos (P0.10) 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 (P0.25) per share; for record date of November 26, 2007; payable on December 18, 2007.

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 at 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, 2009, the total option shares granted amount to 143,774,832, of which 78,522,225 option shares have been exercised and 19,604,375 option shares were forfeited.

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

For the years ended December 31, 2009, 2008 and 2007

Information on the Company's results of operations and financial condition presented in the 2009 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 contributed by the Parent Company, amounted to P9.055 billion in 2009, compared to P9.717 billion in 2008 and P12.217 billion in 2007, respectively the fourth, the third, and the highest revenue levels in the

Company's 54 years history to date. Despite higher realized gold prices, consolidated revenue in 2009 decreased from 2008 on account of lower metal production, a result of ground condition and ore handling problems that contributed to lower ore tonnage and grade. A significant decline in copper revenue in 2008, mainly due to lower realized copper price account for the decrease in revenue for the year compared to 2007.

Realized gold price per ounce averaged \$946 in 2009, \$788 in 2008, and \$708 in 2007. Realized copper price per pound averaged \$2.24 in 2009, \$2.22 in 2008, and \$3.47 in 2007. Consolidated revenue in 2009 reflected revenue from coal of P37.0 million contributed by Brixton Energy and Mining Corp., a wholly owned subsidiary, and revenue from petroleum of P85.1 million contributed by Forum Energy PLC (FEP), a 49.86% effectively owned subsidiary acquired by the Company in 2008.

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 P2.735 billion in 2009, the fourth highest in the Company's history to date, lower than the P2.800 billion in 2008, which is the third highest, and P5.006 billion in 2007, which is the highest. Aside from the lower revenue, the lower net earnings in 2009 and 2008 were also on account of increases in General and Administrative Expenses by 58% and 33%, respectively. With the addition of FEP to the Philex group, production costs on petroleum of P76.0 million in 2009 and P16.0 million in 2008 were reflected in the consolidated accounts. Foreign exchange loss of P68.9 million additionally accounts for the lower 2009 earnings, principally from the translation of the Company's dollar denominated short-term deposits at P46.20:\$1 as of December 31, 2009 from P47.52:\$1 as of December 31, 2008, compared to the foreign exchange gain of P238.4 million in 2008. though foreign exchange loss was higher in 2007 at P306.6 million. Share in net equity of associates in 2009 was a loss of P72.6 million, mainly from FEP's sale of its interest in Forum Cebu Coal Corporation's Coal Operating Contract 131, compared to the P10.1 million equity in net earnings of Petroenergy Resources Corporation acquired in 2008. In 2009, the Company recognized a loss of P1.7 million on disposal of property, plant and equipment and others, compared to the gain of P5.7 million in 2008. The gain in 2009 on disposal of AFS Financial Assets 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 in 2008 and P106.8 million in 2007.

In 2009, the Company 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 marked-to-market gain of P470.1 million from the foreign currency hedging contract which expired in September 2009 was also recognized as a reversal of the marked-to-market loss on the same contract recognized in 2008. The Company provided P25.1 million for losses on the abandonment of its Madagascar Project and P41.0 million for directors compensation. Provisions for losses in 2008 and 2007 amounted to P226.9 million and P270.0 million, respectively, P44.9 million of which provision in 2008 were reversed in 2009. Other charges of P15.0 million was also booked in 2009 compared to P111.4 million of taxes paid in 2008 and the P44.5 million and P7.9 million losses from write-off of certain fixed assets in 2008 and 2007, respectively.

Despite a slightly higher net income before tax of P3.5 billion in 2009 compared to P3.3 billion in 2008, but lower compared to P5.6 billion in 2007, the 2009 provision for income tax for P766.6 million is significantly higher compared to P469.8 million in 2008 and P615.6 million in 2007 because the full statutory income tax rate became applicable again to the Company in 2009. The Company's three years income tax holiday granted by the Board of Investments on the Padcal mine's incremental income from its 782 Meter Level ended in 2008.

Core net income (net income before non-recurring items) amounted to P1.8 billion in 2009, lower than the core net income in 2008 of P3.1 billion and P5.2 billion in 2007.

To protect part of its future revenues from unfavorable metal price fluctuations, the Parent Company enters into metal hedging contracts from which hedging loss of P1.2 billion in 2009, P313.5 million in 2008, and hedging gains of P145.2 million in 2007 were recognized. 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. Hedging gains and losses are reflected in the Company's revenue and are considered in computing the Company's average realized prices for its metal production.

The Company's outstanding financial instruments as of December 31, 2009 and March 31, 2010 are presented in the following table:

On Gold

Off Gold											
		Total	Monthly	Strike							
Deal Dates		Quantity	Maturity	Price	Period Covered						
		(Ounces)	(Ounces)	(\$ per oz.)	From	То					
2009											
Oct 06, 2009	Put	30,000	2,500	802.00	Jan 2010	Dec 2010					
Oct 06, 2009	Put	30,000	2,500	802.00	Jan 2010	Dec 2010					
Nov 3, 2009	Put	13,500	1,500	861.00	Jan 2010	Sept 2010					
Total as of Dec. 31	, 2009	73,500		812.84							
2010											
Jan 11, 2010	Put	16,500	1,500	912.25	Feb 2010	Dec 2010					
Jan 15, 2010	Put	22,000	2,000	915.25	Feb 2010	Dec 2010					
Total as of March 3	1, 2010	38,500		913.96							

On Copper

Deal Dates		Total Quantity	Monthly Maturity	Strike Pr	ice	Period (Covered		
		(DMT)	(DMT)	(\$ per DMT)	(\$ per lb.)	From	То		
2010									
Jan 15, 2010	Put	3,575	325	6,614.00	3.00	Feb 2010	Dec 2010		
Jan 15, 2010	Put	3,575	325	6,614.00	6,614.00 3.00		Dec 2010		
Jan 15, 2010	Put	3,575	325	6,614.00	3.00	Feb 2010	Dec 2010		
Jan 15, 2010	Put	3,575	325	6,614.00	3.00	Feb 2010	Dec 2010		
Total as of March 3	1, 2010	14,300		6,614.00	3.00				

There were no outstanding copper hedge contracts as of December 31, 2009.

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. 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, 2007, the Company had outstanding forward contract to sell 250 tonnes of copper monthly at the forward price of \$3.58 per pound maturing on January 2008, with the counterparty having the option to extend the contract to October 2009 for 5,250 tonnes at the same forward price. Contracts at the forward price of \$3.15 per pound extendable to September 2008 for 800 tonnes and \$3.27 per pound extendable to August 2008 for 1,050 tonnes were also outstanding as at the end of 2007. Furthermore, the Company had currency

forward contracts for terms up to 2009 with weekly maturity of \$1 million at forward rates ranging from the average of P42.26 to P42.84 per \$1, with earlier termination provisions when target profits are achieved

As of December 31, Current Assets of the Company amounted to P5.0 billion in 2009 compared to P12.5 billion in 2008 and P5.7 billion in 2007.

Cash and cash equivalents decreased to P2.9 billion in 2009 mainly due to lower revenue, acquisition of investments, capital and exploration expenditures and payment of short-term loans, compared to P10.7 billion in 2008 which increased from P2.6 billion in 2007 from higher net earnings generated and a short-term loan availment of \$55 million.

Accounts Receivable increased to P517.1 million in 2009 on account of Trade Receivable collectible the following year, compared to P127.7 million in 2008; although decreased from P1.8 billion in 2007. In 2008, Accounts Receivable was lower than in 2007 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 a standard practice worldwide, the value of 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 2007 was the calendar month following the month of its arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper. In 2008, the QP was the calendar month following the month of arrival for copper. In 2009, the QP for copper, gold and silver was the calendar month following the month of arrival.

Inventories were at about the same level at P1.1 billion in 2009 and P1.3 billion in 2008 but higher than the P897.7 million in 2007. Effective in 2008, Mine Products Inventory is recognized at net realizable value, from at lower of cost or net realizable value in previous years. This change in accounting policy has increased the value of Mine Products Inventory to P381.0 million in 2008 at realizable value from at cost of P59.9 million in 2007.

The increase in Other Current Assets in 2009, 2008 and 2007 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 P4.7 billion in 2009 from P4.1 billion in 2008 and P3.8 billion in 2007. The increases in 2009, 2008 and 2007 were mainly due to additional capital expenditures of P1.2 billion, P966.7 million and P1.3 billion, respectively, incurred by the Parent Company, as well as the consolidation of FEP's PPE balance of P192.6 million in 2009 and P178.9 million in 2008.

The total capital expenditures budget for 2010 is currently at P2.8 billion, of which P1.2 billion are for Padcal operation and P1.6 billion are for exploration projects.

As of December 31, Available for Sale Investments reflected at fair values amounted to P756.9 million in 2009, P378.8 million in 2008, and P776.4 million in 2007. The higher balance in 2009 against 2008 is due to the recovery in value of the Company's investment in Indophil shares; while the lower balance in 2008 as compared to 2007 was mainly due to the impairment made on the Company's investment in the Indophil shares and the partial sale of the Company's holdings in Philodrill.

Investment in shares of Stocks increased to P1.1 billion compared to P260.3 million in 2008 and P167.0 million in 2007. The higher balance in 2009 is due to the subscription of the Parent Company in additional shares in Pitkin Petroleum Limited (Pitkin) for the amount of US\$14 million in March 2009. Together with PPC, a wholly-owned subsidiary holding 6.42% ownership interest, the Company now has a total of 21% ownership interest in Pitkin requiring the reclassification of the Company's holdings from AFS Investments to Investments in Associates.

Deferred Exploration Costs and Other Non-current Assets substantially increased to P9.5 billion compared to P1.7 billion in 2008 and P237.0 million in 2007 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. The consolidation of FEP's deferred exploration costs and the other ongoing exploration projects of the Company for which P501.0 million was spent in 2008 contributed to the increase in 2008; while the provisions for write-down of inactive exploration projects under the Company's 81%-owned subsidiary, Philex Gold Philippines, Inc. (PGPI), partially offset by exploration costs of P85.3 million incurred for the Lascogon gold project, contributed to the decrease in 2007 versus the previous year.

Derivatives Assets amounted to P20.0 million in 2009, none in 2008. Total current and non-current Derivative Assets in 2007 amounted to P95.7 million representing the marked-to-market gain on the Company's outstanding derivative contracts as at year end.

Total Assets of the Company amounted to P21.4 billion compared to P19.4 billion in 2008 and P10.9 billion in 2007.

Current Liabilities as of December 31 amounted to P1.2 billion in 2009, compared to P5.9 billion in 2008 and P1.6 billion in 2007. The short-term bank loans of P4.0 billion availed in 2008 were repaid in 2009.

The increase in Accounts Payable and Accrued Liabilities to P866.9 million in 2009 from P780.1 million in 2008 and P688.0 million in 2007 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. There was no outstanding balance of Derivative Liabilities in 2009; however, the increase to P634.1 million in 2008 from P174.3 million in 2007 were due to the marked-to-market losses on the Company's outstanding hedging instruments as at year-end of 2008. With the payments of P4.4 million in 2009 and P44.5 million in 2008, Dividends Payable decreased to P168.9 million in 2009 from P173.3 million in 2008 and P217.8 million in 2007. Provisions and Other Payables decreased to P115.7 million in 2009 compared to P199.4 million in 2008 and P257.1 million in 2007. The decrease in 2009 was due to the reversal of P44.9 million provision booked in 2008 for probable claims against the Company on certain legal and regulatory matters which were settled in 2009. Despite higher provision for income tax, Income Tax Payable is lower at P2.2 million in 2009 compared to P52.0 million in 2008 and P64.8 million in 2007 because of the higher quarterly tax payments made during the year.

The decrease in Current Liabilities significantly contributed to the decrease in Total Liabilities to P3.7 billion compared to P6.9 billion in 2008 and P2.5 billion in 2007.

Non-current Liabilities amounted to P2.5 billion in 2009 compared to P992.4 million in 2008 and P854.3 million in 2007, mainly as a result of the increase in Deferred Income Tax Liabilities to P2.0 billion in 2009 from P842 thousand in 2008 and P3.0 million in 2007.

