NICKEL ASIA CORP.

April 16, 2012

**PHILIPPINE STOCK EXCHANGE**
Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attn: JANET A. ENCARNACION
Head – Disclosure Department

RE: SEC Form 17-A Annual Report
x ======================= x

Dear Madam:

We submit to you herewith a copy of our Company's SEC Form 17-A Annual Report for the year December 31, 2011.

We trust everything is in order.

Very truly yours,

Emmanuel L. Samson
SVP – Chief Financial Officer

6th Floor NAC Centre, 143 Dela Rosa cor., Adelantado Sts., Legaspi Village, Makati City
Tel. No. +632 892-6669 I +632 892-4177 I Fax No. +632 892-5344

NICKEL ASIA CORP.

# NICKEL ASIA CORPORATION
# 17-A ANNUAL REPORT 2011

# COVER SHEET

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|---|---|---|---|---|---|---|---|---|---|---|

SEC Registration Number

NICKEL ASIA CORPORATION

(Company's Full Name)

6th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City

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

**Emmanuel L. Samson**
(Contact Person)

**(632) 892-6669**
(Company Telephone Number)

| 1 | 2 | | 3 | 1 |
|---|---|---|---|---|

*Month* *Day*
(Fiscal Year)

| 1 | 7 | - | A | |
|---|---|---|---|---|

(Form Type)

**AMENDED**

| 0 | 6 | | 1st Friday |
|---|---|---|---|

*Month* *Day*
(Annual Meeting)

**Not Applicable**
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

**N/A**
Amended Articles Number/Section

**28**
Total No. of Stockholders

Total Amount of Borrowings

| Domestic | Foreign |
|---|---|
| | |

To be accomplished by SEC Personnel concerned

File Number

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Document ID

Cashier

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Remarks: Please use BLACK ink for scanning purposes.

S.E.C. Number CS200811530
File Number______

**NICKEL ASIA CORPORATION**
(Company's Full Name)

**6th Floor, NAC Centre, 143 Dela Rosa Street,**
**Legaspi Village, Makati City**
(Company's Address)

**+63 2 892 6669 / +63 2 892 4177**
(Telephone Numbers)

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

**SEC FORM 17-A Annual Report**
Form Type

______________________________
Amendment Delegation (If applicable)

**December 31, 2011**
Period Ended Date

___________________________
(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**
**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended: **DECEMBER 31, 2011**
2. SEC Identification Number: **CS200811530**
3. BIR Tax Identification No.: **007-085-191-000**
4. Exact name of issuer as specified in its charter **NICKEL ASIA CORPORATION**
5. Province, Country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of principal office — Postal Code
   **6th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City** — **1229**
8. Issuer's telephone number, including area code: **+63 2 892 6669 / +63 2 892 4177**
9. Former name, former address, and former fiscal year, if changed since last report.
   **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common Stock** | **1,339,831,828 Shares** |
| **Long-term Debt** | **PhP 1,768.5 Million** |

11. Are any or all of these securities listed on a Stock Exchange.
    Yes [ **X** ]  No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:
    **PHILIPPINE STOCK EXCHANGE** — **Common Stock**

12. Check whether the issuer:
    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);
    Yes [**X**]  No [ ]
    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [**X**]  No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.

    As of December 31, 2011, 280,251,158 shares with a market price of ₱20.50 or an aggregate amount of ₱5,745,148,739 were held by non-affiliates.

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## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1. Business

A. Corporate Profile

Nickel Asia Corporation ("the Company") was incorporated on July 24, 2008 with the Philippine Securities and Exchange Commission ("SEC") and was listed with the Philippine Stock Exchange ("PSE") on November 22, 2010.

The Company operates four lateritic nickel mines, all of which are located in the southern half of the Philippines.

Rio Tuba Nickel Mining Corporation ("RTN") was incorporated in 1969 to develop the nickel ore deposits discovered at the Rio Tuba mine site in 1967. It was granted rights over the Rio Tuba property in 1970 and commenced mining in 1975. RTN made its first commercial shipment in 1977.

Hinatuan Mining Corporation ("HMC") was incorporated in 1979 and was granted rights over the Taganaan property in 1980. Development of the property commenced in 1981 and the first commercial shipment from the Taganaan mine was made in 1982. The size of the property was expanded in 1983 with the acquisition of additional claims on adjacent properties. HMC temporarily suspended operations at the Taganaan mine from April 2001 to January 2006 due to depletion of high-grade saprolite ore reserves.

Taganito Mining Corporation ("TMC") was incorporated and acquired the Taganito property from HMC in 1987. The first commercial shipments from the Taganitowere made in 1989..

Cagdianao Mining Corporation ("CMC") was incorporated in 1997 and acquired the right to operate the Cagdianao mine in 1998.

B. Business Overview

*Principal Products and Services*
We are one of the largest global suppliers of lateritic nickel ore, and the largest nickel mining company in the Philippines, where we accounted to have sold a total of about 60 million tonnes of ore up to 2010. At each of our mines at our Rio Tuba, Taganito, Cagdianao and Taganaan sites, we are able to employ a low-cost open pit mining method, without the need for explosives, chemicals or complex waste handling, to extract two types of nickel ore: limonite ore, which occurs at the upper layer of the deposit and generally consists of lower nickel and higher iron content; and saprolite ore, which is generally found beneath the limonite layer and typically consists of higher nickel and lower iron content. Since we began commercial operations in 1977 through 2010, we have delivered over 60 million WMT of saprolite ore and limonite ore to our customers. As of December 31, 2011, our mines had proved and probable saprolite ore reserves of 118.6 million WMT with an average grade of 1.45% nickel, and proved and probable limonite ore reserves (including stockpiles) of 233.3 million WMT with an average grade of 1.15% nickel, in each case as estimated in accordance with the Philippine Mineral Reporting Code (PMRC).

We supply different grades of saprolite ore and limonite ore to multiple customers, which use the ore to produce intermediate products, mainly for the manufacture of stainless steel and for the production of nickel cathodes. Our margins on sales of nickel ore vary depending on the type and grade of nickel ore that we sell, with high-grade saprolite ore providing higher margins than low-grade saprolite ore and limonite ore.

We sell our nickel ore to the following customers:

- *Pacific Metals Co. Ltd. ("PAMCO").* We sell all of our high-grade saprolite ore and a portion of our low-grade saprolite ore to PAMCO under long-term supply agreements. PAMCO is the largest ferronickel producer in Japan. We have been selling saprolite ore to PAMCO since 1977.

- *Sumitomo Metal Mining Co., Ltd. ("SMM").* SMM is a Japan-based refiner of copper, gold, nickel, and zinc. We sell saprolite ore to SMM under a long-term supply agreement. PAMCO is the largest ferronickel producer in Japan. We have been selling saprolite ore to SMM since 2010.

- *Chinese customers.* We sell a portion of our low-grade saprolite and both high- and low-grade limonite ore to Chinese customers, primarily DH Kingstone, a major Chinese trading company; and Baosteel Resources, a leading Chinese steel producing company. Our Chinese customers use our ore for the production of NPI, which is a substitute for traditional ferronickel products used in the production of stainless steel.

- *Coral Bay Nickel Corporation ("CBNC").* We sell low-grade limonite ore from our Rio Tuba mine to the adjacent Coral Bay HPAL facility under a long-term supply agreement. The facility is owned by CBNC, which is a subsidiary of Sumitomo Metal Mining Co. Ltd. ("SMM"), a Japan-based refiner of copper, gold, nickel, and zinc. We have a 6% effective equity interest in CBNC.

Prior to 2005, the Company focused primarily on sales of high-grade saprolite ore and stockpiled much of the limonite ore that we removed as overburden to access the saprolite ore. However, since the commencement of NPI production in China and the completion of the Coral Bay HPAL facility in 2005, we have developed a second major revenue stream through our sales of limonite ore to Chinese customers and to CBNC. In June 2009, the Coral Bay HPAL facility's design capacity was doubled to 20,000 tonnes of contained nickel per year, further increasing our limonite ore sales to CBNC.

To further expand the Company's sales of limonite ore and increase our exposure to downstream nickel processing, we have partnered with SMM and Mitsui and have commenced construction of a new HPAL facility adjacent to our Taganito mine.

Additionally, the Company also generates revenue from the sale of limestone and providing contractual services to CBNC.