Provision for Mine Rehabilitation Costs increased to P33.7 million in 2009 from P26.6 million in 2008 and P204.9 million 2007. The increase in provision in 2009 compared to 2008 was due to the BEMC's P4.9 million provision for asset retirement obligation on its coal project; while the decrease in provision in 2008 was due to the reduction in estimated nominal cash flows for the rehabilitation of the Padcal Mine.

Under PAS 19, Employees Benefits, the Company also provided Accrued Retirement Cost amounting to P30.3 million in 2009 compared to P80.2 million in 2008 and P126.0 million in 2007.

The Provision for Losses in 2009 is mainly for the contingent liability of a subsidiary acquired in 2008 which is consolidated into the Company's accounts. With the unwinding in 2009 of the Company's gold hedge collars maturing in 2011, the Long-term portion of the Derivative Liability balance amounted to nil in 2009 compared to P314.9 million in 2008 and P458.8 million in 2007.

Stockholders' Equity amounted to P17.7 billion in 2009 compared to P12.5 billion in 2008 and P8.4 billion in 2007. Aside from the net income for the year, several factors contributed to the increase in equity in 2009. Capital Stock increased to P4.9 billion in 2009 from P3.9 billion in 2008 due to the 25% stock dividend distributed in June 2009. Stock options exercised in 2009 increased Additional Paid-in Capital to P774.5 million in 2009 from P681.7 million in 2008. 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. The decrease in Cumulative translation adjustment to minus P231.6 million in 2009 from minus P300.1 million in 2008, the increase in Revaluation Surplus to P1.6 billion from to P39.0 million in 2008 arising from the fair revaluation of the Silangan Project acquired from Anglo in 2009, and the increase in minority interest to P700.2 million in 2009 from P640.6 million 2008, all contributed to the 2009 increase in total Stockholders' Equity. The increase in Stockholders' Equity in 2008 versus in 2007 was mainly due to the net income of P2.8 billion in 2008, the stock option exercised in 2008 which increased Additional Paid-in Capital, and the increase in Revaluation Surplus on account of the consolidation of FEP which became a subsidiary in 2008.

For the year, Net cash provided by operating activities amounted P2.1 billion in 2009, P5.5 billion in 2008, and P4.7 billion in 2007. Cash used in investing activities, principally for the additions to PPE and Deferred Exploration Costs which included the consolidation of the non-cash asset of the Silangan companies, amounted to P5.9 billion in 2009 compared to P1.8 billion and P1.5 billion in 2008 and 2007, respectively. Net cash used in financing activities amounted to P3.9 billion in 2009 mainly in the repayment of short-term bank loans of P4.0 billion availed in 2008. Net cash used in financing activities in 2007 increased to P2.2 billion from previous year due to dividends payments and the full repayment of medium-term bank loans.

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 2008.

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 2009 amounted to \$946 per ounce gold and \$2.24 per pound copper.

The copper price per pound is currently at \$3.36, 50% higher than the \$2.24 average realized price in 2009, while the gold price per ounce is currently at \$1,105, 17% higher than the \$946 average realized in 2009.

At the budgeted price levels of \$3.20 per pound for copper and \$1,150 per ounce for gold, operating revenue for 2010 has been budgeted at P13.0 billion, 44% higher than 2009 revenue. Gold is expected to contribute 51% of revenue versus copper's contribution at 43%, resulting in the budgeted operating income of P5.7 billion and net income of P3.9 billion for the year, the sensitivity of which to different price assumptions is shown in the following table:

		Average Copper Prices (\$/lb.)												
Р	Millions	3.00	3.10	3.20	3.30	3.40	3.50							
·	800	2,295	2,410	2,525	2,641	2,756	2,871							
Price (\$/oz.)	900	2,686	2,801	2,917	3,032	3,147	3,263							
	1,000	3,080	3,196	3,311	3,426	3,542	3,657							
	1,100	3,475	3,590	3,705	3,821	3,936	4,051							
Gold	1,150	3,672	3,787	3,902	4,018	4,133	4,248							
Average	1,200	3,869	3,984	4,100	4,215	4,330	4,446							
Ave	1,300	4,263	4,379	4,494	4,609	4,725	4,840							

Tonnes Milled and Ore Grade

Tonnes milled and ore grade determine concentrates production and sales volume. The higher the tonnage and the grade of ore, the more metals are produced and sold.

Tonnes milled in 2009 were 8.2 million at the average grade of 0.567 grams per tonne gold and 0.228% copper. Metal production was 119 thousand ounces gold and 34 million pounds copper.

Concentrates shipped for the year 2009 were 65,048 tonnes containing 124 thousand ounces gold and 35 million pounds copper.

In 2008, tonnes milled were 8.9 million at the average grade of 0.643 grams per tonne gold and 0.257% copper. Metal production was 145 thousand ounces gold and 41 million pounds copper. Concentrates shipped were 75,397 tonnes containing 140 thousand ounces gold and 40 million pounds copper.

The budgeted milling tonnage for 2010 is higher at 9.1 million tonnes at the average grade of 0.552 grams per tonne gold and 0.227% copper. In terms of metal production, gold is budgeted at 130 thousand ounces while copper at 38 million pounds.

Foreign Exchange Rate

As the Company's sales proceeds and bank loans are in U.S. dollars, a higher Philippine peso to U.S. dollar exchange rate means higher peso sales revenue but would also reflect a foreign exchange loss on the restatement of the Company's dollar obligations. Conversely, a lower exchange rate reduces the Company's revenue in pesos but brings about foreign exchange income on the loans. As a significant portion of the Company's cash and cash equivalents are also in U.S. dollar, higher exchange rates would reflect foreign exchange gain, and at lower exchange rate a loss. The Company's average realized exchange rate in 2009 and 2008 were P45.63 and P43.96, respectively. As of December 31, 2009, the peso to dollar exchange rate was at P46.20 compared to P47.52 as of December 31, 2008.

<u>Total Production Cost Per Tonne and Operating Cost Per Ounce Gold</u>

The Company's average operating 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 2009, the total production cost (minesite cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was P559 from the total production cost of P4.5 billion over ore milled of 8.2 million tonnes, 19% higher compared to the cost per tonne of P470 from the production cost of P4.2 billion over ore milled of 8.9 million tonnes in 2008.

Expressed in operating cost (all cost and expenses excluding corporate overhead) per ounce gold produced, operating cost before copper revenue credits was \$1,056 per ounce in 2009 compared to \$743 per ounce in 2008. After copper revenue credit, the corresponding cost per ounce was \$404 in 2009 compared to \$101 in 2008.

In 2010, the projected total production cost per tonne is P542 from the total production cost of P4.9 billion. The Company has not budgeted any significant change in the components of its operating cost in 2010. The budgeted operating cost per ounce of gold produced is at \$1,046 per ounce, and net of copper revenue credits is at \$103 per ounce in 2010.

Earnings Per Share

The earnings per share reflect the Company's bottom line operating results 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 lower earnings per share of P0.581 in 2009 from P0.833 per share in 2008 is also due to the increase in average number of shares on account of the 25% stock dividend distributed in 2009.

Known Trends, Events or Uncertainties

On January 7, 2010, pursuant to a subscription agreement, the Parent Company acquired an aggregate of 5,000,000 shares of FEC at a purchase price of US\$2.5 million (P114.6 million). The acquisition represented 1.14% of the issued and outstanding shares of FEC as of January 7, 2010. Following the acquisition, the Parent Company now has ownership of and control over 225,000,000 shares of FEC, representing 51.2% of the issued and outstanding shares of FEC as of January 7, 2010.

On February 15, 2010, FEP was awarded Service Contract 72 by the Department of Energy in furtherance of FEP's GSEC101 license in which FEP has a 70% interest as its principal asset. The conversion of FEP's GSEC101 to SC72 paves the way for the continuation of exploration program on the properties where FEP has a minimum commitment for its 70% share of the first sub phase of US\$3.0 million (P138.6 million).

On February 24, 2010, PPC acquired an additional 786,259 shares at the amount of £511 thousand (₱36.7 million) representing 2.4% equity interest in FEP. As a result of the additional acquisition, PPC now holds 39.1% of the issued and outstanding shares of the investee.

On February 26, 2010, The Parent Company has entered into a definitive arrangement agreement with PGI whereby the Parent Company would indirectly acquire all the outstanding common shares of PGI from its existing minority shareholders for US\$0.75 per share. As part of the transaction, PGI would also transfer all of the shares of its wholly-owned subsidiary, PGPI, to PGHI in exchange for the amount of Can \$82.4 million. This plan of agreement, if eventually executed, would make the Silangan Project fully owned by the Company.

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 are not presently determinable.

Other than what have been discussed in their respective sections 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 a material effect on the Company's financial position or results of operations. 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 relationships 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 2009 and 2008, 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 P5.345 million for 2009 and 4.845 million for 2008.

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 P1.2 million in 2009 and P300 thousand in 2008.

All Other Fees

There are 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 prepared 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.

<u>Changes in and Disagreements with Accountants on Accounting and Financial</u> <u>Disclosures</u>

There is 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 - 63, 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. 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 Commisioner of PT Indofood Sukses Makmur Tbk. He is also a Director of the Manila Electric Company.

MARILYN A. VICTORIO-AQUINO – 54, Filipino citizen. She was elected as Director of the Company and PGPI on December 7, 2009. She joined Sycip Salazar Hernandez and Gatmaitan Law Offices in 1980 and became partner since 1989.

NELSON B. BAYOT – 70, Filipino citizen. He was elected as Independent Director of the Company on March 5, 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.

THELMO Y. CUNANAN – 71, Filipino citizen. He has been a Director of the Company and PGPI for five years since November 3, 2004 and re-elected on June 24, 2009. He is the Chairman of the Social Security Commission. He was President and Chief Executive Officer of the Philippine National Oil Company from 2001 to 2004.

ALBERT F. DEL ROSARIO – 70, Filipino citizen. He was elected as Director of the Company and PGPI on December 7, 2009. He is currently the Chairman of Philippine Stratbase Consultancy, Inc. and President of Gotuaco, del Rosario Insurance Brokers, Inc. He is a Director of PLDT, Business World Publishing Corporation, First Pacific Company Ltd., PT Indofood Sukses Makmur Tbk (Indonesia), Landco Pacific Corporation, Metro Pacific Investments Corporation, and ABC Development Corporation.

OSCAR J. HILADO – 72, Filipino citizen. He was elected as Independent Director of the Company on December 7, 2009. 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.

SERGIO R. ORTIZ-LUIS, JR. - 66, Filipino citizen. He was elected as Director of the Company and a Director of PGPI on June 24, 2009. He is currently a Commissioner of the Social Security System as well as the Vice-Chairman of the Export Development Council and a Director of the Employees Compensation Commission. He is also Commissioner of Patrol 117 (Foundation for Crime Prevention) and an oficio Director of the Department of Trade and Industry – Philippine Quality Award Committee. Further, he is presently the Chairman of the Export and Industry Bank, Orient Delicacies, Inc. and Paper Service Center Corporation.

ROMULO L. NERI - 60, Filipino citizen. He has been a Director of the Company and PGPI since August 19, 2008 and was re-elected on June 24, 2009. He is currently the President and Chief Executive Officer of the Social Security Commission. He is also the Secretary of National Social Welfare Cluster of the Office of the President of the Philippines. He was the Chairman of the Commission on Higher Education from August 2007 to July 2008, and also the Secretary of Socio-Economic Planning and the Director-General of National Economic and Development Authority from December 2002 to July 2005 and from February 2006 to August 2007.

ROBERT C. NICHOLSON - 54, British citizen. He has been a Director of the Company and PGPI since November 28, 2008 and was re-elected on June 24, 2009. He is an Executive Director of First Pacific Company Limited, a Commissioner of PT Indofood Sukses Makmur Tnk, a Director of Level Up International Holdings Pte. Ltd., 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.

EDWARD A. TORTORICI – 70, American citizen. He was elected as Director of the Company and PGPI on December 7, 2009. He is currently an Executive Director of First Pacific Company Limited. He serves as Commisioner of PT Indofood Sukses Makmur Tbk; a Director of Metro Pacific Investments Corporation, Maynilad Water Services, Inc., and Landco Pacific Corporation and Executive Advisor of MPIC. He also serves as a Trustee of the Asia Society and the Metropolitan Museum of Manila.

JOSE ERNESTO C. VILLALUNA, JR. – 70, 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 for four years and re-elected on June 24, 2009. He is also a Director of PGPI, Philex Petroleum Corporation, FEC Resources, Inc., Brixton Energy & Mining Corporation, Silangan Mindanao Mining Co., Inc., and Lascogon Mining Corporation. He was the Vice Chairman and President of Itogon Suyoc Mines, Inc. in 1993 to 2001. He has been a Director of ISM Communications Corporation since July 2001.

Executive Officers

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

MANUEL V. PANGILINAN - 63, Filipino citizen. Chairman & Chief Executive Officer effective December 7, 2009 to present. 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.

ALBERT AWAD – 101, American citizen. Vice Chairman Emeritus effective July 28, 2006. He was Director from 1955 to 2006. He was also a Director of PGPI from 1996 to 2006. He is President of American Wire and Cable Co., Inc.

JOSE ERNESTO C. VILLALUNA, JR. – 70, 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 is also the President and Chief Operating Officer of PGPI, President and Chief Executive Officer of FEC Resources, Inc., President of Philex Petroleum Corporation, 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 – 60, Filipino citizen. Treasurer, Chief Financial Officer and Vice President – Finance since November 2003, previously Vice President – Finance since 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 – 55, Filipino citizen. Corporate Secretary since July 1998 to present. She was Director of the Company and PGPI from March 12, 2001 to July 31, 2003. 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.

EULALIO B. AUSTIN, JR. – 48, Filipino citizen. Vice President & Resident Manager for Padcal Operations from January 1, 2004 to present, previously Mine Division Manager (Padcal) in January 1999, Engineering Group Manager in October 1998 and Mine Engineering & Draw Control Department Manager in January 1996.

REDEMPTA P. BALUDA – 54, Filipino citizen. Vice President – 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.

EDGARDO C. CRISOSTOMO – 61, Filipino citizen. Vice President – Admin. & Materials Management since March 1, 2007 to present, previously Vice President – Purchasing & Materials Management from 2000 to February 28, 2007, Assistant Vice President – Purchasing from 1996 to 1999 and Purchasing Manager in 1995.

VICTOR A. FRANCISCO – 45, Filipino citizen. Vice President – 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.

ENRIQUE C. RODRIGUEZ, JR. – 50, Filipino citizen. Vice President – 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 – 78, 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 $\frac{1}{2}$ %) percent of the Company's net income before tax of the preceding year. Payments made in 2009, 2008 and 2007 amounted to P49.1 million, P79.6 million and P52.6 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 other than similar terms in 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	
<u>Year</u>	Directors' Fee
2010 (Estimated)	P 43,832
2009	P 206,190
2008	P 120,408
2007	P 53,502

OFFICERS

NAME
Manuel V. Pangilinan
Albert Awad
Jose Ernesto C. Villaluna, Jr.

POSITION
Chairman & CEO
Vice Chairman Emeritus
President & COO

Renato N. Migriño Treasurer, CFO and VP - Finance

Barbara Anne C. Migallos Corporate Secretary

Eulalio B. Austin, Jr. VP & Resident Manager - Padcal Operations

Redempta P. Baluda *VP – Exploration*

Edgardo C. Crisostomo *VP - Administration & Materials Mgmt.*Victor A. Francisco *VP- Environment & Community Relations*

Enrique C. Rodriguez, Jr. *VP - Legal*

Guadaflor C. Malonzo Assistant Corporate Secretary

Walter W. Brown CEO (Resigned effective Dec. 7, 2009)

Total Officers'

<u>Year</u>	<u>Salary</u>	<u>Bonus</u>
2010 (Estimated)	P 24,000	P 12,000
2009	P 27,420	P 42,403
2008	P 23,239	P 35,630
2007	P 19,968	P 23,180

ALL DIRECTORS & OFFICERS AS A GROUP

<u>Year</u>	<u>I otal Amount</u>
2010 (Estimated)	P 79,832
2009	P 276,013
2008	P 179,277
2007	P 96,650

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, 2009 follows:

	Name and Address of Record	Name of Beneficial		Amount			
Title of	Owner and Relationship	Owner and Relationship		of			
Class	with Issuer	with Record Owner	Citizenship	Ownership	%		
Common	First Pacific Company Limited	First Pacific Company Limited	Bermuda	1,542,589,352	31.48		
	8 Connaught Place, Central, Hong Kong	See Note 1 below .					
	See Note 4 below. <u>Affiliate:</u>						
Common	Tw o Rivers Pacific Holdings Corp.	Two Rivers Pacific Holdings Corp.	Filipino	452,088,160	9.23		
	10/F MGO Building, Legazpi corner de la Rosa Streets, Legazpi Village, Makati City	Rosa Streets, Legazpi Village, See Note 1 below .					
	See Note 4 below.						
			Total	1,994,677,512	40.71		
Common	Social Security System	Social Security System,	Filipino	1,101,323,548	22.48		
	East Avenue, Quezon City	w hich is also the record ow ner.					
	See Note 4 below.	See Note 2 below.					
Common	PCD Nominee Corp.	See Note 3 below .	Filipino	863,243,551	17.62		
	G/F MSE Building, 6767 Ayala Ave., Makati City. See Note 4 below.						

The 1,542,589,252 shares under First Pacific Company Limited (FPC) were lodged with the PCD Nominee Corporation as the record owner as of December 31, 2009. FPC and its affiliate, Two Rivers Pacific Holdings Corporation, are represented by Messrs. Manuel V. Pangilinan, Robert C. Nicholson, Edward A. Tortorici, Albert F. Del Rosario and Ms. Marilyn A. Victorio-Aquino in the Company's Board of Directors.

The total shares held by the Social Security System (SSS) presented above is inclusive of 624,782,675 shares lodged with the PCD Nominee Corporation as the record owner as of December 31, 2009. Messrs. Thelmo Y. Cunanan, Romulo L. Neri and Sergio R. Ortiz-Luis, Jr., currently represent the SSS in the Company as members of its Board of Directors.

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 in the Philippines. The beneficial owners of such shares are PCD's participants who hold the shares on their behalf or in behalf of their clients. The 863,243,551 shares shown above as of December 31, 2009 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 1,542,589,352 shares or about 31.48%, and (3) Social Security System which has 624,782,675 or about 12.75%, 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.

⁴ 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, 2009 follows:

Title		Nature of	Number					
of Class	Name of Beneficial Owner	Ownership	of Shares	Citizenship	%			
Common	Manuel V. Pangilinan	Direct	75,000	0.002%				
Common	Marilyn A. Victorio-Aquino	Direct	100	Filipino	0.000%			
Common	Thelmo Y. Cunanan	Direct	3,286,251	Filipino	0.067%			
Common	Albert F. Del Rosario	Direct	100	Filipino	0.000%			
Common	Oscar J. Hilado	Direct	100	Filipino	0.000%			
Common	Sergio R. Ortiz-Luis, Jr.	Direct	1	Filipino	0.000%			
Common	Romulo L. Neri	Direct	1	Filipino	0.000%			
Common	Robert C. Nicholson	Direct	1,250	British	0.000%			
Common	Edw ard A. Tortorici	Direct	100	0.000%				
Common	Jose Ernesto C. Villaluna, Jr.	Direct	5,153,750	0.105%				
Common	Albert Aw ad	Direct	8,844,478	0.180%				
Common	Renato N. Migriño		0	Filipino	0.000%			
Common	Barbara Anne C. Migallos	Direct	84,500	Filipino	0.002%			
Common	Eulalio B. Austin, Jr.	Direct	335,156	Filipino	0.007%			
Common	Redempta P. Baluda	Direct	130,345	Filipino	0.003%			
Common	Edgardo C. Crisostomo		0	Filipino	0.000%			
Common	Victor A. Francisco		0	Filipino	0.000%			
Common	Enrique C. Rodriguez, Jr.	Direct	201,000	Filipino	0.004%			
Common	Guadaflor C. Malonzo	Direct	648	Filipino	0.000%			
Directors	and Officers as a Group		18,112,780		0.370%			

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. Noninterest-bearing cash advances amounting to P879.0 million and P500.2 million as of December 31, 2009 and 2008, 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 P7.1 million in 2009, P4.1 million in 2008 and P3.6 million in 2007. As of December 31, 2009 and 2008, the Company's receivables from these transactions amounted to P458 million and P747 thousand, respectively, while PGPI's receivables amounted to P4.1 million as at end 2008 that was fully paid in 2009. PGPI also has an outstanding liability to SMMCI as of December 31, 2009 and 2008 amounting to P500 thousand.

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 2009 and 2008 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.

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, 2009 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

(b) Reports on SEC Form 17-C

There were nineteen (19) reports filed by the Company on SEC Form 17-C during the last six months in 2009 covered by this report, part of which follows:

Report Date	Item Reported
December 8, 2009	Election on December 7, 2009 of Mr. Manuel V. Pangilinan, Chairman of the Company, as concurrent Chief Executive Officer vice Dr. Walter A. Brown who resigned, and of the election of Mr. Edward A. Tortorici, Mr. Albert F. Del Rosario, and Ms. Marilyn Victorio-Aquino as directors vice Messrs. Roberto V. Ongpin, Walter A. Brown and Eric O. Recto who resigned, and the election of Messrs. Oscar J. Hilado and Eric O. Recto as independent directors vice Messrs. Reynaldo G. David and Leonardo L. Leonida who have also resigned.
December 3, 2009	Share Purchase Agreement entered into by Messrs. Roberto V. Ongpin and Walter W. Brown and the Development Bank of the Philippines with Two Rivers Pacific Holdings Corporation for the sale of 452,088,160 shares representing approximately 9.24% of the Company's outstanding capital stock.
November 13, 2009	Resignation of Atty. Leonardo L. Leonida as member of the Board of Directors of the Company.
November 11, 2009	Approval of the Executive Committee of Philex Mining Corporation of the Company's additional subscription to shares of Philex Petroleum Corporation.
November 5, 2009	Acquisition by Goldenmedia Corporation of additional 50 million shares of the Company.
October 14, 2009	Press release issued by Pitkin Petroleum Plc in London providing operational update on its activities in Vietnam, the Philippines and Peru.

July 22, 2009

Acquisition from Ashmore Mining, B.V. (formerly Anatolian Property, B.V.) of shares of Philex Petroleum Corporation, making it a fully-owned subsidiary.

There were 12 routinary reports on the Company's monthly production and shipments which 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 8, 2010.

MANUEL V. PANGILINAN Chairman & Chief Executive Officer

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

BARBARA ANNE C. MIGALLOS Corporate Secretary

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

PARALUMAN M. NAVARRO Division Manager – Corporate Finance

Subscribed and sworn to before me this 8th day of April 2010 at Pasig City. Affiants exhibiting to me their respective Community Tax Certificates with the number, place and date of issue indicated opposite their names together with their SSS no:

	Name	Community Tax Certificate No.	Date Issued	Place Issued	SSS ID No.
	Manuel V. Pangilinan	28649061	03/03/2010	Quezon City	03-1881608-3
	Jose Ernesto C. Villaluna, Jr.	18262577	03/16/2010	Quezon City	06-0113754-7
	Renato N. Migriño	30439506	04/05/2010	Las Piñas City	03-1950823-5
ĺ.	Barbara Anne C. Migallos	12220794	01/11/2010	Makati City	03-5864202-6
	Paraluman M. Navarro	29660902	03/08/2010	Cainta, Rizal	33-1139186-1

Doc. No.

Page No.

Book No.

Series of 2010.

ARYIN A. BARRIENTOS

NOTARY PUBLIC FOR AND IN THE CITY OF PASIG
APPOINTMENT NO. 103 (2010-2011)

COMMISSION EXPIRES ON DECEMBER 31, 2011

COMMISSION EXPIRES ON DECEMBER 31, 2011
No. 27 Bridon Street,
Barangay Kapitolyo, Pasig City 1600

PTR No. 926123;1-13-10; Pasig City ISP Lifetime Member No. 08800; Rizal Chapter ROLL NO. 51169; MAY 2005

PHILEX MINING CORPORATION PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600 PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600 PHILEX Building, 27 Brixton St., Pasig City, Philippines 1600

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, 2009 and 2008. These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

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

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

Subscribed and sworn to......