The following table summarizes percentages of our revenues by year and region for the past three fiscal years:

| | Japan | | | China | | | Philippines (CBNC) | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year** | **Saprolite** | **Limonite** | **Total** | **Saprolite** | **Limonite** | **Total** | **Saprolite** | **Limonite** | **Total** | **Saprolite** | **Limonite** | **Total** |
| **2011** | 20% | - | 20% | 44% | 20% | 64% | | 16% | 16% | 64% | 36% | 100% |
| **2010** | 34% | - | 34% | 30% | 16% | 46% | | 20% | 20% | 64% | 36% | 100% |
| **2009** | 35% | - | 35% | 19% | 26% | 44% | - | 21% | 21% | 54% | 46% | 100% |

*Competition*

We compete with both domestic Philippine nickel ore suppliers and foreign nickel ore suppliers (primarily from Indonesia) in world nickel ore markets. Domestic competitors are CTP Construction & Mining, Toledo Mining, and Platinum Group Metals Corp, while foreign competitors mainly include PT Aneka Tambang.

Geographic area in which we compete

Refined nickel supply in 2011 is estimated at around 1,590 Thousand ton, which is 11% increase on y-o-y basis. We estimate 60% of refined nickel comes from Oxidized nickel ore and 40% from Sulfide nickel ore.

We estimate 60% of refined nickel comes from Oxidized nickel ore and 40% from Sulfide nickel ore.

The Oxidized nickel ore is named as laterite nickel ore and mainly produced in the Philippines, Indonesia, Australia, New Caledonia and South America through the open-pit mining method. It is estimated that nickel production in the Philippines account for 21% of global laterite nickel ore production and account for 13% of global nickel production in terms of Ni contain basis.

Nickel Ore Trade

Nickel ore in the country is mainly exported to China and Japan. Ni consumption in China is estimated at 700 thousand tonnes in 2011, which accounts for 45% of global nickel consumption and Japan accounts for 9% accordingly. The growth of Chinese Ni industry is fast and remarkable and Nickel Pig Iron ("NPI") producers are supporting this growth in order to supply their NPI to stainless steel mills in China.

Production of NPI in 2011 is estimated at 280 thousand tonnes in Ni contain basis, which is a 55% increase year-on-year. Accordingly, Chines Ni ore importation jumped from 25 million wet metric tonnes in 2010 to 48 million wet metric tonnes in 2011.

The Philippines accounts for 46% of nickel ore importation into China and the balance from Indonesia.

It should be highlighted that Chinese carbon steel mills started using laterite nickel ore which contains 1% Ni and 48-50% Fe as iron ore substitute. It is difficult to estimate nickel ore consumption in carbon steel mills in China, however, we believe at least 10 – 13 Million wet metric tonnes of ore was used as iron ore substitute.

Outlook For Nickel

The estimated global nickel supply in 2011 was at 1,590 thousand tonnes while consumption was at 1,570 thousand tonnes resulting in a 20 thousand tonnes over supply. The global Ni consumption increased by 6.8% on a year-on-year basis due to the contribution of growth in China.

Around 60% of nickel supply is consumed by stainless steel. Therefore, the growth of stainless steel is a key factor in the outlook for nickel. Global stainless steel production in 2011 is estimated at 33 million tonnes, which is a 3% increase on a year-on-year basis. Despite a relatively sluggish global economy in 2011, this growth was driven by China. Stainless steel production in China was approximately 12.0 million tonnes in 2010 and 14.0 million tonnes in 2011, correspondingly nickel consumption was reported at 580 thousand tonnes in 2010 and 700 thousand tonnes in 2011.

Currently, favorable indication appears on the European debt crisis and US economy. We may expect further growth in global stainless steel demand and will result in strong demand for nickel.

Prices—The LME nickel cash price reached $23.67/pound ($52,197/tonne) in May 2007, which is historically the highest the price had ever reached. However, by December 2007 the price had dropped to an average of $11.79/pound ($25,992/tonne) and peaked again in March 2008, at an average of $14.16/pound ($31,225/tonne).

With the onset of the global financial downturn in mid-2008, the LME nickel cash price slid back to $4.40/pound ($9,696/tonne) by December 2008. While prices sporadically rallied for most of 2009, the yearly average cash price for 2009 was more than 60% lower than that of 2007.

In 2010 and 2011, as market fundamentals have started to improve, sentiment has become gradually more upbeat and funds and speculators have once again entered the market looking to buy nickel on the back of a more optimistic outlook for the metal. The involvement of investors in the market can cause additional volatility, as they often buy up large volumes of inventory when prices are expected to rise. The combination of these factors drove the LME cash price higher and, as a result, ending 2010 and 2011 at a price of $8.29/pound ($18,277.50/tonne) and $11.32/pound ($24,950/tonne), respectively.

Key Strengths of the Company

*Profitability underpinned by low cost production*—The foundation of our business is our ability to operate profitably through the commodity price cycle because of our low costs. We rank favorably in terms of mining costs when compared to other nickel mining companies. There are a number of factors that account for our low cost position:

- We benefit from favorable geologic conditions at all of our four mines. Our lateritic nickel deposits are near-surface, blanket-like layered deposits with minimal overburden and generally five (5) to thirty (30) meters thick, enabling us to conduct simple open-pit mining using trucks and loaders without blasting, the use of chemicals or complex waste handling.

- Historically, there was generally no market for our limonite ore, which needs to first be extracted in order to mine the more valuable saprolite ore. There was also no market for lower grades of saprolite ore. Limonite ore was then regarded as overburden and placed in stockpiles, while we undertook selective mining of high-grade saprolite ore, leading to relatively high mining costs. Since 2005, we have found customers for our limonite ore with the development of the China NPI market and the commissioning of the Coral Bay HPAL facility. In 2008, we have also experienced increasing demand from our customers for our low-grade saprolite oreand in 2010, we saw an emerging demand for the use of low-nickel, high iron limonite ore for blending with iron ore in the production of carbon steel. Our ability to sell limonite ore rather than place it in stockpiles as waste, and our ability to sell lower grades of saprolite ore allows us to mine in a more efficient manner and reduces the unit cost per WMT of nickel ore that we mine, thus improving our profitability. The anticipated commencement of commercial operations of the Taganito HPAL facility in 2013 is expected to add an additional outlet for our limonite ore.

- On average, the nickel deposits at our four operating mines are located within three to seven kilometers from the applicable tidewater loading area, enabling easy hauling and transportation by barges and landing craft transport ("LCTs") to our customers' ships. We own ten barges and seven LCTs and lease additional barges and LCTs as needed. The short hauling distance from our mining operations to our loading facilities substantially contributes to our favorable cost position.

- Because our lateritic nickel deposits are near surface and relatively shallow, the rehabilitation of our mining areas is a straightforward process. The process generally involves re-contouring of the mined areas, replacing the overburden and planting foliage. We undertake progressive rehabilitation of our mined areas in order to spread costs, and the nature of our deposits results in a relatively manageable level of rehabilitation costs.

*Sources and Availability of Raw Materials and Supplies*

The main supplies that we require to operate our business include diesel fuel, tires and spare parts for our mining equipment. We buy diesel and aviation fuel and lubricants from Petron Corporation and heavy mining equipment such as trucks and excavators from four manufacturers, Volvo, Isuzu, Caterpillar and Komatsu, through their Philippine distributors. In addition, we lease barges for use at our mine sites during the shipping season. We believe that there are a number of alternative suppliers for all of our requirements.

*Related Party Transactions*

All sales to, and purchases from, related parties are made at prevailing market prices. Outstanding yearend balances pertain to the extension and receipt of, and advances to and from, related parties. For further information, such as outstanding advance balances, see note 31 to our audited consolidated financial statements. These balances are unsecured, short-term and interest-free, and settlement occurs in cash.

*Nickel Ore Supply Agreements with PAMCO*—We are party to nickel ore supply agreements with PAMCO. PAMCO has a 0.17% ownership interest in the Company and also owns 36% of our subsidiary, RTN, and 33.5% of our subsidiary, TMC.

*Nickel Ore Supply Agreement with CBNC*—We are party to a nickel ore supply agreement with CBNC. We have an effective 6% equity interest in CBNC.

*Nickel Ore Supply Agreement with SMM* –We are a party to nickel ore supply agreements with SMM. SMM has a 25.31% ownership interest in the Company.

*Service Agreements with CBNC*—RTN has entered into various service agreements with CBNC pertaining to tailings dam construction and materials handling, among other things.

*Other Receivables from SMM*—As of December 31, 2011, we had receivables from SMM amounting to ₱0.8million with respect to reimbursable costs and expenses advanced to SMM by us.

*Funding Commitment with SMM*—RTN long-term debt were incurred to complete infrastructure projects to support the development of the Coral Bay HPAL facility. These projects included the causeway, trestles and dolphins and other pier facilities in the Rio Tuba foreshore and offshore areas.

*Funding Commitment with THNC*—TMC as owner/developer of TSEZ incurred a long-term debt to finance the construction of the pier facilities that will be utilized to support the construction of the Taganito HPAL facilitiy. These projects included the jetty, dolphins, rubber fender, jettybollard and other pier facilities in the Taganito foreshore and offshore areas.

*CBNC Stockholder Agreement*—On July 1, 2002, RTN, along with the other stockholders of CBNC, agreed to make loans to CBNC or guarantee the repayment of CBNC's loans obligation in accordance with the financial requirements of CBNC, in proportion to their shareholding ratio in CBNC. RTN owns 10% of CBNC's outstanding capital stock.

In a separate agreement dated October 22, 2002, SMM, which owns 54% of CBNC, agreed to assume RTN's obligation to make loans to, or guarantee the repayment of, CBNC's loans obligations. RTN, in consideration for this agreement, pays SMM an annual guarantee fee of 1% of CBNC's outstanding loans obligation. The guarantee fee is recorded as part of "General and administrative expenses" in our consolidated statement of income.

*Taganito HPAL Stockholders' Agreement*—On September 15, 2010, NAC, SMM and Mitsui and Co., Ltd (Mitsui) executed the Taganito HPAL Nickel Stockholders Agreement, pursuant to which the parties formed a joint venture company, Taganito HPAL Nickel, to build and operate a plant in Barangay Taganito, Claver, Surigao del Norte for the purpose of producing and selling nickel-cobalt mixed sulfide to be used for the production electrolytic nickel and electrolytic cobalt.

Pursuant the Taganito HPAL Nickel Stockholders Agreement, SMM granted Taganito HPAL Nickel Corporation ("THNC") a non-exclusive license of technology owned by SMM to produce the Products and has undertaken to provide technical assistance to Taganito HPAL Nickel. NAC has undertaken to cause TMC to supply THNC with nickel ore and limestone and to further cause TMC to make available to THNC the use of the land and infrastructure necessary for the production of the Products while Mitsui shall assist THNC in procuring materials and equipment necessary for the mine's operations. The Taganito HPAL Nickel Stockholders Agreement shall terminate upon the dissolution of THNC.

In a separate agreement dated December 9, 2011, SMM, which also owns 62.5% of THNC, agreed to assume THNC's obligation to make loans to, or guarantee the repayment of, THNC's loans obligations. NAC, in consideration for this agreement, pays SMM an annual guarantee fee of 1% of THNC's outstanding loans obligation. The guarantee fee is recorded as part of "General and administrative expenses" in our consolidated statement of income.

<u>*Royalties*</u>

- *Government royalties*. Because the Taganito, Cagdianao, Taganaan and South Dinagat mines are located within the Surigao Mineral Reservation, we are obliged to pay the Philippine government a royalty of 5% of our gross revenue from sales of ore from each mine.

- *Excise tax*. An excise tax of 2% of gross revenue on all export sales is payable to the Philippine government. Our sales to the Coral Bay HPAL facility constitute export sales.

*Claim owner royalties*. We operate the Cagdianao mine and operated South Dinagat mine under operating agreements with the claim owners, East Coast and Pacific Nickel, respectively. Under these agreements we have the right to operate the mine, subject to the payment of a royalty to the claim owner, which is 8.75% of gross revenue from the Cagdianao mine and 12.5% of gross revenue from the South Dinagat mine. We made one shipment of saprolite ore from our South Dinagat mine in2008 and subsequently suspended operations at the site due to substantial depletion of the mine's saprolite ore.

- *Royalties to indigenous groups*. Because our Taganito mine is located on an indigenous cultural community's ancestral land, we are required to pay the indigenous community a royalty equal to 1% of gross revenue from sales from the Taganito mine.

*<u>Government Regulations and Approval</u>*
TMC's application for Mineral Production Sharing Agreement ("MPSA") denominated as APSA No. 73-XIII for its La Salle Exploration project is pending reconsideration. Moreover, TMC submitted all the requirements for the renewal of the Exploration Period for MPSA No. 247-2007-XIII-SMR and MPSA No. 284-2009-XIII-SMR for its Ludgoron and Kepha Exploration projects, respectively, and are now pending approval.

RTN's application for MPSA denominated as AMA IVB-144A and AMA IVB-144B for its Bulanjao project is under review and pending approval before the Department of Environment and Natural Resources (DENR)-Mines and Geosciences Bureau (MGB). The only thing necessary before RTN receives the MPSA over the property is a final endorsement from the Palawan Council for Sustainable Development ("PCSD"). RTN's application for a tree-cutting permit for its Gotok limestone quarry before the DENR-Forest Management Bureau is likewise currently being assessed and is still awaiting approval.

A Deed of Assignment was executed by HMC for the transfer of MPSA 012-92-VIII to SMNRC which was submitted to the MGB VIII Regional Office on September 2010 and was endorsed by the same to the MGB Central Office for further evaluation and final approval.

Extension of the exploration period for the Libjo property was applied for and approved by the MGB Central Office on December 2010.

*<u>Exploration and Development</u>*
*Nickel Resources*
We have an extensive portfolio of exploration properties and an exploration program encompassing both brownfield exploration, which consists of work at our existing operations to extend resources and to upgrade resources to reserves; and greenfield exploration, which involves exploring and delineating nickel lateritic deposits in our existing properties. We own more than one hundred (100) drilling units that have been designed specifically for drilling near surface lateritic deposits in a quick and economical manner. We also have an experienced pool of geologists and laboratories at each of our mine sites to conduct assaying of samples as required.

The following table sets forth a summary description of our exploration properties.

| Mine | Location | Ownership | MPSA/Operating Agreement |
|---|---|---|---|
| **Bulanjao** | Palawan island | RTN | Mining lease contract that covers 3,604.5 hectares |
| **Manicani** | Island of Manicani | HMC | MPSA covers 1,165 hectares and expires in 2017 |
| **Kepha** | Surigao del Norte | TMC | Operating agreement covers 6,980.75 hectares and expires in 2032 |
| **La Salle** | Surigao del Norte | TMC | Operating agreement covers 6,824 hectares and expires in 2034 |

| Mine | Location | Ownership | MPSA/Operating Agreement |
|---|---|---|---|
| **Libjo** | Province of Dinagat | CMC | Operating agreement covers 4,226.27 hectares and terminated in 2012 |
| **Ludgoron** | Province Surigao del Norte and Surigao del Sur | TMC | Operating agreement that covers 3,248.06 hectares and expires in 2032 |
| **South Dinagat** | Nonoc Island, Surigao City | HMC | Operating agreement covers 215 hectares expired in 2011 |

*Description of our Exploration Projects*

*Bulanjao*—The Bulanjao property is held by RTN. It has a total area of 3,604.5 hectares and is situated immediately west of RTN's mining operations. Our rights to the property are governed by a mining lease contract. The conversion of the mining lease contract to an MPSA has been delayed.. Recently, the Municipality of Bataraza, where the Bulanjao property is located, has reclassified the mineralized as open to mineral development. A final endorsement from the PCSD is necessary before RTN can receive the MPSA on the property.

The Bulanjao deposit trends northwards to an area named Central Bulanjao, situated more than a kilometer from Southern Bulanjao. We have conducted step-out drilling throughout the length of the Central Bulanjao deposit and calculate measured and indicated resources of 7.5 million WMT of saprolite ore with an average grade of 1.88% nickel and 19.2 million WMT of limonite ore with an average grade of 1.01% nickel. Further drilling will be undertaken on the property once the MPSA is issued.

It is our intention to recommence drilling on Southern Bulanjao and Central Bulanjao as soon as we enter into an MPSA with respect to the properties.

*Manicani*—The Manicani property is held by our subsidiary HMC. It has a total area of 1,165 hectares and is situated in Eastern Samar. Our rights to the property are governed by an MPSA that was entered into by HMC in 1992 and which was subsequently assigned to Samar Nickel Mining Resources Corp. ("SMNRC"). The application for the Deed of Assignment from HMC to SMNRC was submitted to the MGB VIII Regional Office on September 2010 and will be endorsed by the same to the MGB Central Office for further evaluation and final approval.

We conducted mining at the Manicani site between 1992 and 1994 and extracted and sold a total of 63,176 WMT of saprolite ore with an average grade of 2.45% nickel from the site. We suspended mining at the site in December 1994 because low prevailing nickel prices made mining the site uneconomical. We made shipments from stockpiles in 2001 and 2004. In 2004 a regional Panel of Arbitrators rendered a decision recommending the cancellation of the MPSA on the grounds that we had violated certain applicable environmental regulations. We disputed such allegations and our MPSA was upheld by the Mines Adjudication Board of the Department of Environment and Natural Resources (DENR) in September 2009.

To date, there is work to be done before mining operations can be resumed. Currently, we are processing the approval to extend the exploration period under the MPSA. In connection with that, we have received the necessary endorsement from the host community in the form of resolutions issued by the four (4) barangays comprising Manicani Island and likewise from the Municipality of Guiuan. These endorsements, along with various presentations to be made to the MGB of Region VIII and to the community, shall be part of our compliance with the government regulations pertinent to the approval of the extension of the exploration period.