Philex Mining Corporation Statement of Management's Responsibility for Financial Statements Page 2

Subscribed and sworn to before me this 08 APR 2010 at Pasig City, affiants exhibiting to me their respective Community Tax Certificates (CTC) with the number, place and date of issue indicated opposite their names:

Name

Manuel V. Pangilinan Renato N. Migriño

SSS ID No

03-1881608-3 03-1950823-5

NOTARY PUBLIC FOR AND IN THE CITY OF PASIG APPOINTMENT NO. 103 (2010-2011)

COMMISSION EXFIRES ON DECEMBER 31, 2611

No. 27 Stricture Street,
Barangay Kapitohyo, Pasig City 1600

PTR No. 926123;1-13-10; Pasig City

IRP Lifeting Member No. 09800; Rizal Chapter

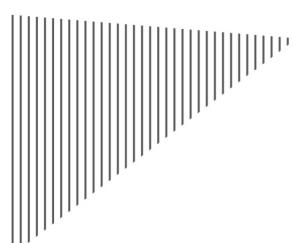
ROLL NO. 51169; MAY 2005

Doc. No. 17 Page No. 05 Book No. I Series of 2010.

COVER SHEET

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C	i	t	y																													
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	(Business Address: No. Street City/Town/Province) Renato N. Migriño (632) 631-1381																															
	Renato N. Migriño (Contact Person)																					L	-	(Cor					Nu	mbe	.)	
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Philex Mining Corporation and Subsidiaries

Consolidated Financial Statements December 31, 2009 and 2008 and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.





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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are





appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-1

Tax Identification No. 152-884-272

PTR No. 2087540, January 4, 2010, Makati City

March 5, 2010



PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31		
		2008	
		(Restated,	
	2009	Note 4)	
ASSETS			
Current Assets			
Cash and cash equivalents (Note 6)	₽2,881,115	₽10,713,106	
Accounts receivable (Notes 7 and 21)	517,115	127,702	
Inventories (Note 8)	1,146,219	1,262,530	
Derivative assets (Note 18)	19,975	_	
Other current assets (Note 9)	457,845	440,710	
Total Current Assets	5,022,269	12,544,048	
Noncurrent Assets			
Property, plant and equipment (Note 10)	4,668,892	4,066,257	
Available-for-sale financial assets (Note 11)	756,948	378,804	
Investments in shares of stock (Notes 11 and 26)	1,136,755	260,288	
Goodwill (Note 4)	258,593	258,593	
Deferred income tax assets - net (Note 22)	43	171,674	
Deferred exploration costs and			
other noncurrent assets (Note 12)	9,534,913	1,718,818	
Total Noncurrent Assets	16,356,144	6,854,434	
TOTAL ASSETS	₽21,378,413	₽19,398,482	
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term bank loans (Note 13)	₽_	₽4,039,200	
Accounts payable and accrued liabilities (Note 14)	866,890	780,071	
Income tax payable	2,243	52,044	
Dividends payable (Note 23)	168,856	173,301	
Provisions and other payables (Notes 11 and 28)	115,736	199,392	
Derivative liabilities (Note 18)	_	634,080	
Total Current Liabilities	1,153,725	5,878,088	
Noncurrent Liabilities			
Provision for mine rehabilitation costs (Note 10)	33,700	26,639	
Accrued retirement benefits cost (Note 16)	30,324	80,151	
Provision for losses (Note 28)	500,808	569,894	
Deferred income tax liabilities - net (Notes 4 and 22)	1,976,321	842	
Derivative liabilities (Note 18)	, , , <u> </u>	314,857	
Total Noncurrent Liabilities	2,541,153	992,383	
Total Liabilities	3,694,878	6,870,471	

(Forward)



	December 31		
		2008	
		(Restated	
	2009	Note 4)	
Equity Attributable to Equity Holders of the			
Parent Company			
Capital stock - P1 par value (held by 46,055 and 46,578 equity			
holders in 2009 and 2008, respectively) (Note 23)	₽ 4,900,605	₱3,880,851	
Additional paid-in capital	774,494	681,749	
Retained earnings (Note 23)	9,441,593	7,584,186	
Net unrealized gain on AFS financial assets (net of related			
deferred income tax of ₱169,113 in 2009) (Notes 11 and 22)	445,277	1,727	
Cumulative translation adjustment (net of related deferred	·		
income tax of ₱145,085 and ₱143,651 in 2009			
and 2008, respectively) (Notes 18 and 22)	(231,617)	(300,113)	
Net revaluation surplus (Note 4)	1,611,397	39,012	
Effect of transaction with minority interest (Note 2)	41,536	_	
	16,983,285	11,887,412	
Minority Interests (Note 23)	700,250	640,599	
Total Equity	17,683,535	12,528,011	
TOTAL LIABILITIES AND EQUITY	₽21,378,413	₱19,398,482	

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31			
	2009	2007		
REVENUE (Notes 7, 18 and 27)				
Gold	₽5,108,322	₽5,363,774	₽4,935,735	
Copper	3,741,625	4,259,135	7,191,720	
Silver	82,939	85,128	89,317	
	8,932,886	9,708,037	12,216,772	
Less marketing charges	677,002	669,212	986,137	
	8,255,884	9,038,825	11,230,635	
Petroleum	85,074	9,330	-	
Coal	37,024	_	_	
	8,377,982	9,048,155	11,230,635	
COCTC AND EVDENCES				
COSTS AND EXPENSES				
Mining and milling costs (including depletion	1 516 505	1 161 252	4 171 206	
and depreciation) (Note 15) General and administrative expenses (Note 15)	4,546,585	4,164,353 537,027	4,171,206 402,037	
Mine products taxes and royalties (Note 15)	848,930 487,225	578,062	457,910	
Petroleum production costs	75,725	15,973	437,910	
Handling, hauling and storage	54,471	65,915	68,253	
rianding, naumig and storage	6,012,936	5,361,330	5,099,406	
-	0,012,750	3,301,330	3,077,400	
OTHER INCOME (CHARGES)				
Excess of acquirer's interest in the fair value of				
identifiable net assets acquired over the cost of				
business combination (Note 4)	765,897	_	_	
Interest income (Note 6)	188,124	153,850	127,705	
Interest expense (Notes 10 and 13)	(108,047)	(53,543)	(109,621)	
Equity in net earnings (losses)				
of associates - net (Note 11)	(72,624)	10,113	_	
Foreign exchange gains (losses) - net				
(Notes 18 and 20)	(68,875)	238,430	(306,606)	
Gain (loss) on disposal of property, plant and				
equipment, and others (Note 10)	(1,698)	5,656	(50,416)	
Gain on disposal of AFS financial assets (Note 11)	126	84,565	106,843	
Others - net (Notes 10, 11, 12, 18 and 28)	434,032	(855,676)	(277,884)	
	1,136,935	(416,605)	(509,979)	
INCOME BEFORE INCOME TAX	3,501,981	3,270,220	5,621,250	

(Forward)



Years Ended December 31 2009 2008 2007 **PROVISION FOR INCOME TAX** (Note 22) ₽491,376 ₽559,638 Current ₽457,514 Deferred 309,098 (21,549)55,963 766,612 469,827 615,601 **NET INCOME** ₽2,735,369 ₱2,800,393 ₽5,005,649 Net income attributable to: ₽5,004,991 Equity holders of the Parent Company **₽2,830,309** ₱2,892,887 Minority interests (Note 23) (92,494)(94,940)658 ₽2,735,369 ₱2,800,393 ₽5,005,649 **BASIC EARNINGS PER SHARE** (Note 25) **₽**1.690 ₽0.581 ₽0.833 **DILUTED EARNINGS PER SHARE** (Note 25) ₽0.580 ₽0.828 ₱1.688

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Amounts in Thousands)

	Years Ended December 31				
	2009	2008	2007		
NET INCOME	₽2,735,369	₽2,800,393	₽5,005,649		
OTHER COMPREHENSIVE					
INCOME (LOSS)					
Revaluation surplus from acquisition of					
subsidiaries (Note 4)	1,572,385	39,012	_		
Unrealized gain (loss) on AFS financial					
assets - net of related deferred					
income tax (Note 11)	433,937	(46,144)	98,178		
Gain on translation of foreign subsidiaries	71,738	35,072	_		
Realized loss (gain) on disposal of AFS					
financial assets (Note 11)	9,613	(127,247)	(69,527)		
Gain (loss) on fair value of hedging					
instruments (Note 18)	(3,242)	175,198	(590,311)		
Adjustments on fair valuation of subsidiaries'		(004-1-)			
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		20.716			
(Note 11)	2 004 421	30,716	(5(1,6(0)		
	2,084,431	(798,110)	(561,660)		
TOTAL COMPREHENSIVE INCOME	₽ 4,819,800	₽2,002,283	₽4,443,989		
Total Comprehensive Income Attributable to:					
Equity holders of the Parent Company	₽ 4,914,740	₽2,999,494	₱4,443,331		
Minority interests (Note 23)	(94,940)	(997,211)	658		
	₽4,819,800	₽2,002,283	₽4,443,989		
	, , -	, ,	, ,		

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007 (Amounts in Thousands, Except Par Value Per Share)

_			At	tributable to Equ	uity Holders of th	ne Parent Compar	ny				
	Capital Stock (Note 23)	Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on AFS Financial Assets (Note 11)	Cumulative Translation Adjustment	Revaluation Surplus (Note 4)	Treasury Stock (Note 23)	Effect of Transactions with Minority Interest (Note 2)	Subtotal	Minority Interests (Note 23)	Total
DALANCES AT DECEMBED 21 2007	P2 057 700	P2 202	P1 011 555	D115 751	P70 020		(B220)	D	D5 077 070	n	D5 077 079
BALANCES AT DECEMBER 31, 2006 Total comprehensive income (loss)	₽2,957,790	₽2,393	₽1,911,555	₽115,751	₽79,928	₽-	(₱339)	₽_	₽5,067,078	₽-	₽5,067,078
for the year	_	_	5,004,991	28,651	(590,311)	_	_	_	4,443,331	658	4,443,989
Issuance of additional shares of stock	10,781	94,158	_	_	_	_	_	_	104,939	_	104,939
Increase in additional paid-in capital											
due to conversion of a liability	_	5,755	_	_	-	-	_	_	5,755	_	5,755
Increase in minority interest (Note 23)	_	_	(562)	_	_	_	_	_	(562)	154,472	153,910
Dividends declared during the year - ₱0.45 per share (Note 23)	_	_	(1,333,691)	_	_	_	_	_	(1,333,691)	_	(1,333,691)
year - 1 0.45 per share (100c 25)			(1,555,071)						(1,555,071)		(1,555,071)
BALANCES AT DECEMBER 31, 2007 Total comprehensive income (loss)	2,968,571	102,306	5,582,293	144,402	(510,383)	_	(339)	-	8,286,850	155,130	8,441,980
for the year	_	_	2,892,887	(142,675)	210,270	39,012	_	_	2,999,494	(997,211)	2,002,283
Issuance of additional shares of											
stock (Note 23)	21,286	32,098	-	_	-	-	_	_	53,384	_	53,384
Increase in additional paid-in capital due to									40.400		42.400
exercise of stock option Declaration of 30% stock dividend	_	43,190	_	_	_	_	_	_	43,190	_	43,190
during the year (Note 23)	890,994	_	(890,994)								
Buyback of treasury stock (Note 23)	690,994	_	(890,994)	_	_	_	(5,621,956)	_	(5,621,956)	_	(5,621,956)
Reissuance of treasury stock (Note 23)	_	504,155	_	_	_	_	5,622,295	_	6,126,450	_	6,126,450
Net increase in minority interest (Note 23)	_	-	_	_	_	_	-		-	1,482,680	1,482,680

(Forward)



_			A	ttributable to Equ	ity Holders of th	e Parent Compan	y				
	Capital	Additional		Net Unrealized Gain (Loss) on AFS Financial	Cumulative	Revaluation	Treasury	Effect of Transactions with Minority		Minority	
	Stock	Paid-In	Retained	Assets	Translation	Surplus	Stock	Interest		Interests	
	(Note 23)	Capital	Earnings	(Note 11)	Adjustment	(Note 4)	(Note 23)	(Note 2)	Subtotal	(Note 23)	Total
BALANCES AT DECEMBER 31, 2008	₽3,880,851	₽681,749	₽7,584,186	₽1,727	(₱300,113)	₽39,012	₽_	₽_	₽11,887,412	₽640,599	₽12,528,011
Total comprehensive income (loss) for the year Issuance of additional shares of stock	-	-	2,830,309	443,550	68,496	1,572,385	-	-	4,914,740	(94,940)	4,819,800
(Note 23) Increase in additional paid-in capital due	46,852	_	_	-	_	-	_	-	46,852	_	46,852
to exercise of stock option Declaration of 25% stock dividend	-	92,745	-	-	_	_	_	_	92,745	_	92,745
during the year (Note 23)	972,902	_	(972,902)	_	_	_	_	_	_	_	_
Increase in minority interest (Note 23)	-	_	_	-	_	-	_	-	-	154,591	154,591
Effect of transactions with minority interest (Note 2)	_	_	_		_	_	_	41,536	41,536	_	41,536
BALANCES AT DECEMBER 31, 2009	₽4,900,605	₽774,494	₽9,441,593	₽445,277	(₱231,617)	₽1,611,397	₽_	₽41,536	₽16,983,285	₽700,250	₽17,683,535

See accompanying Notes to Consolidated Financial Statements.



PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31			
	2009	2008	2007	
CACH ELONG EDOM OBED ATING A CTIVITIES				
CASH FLOWS FROM OPERATING ACTIVITIES Income before income tax	₽3,501,981	₽3,270,220	₽5,621,250	
Adjustments for:	+3,301,701	F3,270,220	F3,021,230	
Excess of acquirer's interest in the fair value of				
identifiable net assets acquired over the cost of				
business combination (Note 4)	(765,897)	_	_	
Depletion and depreciation (Note 10)	736,622	705,627	785,705	
Unrealized foreign exchange losses (gains)	700,022	700,027	700,700	
and others - net	(450,773)	688,013	251,337	
Interest income (Note 6)	(188,124)	(153,850)	(127,705)	
Measurement of mine product inventories to NRV	(136,217)	(380,960)	(127,700)	
Interest expense (Notes 13 and 14)	108,047	53,543	109,621	
Equity in net losses (earnings) of associates - net	72,624	(10,113)	_	
Stock-based compensation expense	28,664	43,190	71,733	
Loss (gain) on disposal of property, plant and		,	,	
equipment, and others - net	1,698	(5,656)	50,416	
Gain on disposal of AFS financial assets	(126)	(84,565)	(106,843)	
Impairment loss on AFS financial assets (Note 11)	_	226,979	(,,-	
Operating income before working capital changes	2,908,499	4,352,428	6,655,514	
Decrease (increase) in:	_,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	1,000,100	-,,	
Accounts receivable	(135,711)	1,761,860	(1,034,297)	
Inventories	252,416	22,493	(8,937)	
Derivative assets	(19,975)	_	34,539	
Other current assets	228,160	(90,829)	(91,673)	
Increase (decrease) in:	,	() ,	(, ,	
Accounts payable and accrued liabilities	(243,290)	81,188	(50,646)	
Derivative liabilities	(478,836)	16,450		
Advances from related parties		,	(52,203)	
Provision for retirement benefits cost (Note 16)	88,172	86,179	87,000	
Cash generated from operations	2,599,435	6,229,769	5,539,297	
Income taxes paid	(357,067)	(507,401)	(635,837)	
Interest received	225,635	103,812	127,705	
Retirement benefits contributions (Note 16)	(138,000)	(132,000)	(120,000)	
Interest paid	(116,170)	(52,273)	(93,915)	
Payments for provision for losses (Note 28)	(81,145)	(148,638)	(93,849)	
Net cash from operating activities	2,132,688	5,493,269	4,723,401	
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of receivables from Anglo American Exploration				
(Philippines) B.V. (Note 4)	(1,288,416)	_	_	
Additions to:	(1,200,710)	_	_	
Property, plant and equipment (Note 10)	(1,480,152)	(968,259)	(1,269,842)	
Investments in shares of stock (Note 11)	(742,686)	(247,746)	(1,207,072)	
AFS financial assets	(170,500)	(100,327)	(542,399)	
	(170,500)	(100,527)	(374,377)	
(Forward)				



Years Ended December 31 2009 2008 2007 Increase in deferred exploration costs and other noncurrent assets **(₽841,417)** (P426,059) (P115,539) Acquisition of non-cash net assets of: Silangan Mindanao Exploration Co., Inc. (Note 4) (783,762)Silangan Mindanao Mining Co., Inc. (Note 4) (392,352)Forum Energy plc (393,480)FEC Resources, Inc. (123,300)Acquisition of minority interest in Philex Petroleum Corporation (Note 2) (172,704)Dividends received 5,645 Net proceeds from sales of: Property, plant and equipment 596 50,487 378,686 Investments in shares of stock 248,138 AFS financial assets 103,116 172,195 Payment of subscription payable (28,524)(1,500,199)Net cash used in investing activities (5,865,748)(1,762,654)CASH FLOWS FROM FINANCING ACTIVITIES Payments of: Short-term bank loans and long-term debt (Notes 13 and 18) (4,750,903)(268,028)(982,848)Dividends (Note 23) (44,496)(4,445)(1,212,828)Proceeds from: 4,042,596 Availment of short-term bank loans (Note 13) 711,703 110,932 53,384 38,961 Exercise of stock options Reissuance of treasury shares (Note 23) 6,126,450 Payments for buyback of treasury shares (Note 23) (5,621,956)4,287,950 Net cash from (used in) financing activities (3,932,713)(2,156,715)EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS 64,233 (166,218)(31,675)NET INCREASE (DECREASE) IN CASH AND **CASH EQUIVALENTS** (7,831,991)8,082,798 1,034,812 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 10,713,106 2,630,308 1,595,496 CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6) **₽2,881,115** ₱10,713,106 ₱2,630,308

See accompanying Notes to Consolidated Financial Statements.



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

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

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

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

Business Operations

Padcal Mine Operations

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

BEMC

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

SMECI

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



PGPI

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

The Group's ability to realize its net deferred oil and mine exploration costs amounting to \$\frac{1}{2}9,534,913\$ and \$\frac{1}{2}1,718,818\$ as of December 31, 2009 and 2008, respectively (see Note 12), depends on the success of its exploration and future development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issue of the Financial Statements

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

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV) (see Note 8), and for available-for-sale (AFS) financial assets (see Note 11) and derivative financial instruments (see Note 18) that are measured at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional currency, rounded to the nearest thousand (\$\frac{1}{2}\$000) except when otherwise indicated.

Statement of Compliance

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

Changes in Accounting Policies

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

• Amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data. In addition,



reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and liquidity risk disclosures are presented in Notes 17 and 18, respectively, to the consolidated financial statements.

- PFRS 8, Operating Segments, replaces Philippine Accounting Standards (PAS) 14, Segment Reporting, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be what management uses internally for evaluating the performance of operating segments and allocating resources to those segments where information may be different from that reported in the consolidated balance sheet, consolidated statement of income and consolidated statement of comprehensive income, and the Group will have to provide explanations and reconciliations of the differences. Adoption of this standard did not have any effect on the financial position or performance of the Group. Disclosures about each of the business segments identified by the Group are shown in Note 5 to the consolidated financial statements, including revised comparative information.
- Amendments to PAS 1, *Presentation of Financial Statements*, separate owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the consolidated statement of comprehensive income. It presents all items of recognized income and expenses, either in one consolidated single statement (a consolidated statement of comprehensive income), or in two linked consolidated statements (a separate consolidated statement of income and a consolidated statement of comprehensive income). The Group has elected to present two-linked statements a consolidated statement of income and a consolidated statement of comprehensive income. The consolidated financial statements have been prepared under these revised disclosure requirements.

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

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

Improvements to PFRS

- PAS 1, Presentation of Financial Statements
- PAS 16, Property, Plant and Equipment
- PAS 19, Employee Benefits



- PAS 20, Accounting for Government Grants and Disclosures of Government Assistance
- PAS 23, Borrowing Costs
- PAS 28, Investments in Associates
- PAS 29, Financial Reporting in Hyperinflationary Economies
- PAS 31, Interests in Joint Ventures
- PAS 36, Impairment of Assets
- PAS 38, Intangible Assets
- PAS 39, Financial Instruments: Recognition and Measurement
- PAS 40, Investment Property
- PAS 41, Agriculture

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

Summary of Significant Accounting Policies

Basis of Consolidation

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

Subsidiaries

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

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

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

Subsidiaries	Nature of Business			
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines to serve as an intermediary holding company through which its subsidiaries and the Company conduct large-scale exploration, development and utilization of mineral resources.			

(Forward)



Subsidiaries	Nature of Business				
Philippines Gold Mining Company B.V. (PGMC-BV)	Incorporated in The Netherlands, as previously the intermediary holding company of PGI.				
Philex Gold, Inc. (PGI)	Incorporated in Canada and owns 100% of the outstanding shares of PGPI. PGI, currently 81% owned by PGHI, is listed at the TSX Venture Exchange.				
PGPI	Incorporated in the Philippines as a wholly owned subsidiary of PGI and is primarily engaged in large-scale exploration, development and utilization of mineral resources, previously by the Bulawan mine and Sibutad Project. Currently owns 50% effective interest in SMMCI through SMECI.				
Lascogon Mining Corporation (LMC)	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, principally the Lascogon Project in Surigao.				
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources but is currently the holding company of SMMCI.				
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.				
PPC	Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, oil, and other sources of energy.				
FEP	A United Kingdom (UK)-based oil and gas exploration and production company registered in England and Wales, with focus on the Philippines and whose shares are listed with the Alternative Investment Market of the London Stock Exchange.				
FEC	Incorporated under the laws of Alberta, Canada and is engaged primarily in the business of exploration and development of oil and gas and other mineral related opportunities, either directly or indirectly through companies in which FEC invests.				
ВЕМС	Incorporated in the Philippines on July 19, 2005 to engage in exploration, development and utilization of energy-related resources.				
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines to act as a stock transfer agent and/or registrar of client corporations.				
Philex Land, Inc. (PLI)	Incorporated in the Philippines to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures.				
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently under dormant status.				



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

As of December 31, 2009:

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

As of December 31, 2008:

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

Acquisition of Boyongan copper-gold porphyry property

On September 25, 2008, the Board approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from Anglo American Exploration Philippines B.V. (Anglo). The acquisition, which was consummated on February 6, 2009, was executed through a share and asset purchase agreement for a total consideration of US\$55,000 (or ₱2,619,375), US\$24,695 (or ₱1,176,114) for the shares, US\$43



(or ₱2,020) for the project properties, US\$27,053 (or ₱1,288,416) for the receivables and US\$3,209 (or ₱152,825) for the payment of loans of Anglo in joint venture companies. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.

Sale and acquisition of minority interest of PPC

On April 23, 2008, the Parent Company and Ashmore Mining B.V. (formerly Anatolian Property, B.V.) [Ashmore], executed a Share Purchase Agreement under the terms of which the Parent Company agreed to sell and Ashmore agreed to buy 245,000,000 shares of stock of PPC, which represents 49.0% of the outstanding shares of stock of PPC, for US\$5,918 (or \$\frac{1}{2}\$248,142).

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

On July 22, 2009, the Parent Company acquired the 245,000,000 shares of stock of PPC from Ashmore, which represents 49.0% of the outstanding shares of stock of PPC for US\$3,571 (or \$\P172,704\$). The difference between the acquisition cost and the book value of the interest acquired amounting to \$\P41,536\$ was recognized as "Effect of transaction with minority interest" in the equity section of the 2009 consolidated balance sheet. With the acquisition, PPC is now a wholly owned subsidiary of the Parent Company.

Acquisition of additional shares of stock in FEP

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

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

Minority Interest

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

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



Investments in Associates

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

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

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

Business Combination and Goodwill

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

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



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

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

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

Foreign Currency Translation of Foreign Operations

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

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

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

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

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



- b. income and expenses for each consolidated statement of income (i.e., including comparatives) are translated at exchange rates at the average monthly prevailing rates for the year; and
- c. all resulting exchange differences are recognized as a separate component of equity.

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

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

Initial recognition and classification of financial instruments

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

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

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

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

Determination of fair value

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



Day 1 profit

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

Derivatives and Hedging

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

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

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

- a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or
- b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
- c. hedges of a net investment in a foreign operation.