Once the exploration period has been extended and we are allowed to resume operations, we shall begin our exploration activities.The ten (10) units drilling machines are now at site. We will immediately commence drilling once the suspension order will be lifted.

*Kepha*—The Kepha property is held by TMC. The property has a total area of 6,980.75 hectares and is situated in the province of Surigao del Norte, immediately southwest of our Taganito mine's northern boundary. Our rights to the property are governed by an operating agreement that we entered into in February 2007 with Kepha Mining Exploration Corp. ("KMEC"). KMEC entered into an MPSA in June 2009, giving it the right to explore, develop and mine the property for an initial period of twenty five (25) years.

Under the terms of our operating agreement, TMC has the right to explore, develop and operate the property during the period of the MPSA in return for the payment of a royalty of 5% of gross revenues of all metallic minerals sold from the property.

We have conducted geological reconnaissance on the property and identified a lateritic zone on the eastern portion of the tenement. We intend to conduct follow-up exploration work and commence drilling in early 2013.

*Ludgoron*—The Ludgoron property is held by TMC. The property has a total area of 3,248.06 hectares and is situated in the province Surigao del Norte and Surigao del Sur. It shares a common boundary with the Kepha property on the northeast of the property. Our rights to the property are governed by an operating agreement that we entered into in August 2007 with Ludgoron Mining Corp. ("LMC"). LMC entered into an MPSA in July 2007, giving it the right to explore, develop and mine the property for an initial period of 25 years.

Under the terms of the operating agreement, TMC has the right to explore, develop and operate the property during the period of the MPSA in return for the payment of a royalty of 5% on gross revenues attributable to the property.

We have conducted geological reconnaissance on the property and drilled 92 holes over an area of 1,071 meters in the identified lateritic zones.

*La Salle*—The La Salle property is held by TMC. The property has a total area of 6,824 hectares and is situated in the province of Surigao del Norte. It shares a common boundary with the Kepha property on the southwest side of the property. Our rights to the property are governed by an operating agreement that we entered into with La Salle Mining Exploration Company ("LSMEC") in December 2006. LSMEC's application for an MPSA is pending and TMC is responsible for completing the requirements for approval of the MPSA.

Under the terms of the operating agreement, TMC will have the right to explore, develop and operate the property once the MPSA is approved, in return for the payment of a royalty of 5% on gross revenues of all metallic minerals sold from the property and P10.00 per metric ton of limestone extracted and sold from the property.

We have identified a limestone deposit within the property and determined that the quality of the limestone is adequate for use in the proposed Taganito HPAL plant. We plan to conduct a feasibility study to determine the feasibility of mining and delivering the limestone to the Taganito HPAL plant.

We have also identified a nickel lateritic deposit on the southwestern portion of the property near the boundary with the Kepha property and intend to conduct further exploration work on this deposit.

*Libjo*—The Libjo property is held by CMC. The property has a total area of 4,226.27 hectares and is situated in the province of Dinagat northwest of our Cagdianao mine. East Coast Mineral Resources Co., Inc. ("ECMRCI") was issued an MPSA in June 2007, giving it the right to explore, develop and mine the property for an initial period of 25 years. Our rights to the property are governed by an operating agreement that we entered into with ECMRCI.

Under the terms of the operating agreement, CMC has the right to explore, develop and operate the property during the period of the MPSA in return for the payment of a royalty of 5% of the gross revenues attributable to the property, net of taxes.

In 2006-2007, a total of 2,281 holes were drilled. A total of 13 confirmatory holes were drilled in 2011 to validate the 2006-2007 drilling data results. The consolidated drillhole information was used to create a resource model, the figures of which show a deposit characterized by low grades of nickel and iron.
Due to the relatively low nickel and iron grades, the exploration initiatives were changed in the 4th quarter of 2011 to focus on the chromite potential. Simple metallurgical testing of outcrops was done to study the characteristics of the chromite ore in terms of specific gravity and size distribution to help determine how best to recover the target mineral. Initial results show that the chromite deposit is amenable to concentration using gravity method and water. However, the potential to find chromite ore in an economic scale is low based on the grades of old and new exploration data.

*South Dinagat*—The South Dinagat property is held by HMC. The property has a total area of 215 hectares and is situated in Nonoc Island, Surigao City. Our rights to the property are governed by an operating agreement that we entered into with Pacific Nickel Philippines, Inc. ("PNPI") in October 2001 and an amendment to the operating agreement that we entered into in September 2006. PNPI entered into an amended MPSA in August 1997, giving it the right to explore, develop and mine the property for an initial period of 25 years.

Under the terms of the operating agreement, HMC has the right to explore, develop and market saprolite ore on the South Dinagat property through October 2011 in return for the payment of a royalty of 5% of gross revenues attributable to the property net of 20% final withholding tax. We expect to determine whether to request a renewal of the operating agreement depending on the results of our exploration at the South Dinagat property. The operating agreement with PNPI was not renewed when it lapsed on October 2011.

*Gold and Copper Resources*
The Philippines, located within the so-called "Pacific Rim of Fire," the circum-Pacific belt of volcanic activity that hosts the bulk of the world's gold and copper resources, is considered to be highly endowed with these metals. Substantial quantities have been mined in the country since the pre-war era and world-class deposits have been discovered. We believe that considerable exploration potential exists in areas that have not been explored or subjected to modern exploration techniques.

Given this potential, our local knowledge and the experience of a number of our engineers and managers previously employed in gold and copper mining firms, we made a strategic decision to diversify into these metals as the opportunities arise. Based on this strategy, we entered into an agreement on August 2010 to purchase 100% of the outstanding shares of Cordillera Exploration Company Inc. ("CEXCI") from Anglo American Exploration (Philippines), Inc., a subsidiary of Anglo American plc ("Anglo American"). The sale by Anglo American occurred on November 15, 2010, and was the result of a strategic worldwide review of its operations and projects that led to a decision to exit a number of countries, including the Philippines.

CEXCI was previously known as Newmont Philippines Inc. ("Newmont") and was purchased by Anglo American in 2002 from Newmont USA Ltd. As part of the terms of our purchase, we have agreed to assume an obligation to make royalty payments to Newmont USA Ltd., which royalty has since been sold to Franco Nevada Corp., of 1% of net smelter returns; and contingent payments of $10 million payable at the rate of $1 million per year from the date that that the first mine established on any of the properties achieves production of not less than 70% of design capacity.

In May 2011, we entered into a Participation and Shareholders' Agreement with SMM containing terms of SMM's equity participation in CEXCI. In November 2011, based on the terms of the said Agreement, SMM invested $1.8 million in CEXCI in return for 25% equity. The amount is to be used for expenses related to exploration work, mainly at the Manmanok property. Once said amount is exhausted, SMM has the option to invest $2.8 million for an additional 15% equity, which would bring its total equity in CEXCI to 40%.

In describing its properties below in terms of geological findings, we have relied on detailed information provided to us by Anglo American. Our technical staff is in the process of reviewing and verifying the information.

*Manmanok*—The Manmanok property is located within the Municipality of Conner, province of Apayao. It is the most advanced of the properties in terms of exploration work and covers an area of 7,802 hectares. CEXCI's rights to the property are governed by an Exploration Permit (EP-004-2006-CAR), first granted in October 16, 2006 and subsequently renewed on March 4, 2009. A second renewal of the exploration permit for the property was applied for in April, 2011. Conditional to the approval of the second renewal, CExCI was required to relinquish some 40% of the ground. Inasmuch as the minimum area that is allowed for an exploration permit is 5,000 hectares, the technical staff succeeded in taking off approximately 36% from the covered area and came out with a final total area of about 4,998 hectares. The second renewal for the exploration application was finally granted in November 2011.

Throughout much of 2011, CEXCI's technical staff continued with the review of geological, geochemical and geophysical data obtained from AAEPI, and conducted minor ground verification during the time that an environmental baseline study was being conducted by GAIA South Inc., environmental consultants, from late April to early June, 2011. Additional geological mapping and geochemical bedrock sampling and further field verification started in late November, 2011, following the approval of the second renewal.

A Stage I Exploration Program, consisting basically of 3 objectives, was drawn up to be conducted over the Manmanok Property in the year 2012. The first objective is to identify continuities and extensions of the main prospect areas through detailed geological and geochemical work. The second objective is to identify anomalous areas occurring outside and surrounding the main prospect areas. The third objective is to drill the anomalies defined by mapping, geochemical sampling and induced polarization surveys within one of the main prospect areas known as the Central Argillic zone to test presence and persistence and/or continuity of these anomalies at depth.

The Stage I program will commence within the first half of 2012. Trenches and sampling sites will be identified on the ground at the start of the program. Meanwhile, drill targets of coincident relatively high chargeability and high resistivity from the induced polarization surveys, and further coinciding with geochemical soil and bedrock anomalies have been identified. A total of eight (8) inclined holes, to be spudded from seven sites have been identified.

*Kutop*— The Kutop Prospect lies within the boundaries of the Municipalities of Malibcong, Daguioman, and Baay-Licuan in the Province of Abra, and within the boundaries of the Municipality of Balbalan in the Province of Kalinga. The current Exploration Permit Application 014, which covers the entire prospect area, is the result of a series of revisions and amendments, assignments and consolidations of permit applications which started in December, 1996 by Newmont through to October, 2006, with an Order of Consolidation of Exploration Permit Nos. 014, 015 and 018 of CEXCI by MGB-CAR. An area of approximately 13,269 hectares has remained after the area clearance by MGB CAR in 2008.

The permit application is currently in progress with postings, publications and radio announcements completed within the area and presentation of Exploration and Environmental work programs to be undertaken. The property has now to undergo community consultation to acquire Free Prior Informed Consent which is the last step in acquiring an exploration permit over the area.

From results of work conducted by Newmont and subsequently by Anglo American and CEXCI, it is known that the Kutop Prospect occurs within the regional tectonic setting that is dominated by the Abra River fault, a splay of the major Philippine Fault which is a sinistral, strike slip fault zone that transects the Philippine archipelago. From aerial photograph interpretations, several dominant NW and NE trending lineaments are observed to cut through the prospect area. Centered in one of the NW trending ridges has been outlined the presence of a strong, roughly N-S trending, gold-dominant multi-element anomaly which measures approximately 7kms x 10kms.

The source of the large Au anomaly outline has been identified as a zone of quartz-calcite veining and stratiform replacement hosted by extensive clay-pyrite altered sedimentary rocks. This alteration zone has been traced on the ground for a distance of 500 meters and a vertical extent of about 250 meters. Continuity along strike has not been determined, however. Within this zone, numerous EW trending, steeply dipping epithermal quartz veins and veinlets, and minor shallow dipping, bedding-parallel veins and silica-clay replacements have also been observed.

Based on the source of the large Au anomaly outline, it is believed that the prospect area has a strong potential for a bulk tonnage, low-sulphidation epithermal Au deposit and/or sediment hosted Au deposit. Anomalies of copper, lead, zinc, silver, arsenic, molybdenum, and antimony from geochemical stream sediment sampling results further suggests possible porphyry copper mineralization particularly on the southern portion of the claimed area.

More detailed geological ground work, including geophysical surveying and geochemical bedrock sampling and analysis, is necessary to have a better understanding for the controls of mineralization in the Kutop prospect.

*Mankayan*— Three types of mineralization could be found in the general Mankayan Mineral District. These are: a) the gold-rich porphyry copper mineralization, with the FSE and Guinaoang deposits as examples; b) the high-sulphidation copper + gold mineralization, as typified by the Lepanto Enargite ore body; and c) the intermediate-sulphidation gold + base metals mineralization, examples of which are the Victoria and Suyoc ore bodies and the Nayak-Palidan prospect. These mineralization types are localized by different conjugate structural patterns that have dissected parts of the district. Occurrences of two of the mineralization types, particularly the gold-rich porphyry copper mineralization and the high-sulphidation copper + gold mineralization, are generally controlled by northwesterly trending structures. The EW trending structures, as well as the NS trending ones appear to have localized and controlled intermediate-sulphidation mineralization in the district.

Results of recent works conducted by various international and local geologists on the Lepanto Enargite and FSE ore bodies suggest that: a) the intimate spatial association, b) the identical ages for the porphyry and epithermal mineralization, and c) the similarity in metal associations (i.e., Au/Ag values and high Te, Su and Bi), point to a genetic relation between the two mineralization types. It is most likely that the two deposits formed from a single magmatic-hydrothermal system that evolved in style of mineralization through time and space. That there can be a genetic association between the two mineralization types has implications for exploration strategies. In districts where one style of mineralization is found, evidence should be sought for the presence of the other in an appropriate spatial relation. Ore grade amounts of the complimentary style of mineralization cannot be assumed to always be present, however, because of various other geological, structural and geochemical factors in ore deposit formation.

There has not been any specific study in the district, to date, to correlate the relationship of the intermediate-sulphidation mineralization type with the other two mineralization types.

The Mankayan Property of CEXCI is covered by two applications, namely an Exploration Permit Application 043 (1,872 hectares) and a Financial and Technical Assistance Agreement (FTAA) Application No. 08 (77,549 hectares) for a total land area of 79,421 hectares. About 19,989 hectares of the FTAA application fall within Region I, specifically the provinces of Ilocos Norte, Ilocos Sur and Abra, and about 57,560 hectares fall within the CAR Region, specifically in the provinces of Benguet and Mountain Province.

There are two applications in conflict with CEXCI's FTAA Application, namely Application for Mineral Production Sharing Agreement (APSA) Nos. 048 and 049 of Diamond Drilling Corporation of the Philippines (DDCP) and Shipside, Inc., respectively. The case against DDCP has already been decided with finality by the Supreme Court in CEXCI's favour while the case of Shipside was decided in CEXCI's favour by the Mines Adjudication Board and no longer appealed by Shipside and hence, is likewise final.

CEXCI is continuing the process for both Mankayan application permits.

We spent approximately ₱51.8 million,₱11.1 million and ₱2.0 million on our exploration properties in 2011, 2010 and 2009, respectively.

*Environment and Rehabilitation*

We adhere to the principles and practices of sustainable development. In addition, our mining operations are subject to stringent and extensive environmental regulations. As such, we are deeply committed to implementing best practices in managing the environmental impact of our operations, from exploration to rehabilitation. Upon cessation of our mining operations, we plan to restore our mining properties to their pre-mining conditions or to develop alternative productive land uses for the benefit of the affected communities.

The Philippine Mining Act requires us to contribute 3%—5% of our direct mining and milling costs for the implementation of the annual environmental protection and enhancement program. Activities undertaken under our annual environmental protection and enhancement program include among others: rehabilitation of mine disturbed areas, reforestation, construction and/or maintenance of environmental facilities, solid waste management, hazardous waste management, air quality monitoring and water quality monitoring. In 2011, we spent approximately ₱180.8 million on our environmental protection and enhancement program. We believe that our cost of compliance with environmental laws is not material.

Our compliance with ECC conditions and performance of its commitments under our annual environmental protection and enhancement program are subject to monitoring and evaluation of the Multipartite Monitoring Team (the "MMT"). The MMT is a multi-sector group headed by a representative from the Regional Mines and Geosciences Bureau ("MGB") and representatives of local government units, other government agencies, non-government organizations, people's organizations, the church sector and the Company.

Funds for mine rehabilitation and other environmental guarantee funds are established and deposited in trust funds, as required by the Philippine Mining Act. We have ₱32.8 million maintained in such funds as of December 31, 2011. This amount complies with the minimum requirement under the law.

Our Mine Rehabilitation and Decommissioning Plan is currently being finalized and will take account of an extension in the useful lives of our mines resulting from our anticipated future sales of limonite ore.

We periodically book an accretion expense and corresponding provision for mine rehabilitation and decommissioning. The basis for this expense/liability is our draft Mine Rehabilitation and Decommissioning Plan. As of December 31, 2011, we had a ₱61.7 million provision for mine rehabilitation and decommissioning. Upon approval of our Mine Rehabilitation and Decommissioning Plan by the MGB, we intend to review and, if necessary, adjust our provision for mine rehabilitation and decommissioning. We will concurrently be required to deposit funds equal to the provision in a Government bank.

Social

Social development programs and the implementation thereto are well developed at all the mines and the scope and breadth of these programs are commendable. Anti-mining campaigns of small groups were not disrupted of mining but contributed to further continuous improvement and responsible mining.

Our operations manage their social expenditures through their respective Social Development Management Plans (SDMPs). There are five-year programs containing a list of priority projects identified and approved for implementation in consultation with the host communities. The work involved in identifying and implementing the SDMP's. as well as the overall responsibility for maintaining strong relationships with our host communities, lies with Community Relations teams at each of our mine sites.

*Employees*
As at December 31, 2011, we had approximately 1,425 employees. Of these, approximately 1,321 are employed in mining operations, including overburden removal. Approximately, 368 are engaged in various maintenance and ancillary functions and 953 are in administrative, technical and professional roles, including our senior management. We do not currently anticipate any significant increase or decrease in the number or allocation of our employees over the next twelve months.