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

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

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

Cash flow hedges

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



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

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

Hedges of a net investment in a foreign operation

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

Embedded derivatives

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

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

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

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

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, 2009 and 2008, included under loans and receivables are the Group's cash and cash equivalents, 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 if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as "Unrealized gain on AFS financial assets."

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

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

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 rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

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

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 group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one



or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at cost

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

Loans and receivables

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

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

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

AFS financial assets

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



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

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

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

Financial liabilities

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

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



Inventories

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

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

Input Tax Recoverable

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

Property, Plant and Equipment

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

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

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

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

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

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



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

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

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

Deferred Exploration Costs

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

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

Borrowing Costs

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

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

Impairment of Noncurrent Non-financial Assets

The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. The Group's non-financial assets include property, plant and equipment, investments in shares of stock, and deferred mine and oil exploration costs and other noncurrent assets. If any such indication exists, or when an annual impairment testing for



such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the consolidated statement of income in the expense categories consistent with the function of the impaired asset.

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

Revenue Recognition

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

Revenue from sale of mine products

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

Revenue from sale of oil products

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

Revenue from sale of coal

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

Interest income

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

Costs and Expenses Recognition

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



Retirement Benefits Cost

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

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

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

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

Share-based Payments

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

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

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of income charge or credit for the period represents the movement in cumulative



expense recognized as the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

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

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

Foreign Currency-Denominated Transactions and Translations

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

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

Related Party Relationships and Transactions

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

Income Taxes

Current income tax

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

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, and carryforward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate



income tax (RCIT) [excess MCIT], and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized.

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

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

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

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

Provisions and Contingencies

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

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

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

Earnings Per Share

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



Diluted Earnings Per Share

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

Other Comprehensive Income

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

Capital Stock

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

Dividends on Common Shares

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

Treasury Shares

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

Retained Earnings

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

Events After the Balance Sheet Date

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

Future Changes in Accounting Policies

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

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



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

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

- Amendment to PAS 39, Financial Instruments: Recognition and Measurement Eligible Hedged Items, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.
- Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.
- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*, effective for annual periods beginning on or after July 1, 2009 with early application permitted, provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*, effective for annual periods beginning on or after July 1, 2009, applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

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



- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of Revised PFRS 3, *Business Combinations*.
- PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations, clarifies that the
 disclosures required in respect of noncurrent assets and disposal groups classified as held for
 sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements
 of other PFRS only apply if specifically required for such noncurrent assets or discontinued
 operations.
- PFRS 8, *Operating Segment*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker
- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime; in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, Statement of Cash Flows, explicitly states that only expenditures resulting in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, Impairment of Assets, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. It also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, Financial Instruments: Recognition and Measurement, clarifies the following:
 - a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.



- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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

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

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

Judgments

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

Determination of the functional currency

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

Recognition of deferred income tax assets

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

Classification of financial instruments

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity



instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated balance sheets.

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

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 sales

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

Impairment of loans and receivables

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

Impairment of AFS financial assets

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

Impairment of goodwill

The Group reviews the carrying values of goodwill for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (CGU)



or group of CGUs to which the goodwill relates. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2009 and 2008 and the carrying value of goodwill as of December 31, 2009 and 2008 amounted to \$\frac{1}{2}258,593\$.

Measurement of NRV of mine products inventory

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

Write-down of carrying values of materials and supplies inventories

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

Estimation of fair value of identifiable net assets of an acquiree in a business combination

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

Estimation of useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on internal technical evaluation and experience. Estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. The carrying value of property, plant and equipment as of December 31, 2009 and 2008 amounted to \$\text{P4},668,892\$ and \$\text{P4},066,257\$, respectively (see Note 10). The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2.

Estimation of provision for mine rehabilitation costs

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



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

Impairment of noncurrent non-financial assets

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

Estimation of recoverable reserves

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

Valuation of financial assets and financial liabilities

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

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

Provisions for losses

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



Estimation of retirement benefits cost

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

4. Business Combinations

Acquisition of SMECI and SMMCI

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

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

	SMECI	SMMCI		
			Carrying	
	Fair Values	Values	Fair Values	Values
Assets				
Current assets	₽1,440,247	₽1,440,247	₽1,569	₽1,569
Investment	3,236,355	2,500	_	_
Land	_	_	7,510	7,510
Deferred mine exploration costs	_	_	6,977,717	1,426,007
Other noncurrent assets	_	_	3,172	3,172
	4,676,602	1,442,747	6,989,968	1,438,258
Liabilities				
Current liabilities	(1,441,241)	(1,441,241)	(1,440,233)	(1,440,233)
Deferred income tax liability	<u>-</u>	· · · · ·	(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 \$\mathbb{P}\$1,882 to the 2009 consolidated statement of income of the Group. The contributed net loss had the acquisition of SMECI been completed at the beginning of 2009 is immaterial.

Acquisition of FEP

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

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

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

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

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



From the date of acquisition, FEP contributed a net loss of \$\mathbb{P}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 \$\mathbb{P}192,802\$ in 2008.

5. Segment Information

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

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

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

Year ended December 31, 2009:

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



Year ended December 31, 2008:

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

Year ended December 31, 2007:

	Mining	Oil and Gas	Unallocated Corporate Balances	Eliminations	Total
-					
Revenue		_	_	-	
Sales to external customers	₽11,230,635	₽-	₽-	₽-	₱11,230,635
Results					
Profit before tax, interest expense					
and interest income	₽5,603,166	₽_	₽_	₽_	₽5,603,166
Interest income - net	18,084	_	_	_	18,084
Income before income tax	5,621,250	_	_	_	5,621,250
Income tax expense	(615,601)	_	_	_	(615,601)
Net income	₽5,005,649	₽–	₽_	₽–	₽5,005,649
Assets and Liabilities					
Segment assets	₽10,605,543	₱699,126	₽6,250	(P 622,061)	₽10,688,858
Investments	1,509,924	274,413	_	(1,617,313)	167,024
Deferred income tax assets	48,723				48,723
Consolidated total assets	₱12,164,190	₽973,539	₽6,250	(P 2,239,374)	₽10,904,605
Consolidated total liabilities	₽4,857,166	₽134,699	₽_	(P 2,529,240)	₽2,462,625
Other Segment Information Addition to property, plant and					
equipment	₽1,269,842	₽_	₽_	₽_	₽1,269,842
Depletion and depreciation	785,705	_	_	_	785,705
Non-cash expenses other than	,				,
depletion and depreciation	428,714	-	_	_	428,714



6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

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

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

7. Accounts Receivable

Accounts receivable consist of:

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

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

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

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

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

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



8. Inventories

Inventories consist of:

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

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

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

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

9. Other Current Assets

Other current assets consist of:

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

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



10. Property, Plant and Equipment

Property, plant and equipment consist of:

As of December 31, 2009:

	Mine and Mining Properties	Land, Buildings and Improvements*	Machinery and Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost	•	•	• •				
January 1	₽6,458,598	₽234,857	₽4,897,435	₽97,761	₽238,869	₽2,197,683	₽14,125,203
Additions	652,336	23,355	710,158	1,379	70,237	_	1,457,465
Disposals	· –	· -	(16,766)	_	_	_	(16,766)
Reclassifications 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		· ·			<u> </u>		
Depletion and							
Depreciation							
January 1	(4,455,843)	(211,033)	(3,105,735)	(88,652)	_	(2,197,683)	(10,058,946)
Depletion and							
depreciation for							
the year (Note 15)	(478,103)	(1,095)	(371,863)	(1,475)	-	_	(852,536)
Disposals			14,472		_	_	14,472
December 31	(4,933,946)	(212,128)	(3,463,126)	(90,127)	_	(2,197,683)	(10,897,010)
Net Book Values	₽2,229,614	₽46,084	₽2,122,037	₽9,652	₽261,505	₽-	₽4,668,892

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

As of December 31, 2008:

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

^{*} Cost of land amounted to ₱1,163. This also includes capitalized costs of mine rehabilitation of ₱18,130 and related accumulated amortization of ₱8,188. In 2008, the Parent Company completed the review of its FMR/DP for the Padcal Mine. The review resulted to a decrease in FMR/DP costs of ₱64,104.

Mine and mining properties as of December 31, 2009 and 2008 include mine development cost of the 782 Meter Level project amounting to \$\frac{1}{2}663,340\$ and \$\frac{1}{2}413,816\$, respectively. In 2009, the Parent Company's estimated mine life was extended until 2017, or an additional three years from



the original estimated mine life of until 2014. Correspondingly, the extension in mine life was considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

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

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

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

11. Investments

AFS Financial Assets

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

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

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

As of December 31, 2009 and 2008, the cumulative increase in value of AFS financial assets amounted to \$\mathbb{P}614,390\$ and \$\mathbb{P}1,727\$, respectively, of which \$\mathbb{P}169,113\$ was recognized as deferred income tax liability in 2009. These changes in fair values in the same amounts have been



recognized and shown as "Unrealized gain on AFS financial assets" account in the equity section of the consolidated balance sheets and are also shown in the consolidated statements of comprehensive income.

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

December 31, 2009:

			Gain (Loss) on Sale
	Cost of AFS	Proceeds from	of AFS Financial
	Financial Assets	Sale	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	Proceeds from	Gain on Sale of AFS
	Financial Assets	Sale	Financial Assets
Philodrill	₽18,551	₽103,116	₽84,565

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

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

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

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



Investments in Shares of Stock

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

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

Investments in Joint Ventures

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

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

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

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

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

D (0.0	1 .
Percentage	Δt ()	wnerchin
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	Direct	Indirect
MECI	60	_
NLEMCI *	_	100
SMECI	_	60
SMMCI **	_	100

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



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

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

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

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

Investments in Associates

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

Acquisition of additional 7.3% in Pitkin

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

The following are the summarized financial information of Pitkin as of December 31, 2009 whose financial statements are stated in US\$ and translated at the closing rate of US\$1 = \$P46.20 for balance sheet accounts and average rate of US\$1 = \$P47.64 for the net loss:

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

Acquisition of additional 19.85% of PERC

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



The following are the summarized financial information of PERC as of December 31, 2009 and 2008 whose financial statements are stated in US\$ and translated at the closing rate of US\$1 = $\frac{1}{2}$ 46.20 in 2009 and US\$1 = $\frac{1}{2}$ 47.52 in 2008, for balance sheet accounts, and average rate of US\$1 = $\frac{1}{2}$ 47.64 in 2009 and US\$1 = $\frac{1}{2}$ 44.47 in 2008, for the net income:

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

Subscription Payable

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

12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

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

<u>Deferred Mine and Oil Exploration Costs</u>

- a. Deferred mine and oil exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas that can be produced in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable.
- b. On December 8, 2005, PGPI entered into Heads of Agreement (HOA) with Indexa Corp. (IC), and IC in turn executed on the same day a Deed of Assignment, which became effective on January 2, 2006, assigning its full interest over the HOA to FEC.



Among the relevant provisions of the HOA are:

- i. PGPI will incorporate a subsidiary into which PGPI shall transfer its full interest over Mine Production Sharing Agreement No. 148-99-XIII (MPSA 148), together with the accumulated exploration costs incurred thereon.
- ii. PGPI shall undertake to apply for all approvals from the Bureau of Mines to permit PGPI to transfer 40% equity over this subsidiary to FEC. PGPI shall further undertake to obtain same approvals to cover FEC's or its designate's or affiliate's possible increase in its equity to 60%.
- iii. FEC will commit and provide the amount of US\$250 to PGPI after the legal ownership of MPSA 148 has been transferred to the subsidiary.
- iv. FEC will provide US\$100 each month from January 1, 2006 to October 31, 2006 to the subsidiary to fund expenditures to further determine and delineate the reserves of MPSA 148. Should the extension beyond October 2006 of the exploration permit not be obtained, FEC will be entitled to call the advances and demand full repayment from the subsidiary, which repayment shall be guaranteed by PGPI.

In compliance with the above provisions of the HOA:

- i. On October 20, 2005, PGPI incorporated LMC. On December 13, 2005, PGPI assigned MPSA 148 to LMC, and transferred to the latter all accumulated exploration costs related to this property. Accordingly, the amount of US\$250 was released to PGPI.
- ii. On December 29, 2005, PGPI received from FEC the amount of US\$250 following the transfer to LMC of PGPI's legal ownership over MPSA 148 in December 2005.
- iii. FEC provided US\$100 each month from January 1, 2006 to October 31, 2006 to LMC to fund expenditures to further determine and delineate the reserves of MPSA 148. This amount is recorded by LMC as part of payable to affiliated companies. On November 30, 2006, PGPI was able to obtain from the Bureau of Mines a permit to extend beyond October 2006 the exploration of MPSA 148 but by December 31, 2006, certain requirements necessary for the transfer of the 40% equity of FEC in LMC had not yet been complied with. Accordingly, LMC remained as a wholly owned subsidiary of PGPI as of that date. On September 30, 2007, FEC earned and got its 40% equity stake in LMC, with the completion of the documentary requirements for the transfer of the shares. At that time, FEC had not yet become a subsidiary of the Parent Company (see Note 2) but the carrying value of portion of FEC's advances which amounted to \$\P11,260\$ (\$250) resulted in an excess of \$\P4,141\$ over the par value of LMC's newly issued shares to FEC, and the excess was taken up by the Group in the 2007 consolidated balance sheet as an additional paid-in capital.

Others

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



b. Included in "Others" are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines (LBP) to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (R.A.) No. 7942, otherwise known as "The Philippine Mining Act of 1995." The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad mines, and for research in the social, technical and preventive aspects of their rehabilitation. As of December 31, 2009 and 2008, the Parent Company's MRF amounted to ₱5,685 and ₱5,692, respectively, while PGPI's MRF amounted to ₱6,440 and ₱6,389, respectively.

13. Short-term Bank Loans

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

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

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

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

15. Costs and Expenses

Costs and expenses include the following:

	2009	2008	2007
Mining and milling costs:			
Materials and supplies	₽ 1,500,571	₽1,309,586	₽1,213,068
Communications, light and water	989,110	889,569	1,095,932
Personnel (Note 16)	810,162	788,163	705,603

(Forward)



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

16. Retirement Benefits Cost

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

Net retirement benefits cost:

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



Accrued retirement benefits cost:

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

17. Financial Instruments

 $\frac{Fair\ Values\ of\ Financial\ Instruments}{The\ following\ table\ shows\ the\ carrying\ values\ and\ fair\ values\ of\ the\ Group's\ financial\ assets\ and}$ financial liabilities:

	Decem	iber 31, 2009	December 31, 2008	
	Fair	Carrying	Fair	Carrying
	Values	Values	Values	Values
Assets				
Cash and cash equivalents:				
Cash on hand and in banks	₽ 2,122,499	₽2,122,499	₽205,797	₽205,797
Short-term deposits	758,616	758,616	10,507,309	10,507,309
Accounts receivable:				
Trade	409,192	409,192	4,721	4,721
Accrued interest	12,257	12,257	50,038	50,038
Others	95,666	95,666	72,943	72,943
Derivative assets	19,975	19,975	_	_
AFS financial assets:				
Quoted equity investments	742,388	742,388	152,194	152,194
Unquoted equity investments	14,560	14,560	226,610	226,610
Total	₽4,175,153	₽4,175,153	₽11,219,612	₱11,219,612
Liabilities				
Short-term bank loans	₽_	₽_	4,039,200	4,039,200
Accounts payable and accrued			, ,	, ,
liabilities:				
Trade	302,754	302,754	362,142	362,142
Trust receipts and acceptances	59,354	59,354	61,530	61,530
(Forward)				



_	December 31, 2009		Decen	nber 31, 2008
	Fair	Carrying	Fair	Carrying
	Values	Values	Values	Values
Accrued expenses - outside services	₽42,380	₽42,380	₽68,153	₽68,153
Accrued interest	_	_	13,664	13,664
Other nontrade and				
accrued liabilities	300,723	300,723	139,462	139,462
Dividends payable	168,856	168,856	173,301	173,301
Subscriptions payable	54,916	54,916	53,528	53,528
Derivative liabilities	_	_	948,937	948,937
Total	₽928,983	₽928,983	₽5,859,917	₽5,859,917

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

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

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

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

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

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

Categories of Financial Assets:

	December 31,	December 31,
	2009	2008
Loans and receivables:		
Cash and cash equivalents:		
Cash on hand and in banks	₽2,122,499	₽205,797
Short-term deposits	758,616	10,507,309
Accounts receivable:		
Trade	409,192	4,721
Accrued interest	12,257	50,038
Others	95,666	72,943
	3,398,230	10,840,808

(Forward)



	December 31, 2009	December 31, 2008
AFS financial assets:		
Quoted equity investments	₽742,388	₽152,194
Unquoted equity investments	14,560	226,610
	756,948	378,804
Derivatives designated as cash flow hedges:		
Derivative assets	19,975	_
	₽4,175,153	₽11,219,612

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

18. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies

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

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

Financial Risks

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

Credit and concentration risks

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

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



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

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

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

As of December 31, 2009:

	37.10		Past due or	
	Neither past due		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

As of December 31, 2008:

			Past due or	
_	Neither past due i	nor impaired	individually	
	High-Grade	Standard	impaired	Total
Cash and cash equivalents, excluding cash on hand:				
Cash in banks	₽203,972	₽_	₽_	₽203,972
Short-term deposits	10,507,309	_	_	10,507,309
Accounts receivable:				
Trade	4,721	_	_	4,721
Accrued interest	50,038	_	_	50,038
Others	72,943	_	628	73,571
(Forward)				



	37.14		Past due or	
	Neither past due	nor impaired	individually	
	High-Grade	Standard	impaired	Total
AFS financial assets:				
Quoted equity				
investments	₽-	₽152,194	₽226,979	₽379,173
Unquoted equity				
investments	_	226,610	_	226,610
Total	₽10,838,983	₽378,804	₽227,607	₽11,445,394

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

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

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

Liquidity risk

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

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

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



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

As of December 31, 2009:

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

As of December 31, 2008:

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

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

Market risks

Foreign currency risk

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

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

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

US\$ Appreciate/(Depreciate)	2009	2008
1%	₽5,368	₽5,923
(1%)	(5,368)	(5,923)

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



Cash flow interest rate risk

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

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

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

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

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

Equity price risk

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

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

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

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



Commodity price risk

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

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

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

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

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

Derivative Financial Instruments

The following table provides information about the Parent Company's derivative financial instruments outstanding as of December 31, 2009 and 2008 and the related fair values:

	2009		2008	
	Asset	Liability	Asset	Liability
Gold options Structured currency	₽19,975	₽_	₽_	₽478,835
derivatives	_	_	_	470,102

Gold Options

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

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

On October 7, 2009, the Parent Company pre-terminated its gold collars with 1,000 oz monthly notional amount covering October 2009 to March 2011 deliveries and 1,500 oz. monthly notional amount covering October 2009 to April 2011 deliveries and paid a total unwinding fee of US\$12,334 (₱573,013), ₱551,144 of which is attributed to fair value of the gold collars and taken to equity, and the remaining amount treated as transaction cost taken to consolidated statement of



income. The pre-termination of the gold collars discontinued the hedge relationship of such derivatives. The effective portion of the unwinding cost of the hedge will remain in equity and be recycled to profit or loss upon occurrence of the forecasted transaction. The unwinding cost will be recycled monthly until 2011 based on contractual monthly notional amount of the collars. Total recycling in 2009 amounted to \$\frac{1}{2}88,894\$.

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

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

Copper Swaps

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

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

Structured currency derivatives

In 2007, the Parent Company entered into structured US\$ currency derivatives that consisted of a series of sell forwards and sold call options, each with a total of US\$37,000 notional amount with various expiry dates until September 2009 and will terminate ("knock-out") if an accumulated Peso gain is reached. As of December 31, 2008, the structured currency derivatives, which were accounted for as at FVPL, had a negative fair value of \$\frac{P}{4}70,102\$. These derivatives matured in 2009.

Embedded derivatives

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

Fair value changes on derivatives

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



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

	2009	2008
January 1	(₱948,937)	(₱520,431)
Net changes in fair values of derivatives:		
Designated as accounting hedges	(275,909)	(61,769)
Not designated as accounting hedges	27,811	(646,931)
	(1,197,035)	(1,229,131)
Fair value of settled instruments	1,217,010	280,194
December 31	₽19,975	(₱948,937)

Hedge effectiveness of cash flow hedges

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

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

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

19. Capital Management

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

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

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



20. Foreign Currency-Denominated Monetary Assets and Liabilities

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

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

As of December 31, 2009 and 2008, the exchange rates of the Philippine Peso to the United States Dollar (US\$) were \$\frac{1}{2}46.20\$ and \$\frac{1}{2}47.52\$ to US\$1, respectively. As of March 5, 2010, the exchange rate is \$\frac{1}{2}46.05\$ to US\$1.

21. Related Party Transactions

The following are the significant transactions with related parties:

- a On September 25, 2008, the Board approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from Anglo American Exploration Philippines B.V. (Anglo). The acquisition, which was consummated on February 6, 2009, was executed through a share and asset purchase agreement for a total consideration of US\$55,000 (or ₱2,619,375), US\$24,695 (or ₱1,176,114) for the shares, US\$43 (or ₱2,020) for the project properties, US\$27,053 (or ₱1,288,416) for the receivables and US\$3,209 (or ₱152,825) for the payment of loans of Anglo in joint venture companies. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.
- b. In conjunction, Anglo assigned to the Parent Company its receivables from SMMCI for cash advances to finance SMECI's operations and exploration activities. From this point, the Parent Company continued providing the cash advances to SMMCI and SMECI. As of December 31, 2009, the outstanding cash advances to SMMCI and SMECI amounted to ₱2.021.948.
- c. The Parent Company advances PGPI's working capital and capital expenditure requirements which amounted to ₱878,985 and ₱500,202 as of December 31, 2009 and 2008, respectively. A portion of these advances are secured by mortgage participation certificates on certain mining assets of PGPI's Bulawan mine which is currently on care and maintenance basis.
- d. The Parent Company and PGPI were reimbursed by Anglo's wholly owned local subsidiary, Anglo American Exploration (Philippines), Inc. for expenses that the Parent Company and PGPI incurred pertaining to the exploration activities of NLEMCI and SMMCI (see Note 26).



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

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

Compensation of Key Management Personnel

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

22. Income Taxes

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

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

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

	2009	2008
Deferred income tax assets on:		
Cumulative translation adjustment on hedging		
instruments	₽145,085	₱143,651
Unamortized past service costs	86,924	72,584
Impairment loss on AFS financial assets	68,094	68,094
Allowances for:		
Losses on input VAT	43,739	51,158
Probable losses on other noncurrent assets	14,231	14,231
Materials and supplies obsolescence	9,682	9,682
Unrecoverable deferred mine and		
oil exploration costs	8,868	34,780
Doubtful accounts	410	410
Unrealized foreign exchange losses - net	39,635	37,694
Provisions	33,196	35,338
Accrued retirement benefits costs	9,097	24,047
Accumulated accretion of interest on		
provision for mine rehabilitation costs	3,192	2,553
Accumulated amortization of mine		
rehabilitation cost	2,351	2,457
Mark-to market loss on derivatives	_	141,030
Total deferred income tax assets	464,504	637,709

(Forward)



	2009	2008
Deferred income tax liabilities on:		
Difference in fair value and carrying value of		
the net assets of subsidiary acquired	(₽1,665,513)	₽_
Accelerated depreciation	(442,360)	(418,340)
Unrealized gain on AFS financial asset	(169,113)	
Loss on termination of gold hedging contracts	(138,675)	_
Measurement of mine products inventory	, ,	
at NRV	(23,956)	(47,695)
Cumulative unrealized foreign exchange gain	(1,208)	
Total deferred income tax liabilities	(2,440,825)	(466,035)
Net deferred income tax assets (liabilities)	(₱1,976,321)	₱171,674

- c. Deferred income tax liability amounting to ₱1,208 and ₱842 as of December 31, 2009 and 2008, respectively, pertains to unrealized foreign exchange gain of LMC. The Group's deferred income tax liability arising from the difference in fair value and carrying value of the net assets of a subsidiary acquired amounted to ₱1,665,513 in 2009.
- d. Deferred income tax asset amounting to ₱43 as of December 31, 2009 pertains to NOLCO of BEMC.