**Head Office**

| | NAC | CMC | HMC | TMC | RTN | CEXCI | LCSLC | SNMRC | Total |
|---|---|---|---|---|---|---|---|---|---|
| Senior Management | 10 | 1 | - | 2 | 2 | - | - | - | **15** |
| Managers | 9 | - | 1 | 3 | 1 | 1 | 1 | - | **16** |
| Supervisors | 8 | 4 | 2 | - | 5 | 2 | - | - | **21** |
| Rank & File | 19 | 4 | 3 | 9 | 11 | 2 | 3 | 1 | **52** |
| Total | **46** | **9** | **6** | **14** | **19** | **5** | **4** | **1** | **104** |

**Minesite**

| | CMC | HMC | TMC | RTN | CEXCI | SNMRC | Total |
|---|---|---|---|---|---|---|---|
| Senior Management | 1 | 1 | 1 | 1 | - | - | **4** |
| Managers | 3 | 3 | 28 | 22 | 1 | - | **57** |
| Supervisors | 39 | 42 | 97 | 94 | 1 | 6 | **279** |
| Rank & File | 134 | 96 | 423 | 227 | 6 | 95 | **981** |
| **Total** | 177 | 142 | 549 | 344 | 8 | 101 | **1,321** |

Labor conditions, including wages and benefits, are governed by Collective Bargaining Agreements (CBA) negotiated at the mine level. Rank and file employees at Rio Tuba, Taganito and Cagdianaominesites are represented by labor unions. Collective agreements generally have terms of five years, with a provision for wage renegotiation after three (3) years. The respective CBA's of RTN and CMC expired on December 31, 2010 and were renegotiated in 2011 while the CBA of TMC which expired on January 31, 2010 has been renegotiated and renewed and shall be effective until January 31, 2015. We believe that our wages and conditions are among the best in the Philippine mining industry. We believe that our relations with employees and their unions are generally good. The last strike at any of our mines occurred in 1981.

*Risks Related to Our Business and Industry*
We face a number of risks and the occurrence of any of these risks could have an adverse impact on our business, results of operations and financial condition:

*Volatility of LME nickel prices*—Our revenue is largely dependent on the world market price of nickel. The sales price of nickel ore is correlated with the world market price of nickel. The nickel price is subject to volatile price movements over time and is affected by numerous factors that are beyond our control. These factors include global supply and demand; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the U.S. dollar; market speculative activities; and global or regional political and economic events, including changes in the global economy. A growing world nickel market and increased demand for nickel worldwide have attracted new entrants to the nickel industry, spurred the development of new mines and expansion of existing mines in various regions, including Australia, Indonesia and New Caledonia, and resulted in added production capacity throughout the industry worldwide. An increasing trend in nickel prices since early 2003 have encouraged new or existing international nickel producers to expand their production capacity. An increased rate of expansion and an oversupply of nickel in world nickel markets in the future could reduce future nickel prices and the prices we receive under our nickel ore supply agreements. If the sales price of our nickel ore falls below our production costs, we will sustain losses and, if those losses continue, we may curtail or suspend some or all of our mining and exploration activities. We would also have to assess the economic impact of any sustained lower nickel prices on recoverability and, therefore, the cut-off grade and level of our nickel reserves and resources.

*Nickel mining is subject to a number of inherent risks that are beyond our control*—Our mining operations are influenced by changing conditions that can affect production levels and costs for varying periods and as a result can diminish our revenues and profitability. Inclement or hazardous weather conditions, the inability to obtain equipment necessary to conduct our operations, increases in replacement or repair costs, prices for fuel and other supplies, unexpected geological conditions and prolonged disruption of production at our mines or transportation of our nickel ore to customers could have a significant impact on the productivity of our mines and our operating results.

Other factors affecting the production and sale of our nickel ore that could result in increases in our costs and decreases in our revenues and profitability include:

- equipment failures and unexpected maintenance problems;
- interruption of critical supplies, including spare parts and fuel;
- earthquakes or landslides;
- environmental hazards;
- industrial accidents;
- increased or unexpected rehabilitation costs;
- work stoppages or other labor difficulties; and
- changes in laws or regulations, including permitting requirements, the imposition of additional taxes and fees and changes in the manner of enforcement of existing laws and regulations.

The realization of any of these risks could result in damage to our mining properties, nickel ore production or transportation facilities, personal injury or death, environmental damage to our properties, the properties of others or the land or marine environments, delays in mining ore or in the transportation of ore, monetary losses and potential legal liability.

*The Risk of Terrorism and Insurgency Attacks*—Our operations, like any other business in the countryside, are prone to terrorist attacks and other insurgent atrocities. Just recently, in October 3, 2011, around two hundred (200) armed men occupied the TMC minesite and destroyed and set on fire, among others, TMC's equipment, building structures, materials and supplies. Accounting, personnel, laboratory and administrative records were likewise destroyed. Approximately ₱239.5 million worth of damages were sustained during the tragic event. Fortunately, no life or limb was lost. In response to the incident, we have decided to beef up security in the minesites; not only that of TMC's but also that of other minesites, by closely coordinating with the Armed Forces of the Philippines tapping the services of the Special Citizen Armed Forces Geographical Unit Active Auxiliary (SCAA) Companies.

*Changes in Chinese demand may negatively impact world nickel demand and prices*—Approximately, 62% of our revenue in 2011 was derived from sales of nickel ore into China. The Chinese market has become a significant source of global demand for commodities. Stainless steel production in China records 12.0 million in 2010 and 14.0 million in 2011, correspondingly nickel consumption records 580 thousand in 2010 and 700 thousand ton in 2011.

China's consumption of primary nickel has increased by more than 30% over the past two years, according to CRU Strategies. While this increase represents a significant business opportunity, our exposure to China's economy and economic policies has increased. Our exposure to the Chinese market and our short-term supply agreements with Chinese customers have resulted in increased volatility in our business. In addition, increased Chinese demand for commodities has led to high volatility in the freight rates for shipping our nickel ore. High freight rates can discourage customers outside the Philippines from entering into long term supply agreements with us due to the unpredictability of future shipping costs and can also affect the price Chinese customers are willing to pay for our nickel ore.

China, in response to its increased demand for commodities, is increasingly seeking self-sufficiency in key commodities, including nickel, through investments in nickel mining operations in other countries. In addition, nickel ore is used in the production of stainless steel and a slowdown in the stainless steel industry in China, or China's economic growth in general, could result in lower Chinese demand for our products and therefore reduce our revenue.

*A prolonged decrease in production by the Coral Bay HPAL facility or, once operational, the Taganito HPAL facility*—Approximately, 15% of our revenue in 2011 was derived from sales of limonite ore to the Coral Bay HPAL facility and we expect to be the sole supplier of limonite ore to the planned Taganito HPAL facility. CBNC, the owner of the Coral Bay HPAL facility, is only required to pay for limonite ore that is actually delivered to the plant and there are no minimum take-or-pay provisions in the ore supply agreement governing our sales of ore to the facility. The ore supply agreement with the planned Taganito HPAL facility will be subject to similar terms. In the event that the Coral Bay HPAL facility or, once operational, the Taganito HPAL facility, decreases production or experiences an unexpected prolonged shutdown, we would reduce the volume of limonite ore that we deliver to the applicable facility or cease such deliveries altogether.

*Our reserves may not be replaced, and failure to identify, acquire and develop additional reserves could have an adverse impact on our business, results of operations and financial condition*—Our sources of nickel ore are currently limited to the Rio Tuba, Taganito, Cagdianao and Taganaan mines. Our profitability depends substantially on our ability to mine, in a cost-effective manner, nickel ore that possesses the quality characteristics desired by our customers. Because our reserves decline as we mine our nickel ore, our future success and growth depend upon our ability to identify and acquire additional nickel ore resources that are economically recoverable. We currently have seven mining exploration properties in the Philippines and if we fail to define additional reserves on any of our existing or future properties, our existing reserves will eventually be depleted.

*We face competition in selling nickel ore*—We compete with both domestic Philippine nickel ore suppliers and foreign nickel ore suppliers in world nickel ore markets. We compete with other nickel ore suppliers primarily on the basis of ore quality, price, transportation cost and reliability of supply.

*Failure to obtain, sustain or renew our mineral agreements, operating agreements and other permits and licenses necessary for our business*—We rely on permits, licenses (including MPSAs), operating agreements with third-party claim owners and land access agreements to conduct our mining operations.. The MPSAs and operating agreement with respect to our four operating mines expire at different times between 2022 and 2034 and require renewal upon expiration. We believe that we currently hold or have applied for all necessary licenses, permits, operating agreements and land access agreements to carry on the activities that we are currently conducting under applicable laws and regulations, licenses, permits, operating agreements and land access agreements. We may be required to prepare and present to government authorities data pertaining to the impact that any proposed exploration or production of ore may have on the environment, as well as efficient resource utilization and other factors our operations may influence. The process of obtaining environmental approvals, including the completion of any necessary environmental impact assessments, can be lengthy, subject to public input and expensive. Regulatory authorities can exercise considerable discretion in the terms and the timing of permit issuance or whether a permit may be issued at all. Accordingly, the approvals we need for our mining operations may not be issued or renewed or, if issued or renewed, may not be issued in a timely fashion, or may involve requirements that may be changed or interpreted in a manner which restricts our ability to conduct our mining operations profitably.

To illustrate our reliance on licenses (including MPSAs), operating agreements with third-party claim owners and land access agreements to conduct our mining operations, RTN's application for a tree-cutting permit for its Gotok limestone quarry before the DENR-Forest Management Bureau has been pending for more than three (3) years already and is still awaiting approval.

Furthermore, new laws or regulations, or changes in the enforcement or interpretation of existing laws or regulations, may require substantial increases in our equipment and operating costs in order to obtain approvals required by, or to otherwise comply with the conditions imposed by, such new or revised laws and regulations. The need to obtain such new or revised approvals or to comply with additional conditions may also cause material delays or interruptions of one or more of our current or planned operations or developments or, to the extent such approvals or conditions cannot be obtained or met on an economical basis, the curtailment or termination of such operations or developments.

In addition, the local governments where our mines or exploration properties are located may impose additional restrictions on our operations. For instance, the conversion of a mining lease to an MPSA for our Mt. Bulanjao exploration property has been pending for several years due to restrictions on mining above a certain elevation imposed by the Palawan Council for Sustainable Development (the "PCSD"). Recently, the Municipality of Bataraza where the property is located, reclassified the Bulanjao area as open to mineral development. A final endorsement from the PCSD is necessary before RTN can receive the MPSA on the property.

*Continued compliance with safety, health and environmental laws and regulations*—We expend significant financial and managerial resources to comply with a complex set of environmental, health and safety laws, regulations, guidelines and permitting requirements (for the purpose of this paragraph, collectively referred to as "laws") drawn from a number of different jurisdictions. We anticipate that we will be required to continue to do so in the future as the recent trend towards stricter environmental laws is likely to continue. The possibility of more stringent laws or more rigorous enforcement or new judicial interpretation of existing laws exists in the areas of worker health and safety, the disposition of waste, the decommissioning and rehabilitation of mining sites and other environmental matters, each of which could have a material adverse effect on our exploration, operations or the cost or the viability of a particular project. Our facilities operate under various operating and environmental permits, licenses and approvals that contain conditions that must be met and our right to continue operating our facilities is, in a number of instances, dependent upon compliance with these conditions. Failure to meet certain of these conditions could result in interruption or closure of exploration, development or mining operations or material fines or penalties.

*Changes in, or more aggressive enforcement of, laws and regulations could adversely impact our business*—Mining operations and exploration activities are subject to extensive laws and regulations. These relate to production, development, exploration, exports, imports, taxes and royalties, labor standards, occupational health, waste disposal, protection and remediation of the environment, mine decommissioning and rehabilitation, mine safety, toxic substances, transportation safety and emergency response and other matters. Compliance with these laws and regulations involve substantial costs. It is possible that the costs, delays and other effects associated with these laws and regulations may impact our decision as to whether to continue to operate existing mines, refining and other facilities or whether to proceed with exploration or development of properties. Since legal requirements change from time to time, are subject to interpretation and may be enforced to varying degrees in practice, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations.

For example, RTN provides materials handling and transportation services to CBNC, which involve transporting materials for use at the Coral Bay HPAL facility from RTN's piers to the Coral Bay HPAL facility. These materials include sulfuric acid and other substances that are or could become classified as hazardous substances. If any hazardous substances are found to have been released into the environment by RTN, whether due to accidents, leakage or otherwise, we could be liable for the investigation and removal of those substances, regardless of their source and time of release. The cost of any remediation activities in connection with a spill or other release of such substances could be significant and could have an adverse impact on our business, results of operations and financial condition.

*Exposure to exchange rate fluctuations*—Our nickel ore sales are denominated in United States dollars while most of our costs are incurred in pesos. The appreciation of the peso against the United States dollar reduces our revenue in peso terms. Accordingly, fluctuation in exchange rates can have an impact on our financial results. Additionally, in the past we have invested in derivative instruments that increased in value as the peso appreciated relative to the U.S. dollar, and vice versa. While our current policy is not to hedge our exposure to foreign currency exchange risk or invest in this type of derivative instrument, we do, and may continue to, invest in U.S. dollar denominated portfolio investments. Appreciation of the peso relative to the U.S. dollar could result in a translation loss on our U.S. dollar-denominated assets.

**Item 2. Properties**

Below is a summary of the NAC Group's mineral agreements and permits, mineral resources and reserves and processing facilities with respect to its mining operations.

*Mining Properties and Permits*

**RIO TUBA NICKEL MINING CORPORATION**

A. Rio Tuba mine
*MPSA No. 114-98-IV covering beneficiated nickel mine*—On June 4, 1998, RTN was issued a mineral and production sharing agreement by the DENR covering an area of 990 hectares, situated at Barangay Rio Tuba, Bataraza, Palawan, valid for 25 years, renewable for another 25 years subject to mutually agreed upon terms and conditions. However, under the Strategic Environmental Plan for Palawan Act (Republic Act No. 7611), operations are currently prohibited within an area of 144 hectares classified as "core zone" which are required to be fully and strictly protected and maintained free of human disruption. Included in the "core zone" are all types of natural forest, areas above 1,000 meters elevation, peaks of mountains or other areas with very steep gradients, and endangered habitats and habitats of endangered and rare species.

The primary purpose of the MPSA is to provide for the sustainable development and commercial utilization of nickel, cobalt, chromite and other mineral deposits within the contract area, with all necessary services, technology and financing to be furnished or arranged for by RTN under the terms of such agreement. However, the MPSA does not grant RTN any title over the contract/mining area, without prejudice to RTN's acquisition of land/surface rights under allowable modes of acquisition under the law. RTN is to undertake and execute, for and on behalf of the Government the sustainable mining operations and is constituted as the exclusive entity to conduct mining operations in the contract area. The share of the Government is the excise tax on mineral products at the time of removal at the rate provided for in R.A. 7729, amending Section 151(a) of the NIRC, as amended, as well as other taxes, duties and fees levied by existing laws. Currently, the excise tax is 2% of the actual market value of the gross output at the time of removal.

The provisions of the MPSA relating to environmental protection, mine safety and health require RTN to secure an Environmental Compliance Certificate ("ECC"), an Environmental Protection and Enhancement Program ("EPEP"), allocating at least ten percent (10%) of its total project cost for its initial environment related capital expenditures, although this may be adjusted depending on the nature and scale of operations and technology to be employed in the Contract Area. RTN is also required to submit an annual EPEP every year, based on the approved EPEP, allocating three to five percent (3-5%) of its direct mining and milling cost for the same. RTN is also required to establish a Mine Rehabilitation Fund ("MRF") based on the financial requirements of the EPEP.

Under the obligations of RTN as contractor, RTN is required to allocate annually a minimum of one percent (1%) of the direct mining and milling costs for the development of technology and the host and neighboring communities. Expenses for community development maybe charged against royalty payment of one percent (1%) of the gross output allocated to the indigenous cultural community.

*MPSA No. 213-2005-IVB for Rio Tuba Nickel's Limestone Quarry*—On April 28, 2005, RTN was issued another MPSA for a total area of 84.5364 hectares in Bataraza, Palawan. This MPSA was also given a validity of 25 years renewable for another 25 years subject to mutually agreed upon terms and conditions. This MPSA covers the SitioGotok limestone pit, whereby limestone is to be sold to CBNC and used at the Coral Bay HPAL facility.

The terms and conditions of this MPSA mirror the terms of MPSA No. 114-98-IV granted to RTN, albeit covering mining of limestone rather than nickel products.

B. Bulanjao exploration

*MPSA Application for expiring mining lease contracts*—On June 17, 2003, RTN filed an application to renew and to convert into MPSAs 14 existing mining lease contracts which were due to expire in the period from June 2003 to August 2004. The application included six small mining blocks of new areas located within the said existing mining lease contracts.

No operations are currently being conducted in these areas. The application remains pending.

**HINATUAN MINING CORPORATION**

A. South Dinagat exploration
*MPSA No. 072-97-XIII*—The South Dinagat exploration property is subject to an amended MPSA (No. 072-97-XIII) dated August 7, 1997 owned by Pacific Nickel Philippines, Inc. ("PNPI") that it acquired by virtue of a Deed of Assignment in its favor, with Philnico Mining and Industrial Corporation ("PMIC") dated May 2, 1997. The assignment was registered with the Mines and Geosciences Bureau on August 31, 1997. The MPSA covers an area of approximately 25,000 hectares.

*a. MPSA granted to PMIC/PNPI*—Under the MPSA between the Philippine government and PNPI, the exploration period shall be two years from August 7, 1997, the effective date of the agreement, renewable for the same period of time, but not to exceed a total of six years. PNPI applied for and was granted an extension of exploration permit for another two years and submitted an environmental work program for the two-year extension as required in the MPSA. The MPSA is for a term of twenty five (25) years from the effective date, renewable for another term not exceeding twenty five (25) years under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties.