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

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

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

	2009	2008
NOLCO	₽121,635	₽80,263
Deductible temporary differences on	•	
allowances for:		
Write-down of:		
Deferred mine exploration costs	858,500	858,500
Property and equipment	766,909	766,909
Non-operating materials and supplies	103,099	103,099
Input tax	9,045	9,045
Doubtful accounts	628	628
Deductible temporary difference relating to		
depreciation of non-operating property and		
equipment	9,551	9,551
Provision for losses	2,100	80,000
Excess MCIT	70	381



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

Incurred During	Available for			
the Year Ended	Deduction Until	N0	OLCO	Excess
December 31	December 31	Amount	Tax Effect	MCIT
2007	2010	₽29,599	₽8,880	₽17
2008	2011	31,915	9,575	53
2009	2012	60,121	18,036	_
	_	₽121,635	₽36,491	₽70

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

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

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

	2009	2008	2007
Provision for income tax			
computed at the statutory			
income tax rates	₽ 1,050,594	₽1,144,577	₽464,563
Additions to (reductions in)			
income tax resulting from:			
Effect of tax rate and			
others - net	(353,762)	(758,190)	7,864
Income already subjected to			
final tax	(53,629)	(19,243)	(10,738)
Movements in deductible			
temporary differences for			
which the related deferred			
income taxes are			
recognized	43,248	_	10,180
Nondeductible expenses	38,423	_	_
Deductible temporary			
differences, NOLCO			
and excess MCIT for			
which no deferred income			
tax assets were recognized	33,139	93,207	147,083
Stock-based compensation		0.4=4	
expense	8,599	9,476	7,209
(Forward)			

(Forward)



	2009	2008	2007
NOLCO and excess MCIT for			
which deferred income tax			
assets were recognized in			
prior years, expired (used)			
in current year	₽_	₽–	(₱10,560)
Provision for income tax	₽766,612	₱469,827	₽615,601

- h. RA No. 9337 was enacted into law amending various provisions in the 1997 National Internal Revenue Code. Among the reforms introduced by the RA are the following:
 - change in regular corporate income tax rate from 32% to 35% for the next three years effective November 1, 2005, and 30% starting January 1, 2009; and
 - change in the allowable deduction for interest expense from 38% to 42% effective November 1, 2005, and 33% effective January 1, 2009.
- i. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. The Group did not avail of the OSD in 2009.

23. Equity

Capital Stock

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

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



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

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

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

Retained Earnings

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

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

Treasury Stock

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

On November 28, 2008, the Parent Company sold treasury stock totaling 778,621 shares, representing 20.06% of the total outstanding shares at the price of P7.92 per share to Asia Link B.V. (a wholly owned subsidiary of First Pacific Limited, Inc.). Total proceeds from the reissuance of treasury stock amounted to P6,126,450.

Minority Interests

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

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



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

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

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

24. Share-based Payments

Parent Company Stock Option Plan

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

- i. Participants: directors, officers, managers and key consultants of the Parent Company and its significantly-owned subsidiaries;
- ii. Number of shares: up to 3% of the Parent Company's issued and outstanding shares;
- iii. Term: Five years from adoption date;
- iv. Exercise price: Average stock price during the last 20 trading days prior to the date of grant multiplied by a factor of 0.8, but in no case below par value; and
- v. Vesting period: Up to 16.67% in six months from grant date; up to 33.33% in 1 year from grant date; up to 50% in 1.5 years from grant date; up to 66.67% in 2 years from grant date; up to 83.35% in 2.5 years from grant date; and up to 100% in 3 years from grant date.

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

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



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

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

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

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

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

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

PGI Stock Option Plan

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

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

In 2006, PGI recognized an income relating to this share-based compensation and a related entry to equity amounting to about ₱12,403 (US\$253) representing the value of forfeited and expired options of ₱14,640 (US\$299), net of the ₱2,237 (US\$46) 2006 expense. In 2005, an expense amounting to about ₱992 (US\$18) was recognized. No share-based compensation expense or



income from forfeited and expired options were recognized in 2007. The following table illustrates the number of weighted average exercise of, movements in, and weighted average exercise price in Canadian dollars (Cdn\$) of share options:

Outstanding stock options with SARS:

	200	09	2008		3 20	
		Weighted		Weighted		Weighted
	Number of	Average	Number of	Average	Number of	Average
	Tandem	Exercise	Tandem	Exercise	Tandem	Exercise
	Options	Price	Options Price		Options	Price
January 1	100,000	Cdn\$0.60	171,500	Cdn\$0.78	460,875	Cdn\$0.85
Exercised	_	_	_	_	(75,000)	0.60
Forfeited	(100,000)	Cdn\$0.60	(71,500)	1.02	(214,375)	0.99
December 31	_	_	100,000	Cdn\$0.60	171,500	Cdn\$0.78
Exercisable	_	_	100,000	Cdn\$0.60	171,500	Cdn\$0.78

During 2007, 75,000 tandem options were exercised.

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

Risk-free interest rate Ranging from 4% - 5 %

Expected:

Dividend yield NIL

Life Ranging from 3 to 7 years Volatility Ranging from 100% - 153%

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

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

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

FEP Share Option Plan

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



25. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share are computed as follows:

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

Diluted earnings per share amounts are calculated as follows:

	2009	2008	2007
Net income attributable to equity			_
holders of the Parent Company	₽2,830,309	₽2,892,887	₽5,004,991
Divided by weighted average			
number of common shares			
adjusted for the effect of			
exercise of stock options	4,878,045,052	3,491,772,595	2,965,369,031
Diluted earnings per share	₽0.580	₽0.828	₽1.688
Weighted average number of			
common shares for basic		•	• • • • • • • • • •
earnings per share	4,867,306,154	3,473,800,508	2,961,195,781
Effect of exercise of			
stock options	10,738,898	17,972,087	4,173,250
Weighted average number of			
common shares adjusted for			
the effect of exercise of stock			
options	4,878,045,052	3,491,772,595	2,965,369,031

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

26. Joint Ventures with Anglo

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



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

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

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

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

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

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



acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.

27. Long-Term Gold and Copper Concentrates Sales Agreement

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

- a. During the Contract Year starting on April 1, 2004, 75% of the total concentrates production.
- b. From the Contract Year 2005 (starting on April 1, 2005) through the Contract Year 2008 (starting on April 1, 2008), whichever is higher of 60,000 DMT or total production less 10,000 DMT of Concentrates for each Contract Year, provided that such quantity shall be the entire Concentrates production if the Padcal Mine produces less than 60,000 DMT of Concentrates during any Contract Year.
- c. Contract Year 2009 (starting on April 1, 2009 and ending March 31, 2010) onwards, 60% of the total concentrate production but not less than at least 50,000 DMT during each Contract Year

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

28. Other Matters

- a. The Parent Company's Padcal Operations is registered with the Board of Investments (BOI) on a non-pioneer status. As a BOI-registered enterprise, the Parent Company was entitled to tax and non-tax incentives under the provisions of the Omnibus Investments Code of 1987, availment of which is limited to a period of five to ten years from the date of registration. The registration with the BOI requires the Parent Company to adhere to certain project timetables, production and sales schedule, to reinvest in exploration projects and to address cyclical downturns in mineral prices through hedging contracts, gold loans, development of other mines and minimization of operating costs through mechanization. Its registration with the BOI also qualifies the Parent Company to avail of automatic zero VAT rating on local purchases of goods and services. The Parent Company's registration with BOI expired on December 31, 2008.
- b. The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and its legal counsel on an annual basis reassesses it estimates to consider new relevant information. During the year, payments were made for a total of ₱81,145, through the Parent Company and PGPI, with reversal totaling ₱44,900 for a lower obligation and an additional ₱41,000 provision. Total provision for losses amounted to ₱561,628 and ₱715,758 as of December 31, 2009 and 2008, respectively.



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

29. Events After the Balance Sheet Date

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

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

- b. On February 15, 2010, FEP was awarded Service Contract 72 relating to its previous GSEC 101 license by the Department of Energy. The GSEC 101 license in which FEP has a 70% interest is the principal asset of FEP. FEP has a minimum commitment for its 70% share of the first sub-phase of US\$3,000 (or ₱138,600).
- c. On February 24, 2010, PPC has acquired additional 786,259 shares at a purchase price of £511 (or ₱36,686) representing 2.4% equity interest in FEP. As a result of the additional acquisition, PPC now holds 39.1% of the issued and outstanding shares of the investee.
- d. On February 26, 2010, the Parent Company entered into a definitive arrangement agreement with PGI whereby the Parent Company would indirectly acquire all of the outstanding common shares of PGI from its existing minority shareholders for US\$0.75 per share. As part of the transaction, PGI would also transfer all of the PGPI shares to PGHI in exchange for the amount of Can\$82,400.

30. Note to Cash Flow Statement

- a. In 2009, the Parent Company sold to PPC its deferred oil exploration costs in various oil exploration projects amounting to ₱86,567. The transaction was recorded by PPC as an advance from the Parent Company and the actual and full payment was made in January 2010.
- b. Also in 2009, total capitalized depreciation expense that were transferred to deferred exploration cost by BEMC, SMECI, PGPI and LMC amounted to ₱115,914.





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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 Subsidiaries included in this Form 17-A and have issued our report thereon dated March 5, 2010. Our audit was 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

Partner

CPA Certificate No. 88494

Martin C. Grantes

SEC Accreditation No. 0325-AR-1

Tax Identification No. 152-884-272

PTR No. 2087540, January 4, 2010, Makati City

March 5, 2010

A member firm of Ernst & Young Global Limited

PHILEX MINING CORPORATION

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

As of December 31, 2009

	Name	Designation	Balance at	Additions	Amounts	Amounts	Current	Not	Balance
		of Debtor	beginning		collected	Written		Current	at end
-			of period			off			of period
	There a	 re no receivable:	l s from Directors	 Officers Emplo	l oyees, Related F	 Parties_and Prin	l cinal Stockholde	ore.	
	THOIC at			, Omoors, Emple 				.13	
	other tha	an subject to usu	i ual terms, for ord	l dinary travel and	ı l expense advan ı	ces, and for othe	er such items		
	arising i	h the ordinary co	l purse of busines	l s, and eliminate	l d in consolidatio	n.			

PHILEX MINING CORPORATION

Schedule E. Other Assets As of December 31, 2009

(in Thousands)

Description	Beginning	Additions	Charged to	Charged to	Other Changes	
	Balance	at cost	Cost and	Other Accounts	Additions	Ending
	(Restated)		Expenses		(Deduction)	Balance
Deferred Mine exploration and development costs	1,551,774	2,319,832			5,551,710	9,423,316
Deferred oil exploration costs	1,067,338				(41,813)	1,025,525
	2,619,112	2,319,832	-	-	5,509,897	10,448,841
Less: allowance for unrecoverable costs and						
accumulated depletion	(974,435)				(192)	(974,627)
	1,644,677	2,319,832	-	-	5,509,705	9,474,214
Others	121,576				(13,442)	108,134
Less: allowance for writedown	(47,435)					(47,435)
	74,141		-	-		60,699
	1,718,818	2,319,832	-	-	5,509,705	9,534,913

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	4,900,604,961	-	-	18,112,781	-
	8,000,000,000	4,900,604,961	-	-	18,112,781	-

PHILEX MINING CORPORATION Schedule F. Long Term Debt As of December 31, 2009 (In Thousands)

Title of Issue and	Amount authorized	Amount shown under caption		Amount sho "Long-ter	•	
type of obligation	by indenture	"Current portion of	Amount	Interest	No, of Periodic	Maturity
		long-term debt"		rate	Installments	Date
There ar	e no outstanding	loans as of Decer	mber 31, 200	99.		
		Р -	Р -			

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

	Years Ended December 31		
	2009	2008	
Beginning balance	7,006,096	5,476,082	
Net income	2,276,581	3,062,074	
Reconciling items: Unrealized foreign exchange gains, except those attributable to cash and cash equivalents	_	(179,300)	
Deferred tax assets NRV of inventory	173,206 83,292	(302,442) (158,985)	
Dividends declared Treasury stock	(972,902)	(890,994) (339)	
Ending balance	8,566,273	7,006,096	