*b. Memorandum of Agreement with PNPI dated 18 October 2001*—Pursuant to a Memorandum of Agreement between PNPI and HMC dated October 18, 2001, PNPI granted to HMC for an initial term of five (5) years, its rights and obligations on part of the land (215 hectares) covered by the MPSA. The Memorandum of Agreement was approved by the MGB of the DENR in an order dated September 24, 2002. It provides that HMC is entitled to mine and sell to third parties the saprolite ore produced from the South Dinagat exploration property, as an independent contractor, to undertake the exploration, development, and operation of the mineral property in consideration for a royalty equal to a percentage of the gross revenue from sales of ore from the mine, net of taxes and other specified amounts. The Memorandum of Agreement was renewed for another five years on August 4, 2006, which expired on October 18, 2011.Accordingly, the project area was granted a Certificate of Approval for its Final Mine Rehabilitation and/or Decommissioning Plan.

B. Taganaan mine
*MPSA 246-2007-XIII*—On July 25, 2007, HMC was granted an MPSA covering 773,7870 hectares of mineral land in Talavera, Taganaan, Surigao del Norte within Parcel II of the Surigao Mineral Reservation for a period of 25 years renewable for another 25 years subject to mutually agreed upon terms and conditions. The primary purpose of the MPSA is for the rational exploration and possible development and utilization for commercial purposes of nickel and other associated mineral deposits in the contract area.

C. Manicani mine
MPSA No. 012-92-VIII—The Manicani mine is subject to an MPSA (No. 012-92-VIII) granted on August 13, 1992 for 1,165 hectares. It has a term of twenty five (25) years and is renewable for another term not exceeding twenty five (25) years subject to mutually agreed upon terms and conditions. This MPSA was assigned to SMNRC which was submitted to the MGB VIII Regional Office on September 21 and will be endorsed by the same to the MGB Central Office for further evaluation and final approval.

On May 1, 2002, the DENR ordered the suspension of mining operations in Manicani pending a conduct of investigation in view of the complaints of the Roman Catholic Bishop. In a decision dated August 2, 2004, an arbitral panel of the Mines Adjudication Board, Mines and Geosciences Bureau, Region 8, the MPSA was ordered cancelled. The basis for the decision of the Board was a violation of the ECC with respect to dust pollution, reforestation and wastewater discharge. As a result of the decision, mining operations in Manicani remain suspended. The mining operations were found by the Board to be causing pollution of the seawater of Manicani Island. A Memorandum of Appeal dated December 23, 2004 was filed by HMC and our MPSA was upheld by the Mines Adjudication Board on September 4, 2009.

**TAGANITO MINING CORPORATION**

A. Taganito Mine

*MPSA No. 266-2008-XIII*—TMC was granted an MPSA on June 18, 2009 for a period of 25 years subject to renewal as may be mutually agreed upon. The MPSA covers an area of 4,862.7116 hectares located at the Barangays of Hayanggabon, Urbiztondo, Taganito and Cagdianao, Municipality of Claver, Province of Surigao del Norte. The purpose of the MPSA is the development and commercial utilization of nickel and other associated mineral deposits in the mineral land.

B. Kepha Exploration

*MPSA No. 284-2009-XIII*—On June 19, 2009, Kepha Mining Exploration Company was issued a MPSA covering 6,980.75 hectares of mineral land situated in the Municipality of Claver, Province of Surigao del Norte within Parcel I of the Surigao Mineral Reservation. The MPSA is for a period of twenty five (25) years and renewable for another twenty five (25) years as may be mutually agreed upon by the parties.

The terms and conditions of this MPSA mirror the terms of MPSA No. 266-2008-XIII granted to TMC.

An Operating Agreement dated February 14, 2007 was executed by and between TMC and Kepha Mining Exploration Company for a term of 25 years from February 14, 2007, whereby TMC shall maintain the mining rights covering the mineral property in good standing for and on behalf of KMEC.

C. Ludgoron Exploration

*MPSA No. 247-2007-XIII*—Ludgoron Mining Corporation was granted an MPSA on July 27, 2007 covering 3,248.0626 hectares of mineral land situated at Pantukan, Carrascal, Surigao del Sur within Parcel I of the Surigao Mineral Reservation. The term of the MPSA is twenty five (25) years and renewable for another twenty five (25) years as may be agreed upon.

The MPSA is for the purpose of rational exploration, development and commercial utilization of nickel, cobalt, iron and other associated mineral deposits in the contract area.

On August 28, 2007 an Operating Agreement was executed between Ludgoron Mining Corporation and TMC whereby the latter shall maintain the mining rights of Ludgoron Mining Corporation covering the properties and to maintain the same in good and current standing for and on behalf of Ludgoron Mining Corporation.

D. La Salle Exploration

La Salle Mining Exploration Company (LSMEC) filed an application for MPSA denominated as APSA No. 000073-XIII covering 6,824 hectares of mineral land situated at Brgy. Sicosico, Municipality of Gigaquit, Surigao del Norte, Mindanao for the development of limestone deposits as mine.

On December 18, 2006, LSMEC entered into an Operating agreement with TMC for a term of twenty five (25) years whereby TMC shall maintain the mining rights of LSMEC covering the aforesaid properties and to keep the rights in current and good standing for and on behalf of LSMEC.

**CAGDIANAO MINING CORPORATION**

A. Cagdianao mine

*MPSA No. 078- 97- XIII*—On November 19, 1997, East Coast Mineral Resources Co., Inc. ("East Coast") was granted an MPSA for a period of 25 years and renewable upon such terms and conditions as may be mutually agreed upon. The MPSA covers an area of 697.0481 hectares situated at Barangay Valencia, Municipality of Cagdianao, Province of Dinagat Islands, Surigao del Norte.

On the same date, a Memorandum of Agreement (MOA) was executed between CMC, as Operator and East Coast for a period of 10 years from the effectivity of the MOA whereby East Coast grants CMC the exclusive right to explore, develop and utilize the mineral property covered by the MPSA.

B. Libjo Exploration

*MPSA No. 233- 2007-XIII*—East Coast was issued an MPSA on June 8, 2007 covering 4,266.2744 hectares of mineral land in Libjo, Surigao del Norte for a period of 25 years and renewable for another 25 years. The purpose of the MPSA is for the initial rational exploration and possible development and utilization for commercial purposes of chromite, nickel and other associated mineral deposits.

On October 12, 2004, a Memorandum of Agreement was executed between East Coast and CMC for a term of ten (10) years from the approval of the MPSA, whereby East Coast granted CMC the exclusive right to explore, develop, exploit and operate the mineral property subject of the MPSA.

A Mutual Rescission of the above Memorandum of Agreement was executed on 12 March 2012, wherein East Coast and CMC mutually agreed to terminate the MOA and to release each other from any and all responsibilities and liabilities thereunder.

C. Boa Exploration

*MPSA 241-2007-XIII-SMR* – Norweah Metals and Minerals Company Inc. ("Norweah") was granted an MPSA on July 12, 2007 for a period of 25 years and renewable upon such terms and conditions as may be mutually agreed upon. The MPSA covers an area of 226.0235 hectares situated in Boa, Municipality of Cagdianao, Province of Dinagat Islands, Surigao del Norte.

A Memorandum of Agreement was executed on October 12, 2004 between Norweah and CMC for a term of ten (10) years from the approval of the MPSA, whereby Norweah granted CMC exclusive rights to explore, develop, exploit and operate the mineral property subject of the MPSA.

Mineral Resources and Reserves

As of December 31, 2011, the Company's Total Mineral Resources and Ore Reserves in accordance with PMRC are as follows:

| Ore | Class | Tonnes (kWMT) | Tonnes (kDMT) | % Ni | % Fe | Contained Ni(kt) |
|---|---|---|---|---|---|---|
| *Ore Reserves** | | | | | | |
| Saprolite | Proved and Probable | 118,618 | 82,573 | 1.45 | 10.48 | 1,197 |
| Limonite | Proved and Probable | 233,264 | 161,222 | 1.15 | 41.31 | 1,848 |
| *Mineral Resources*** | | | | | | |
| Saprolite | Measured & Indicated | 128,149 | 88,219 | 1.58 | 10.53 | 1,396 |
| Limonite | Measured & Indicated | 240,847 | 166,278 | 1.16 | 41.16 | 1,926 |
| Saprolite | Inferred | 26,673 | 17,054 | 1.42 | 11.55 | 243 |
| Limonite | Inferred | 9,171 | 6,462 | 1.17 | 36.55 | 75 |

** This ore reserves estimate was prepared by Engr. Jose S. Saret. (BSEM), Senior Vice President and Chief Operating Officer of Nickel Asia Corporation. Engr. Saret 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 mineralization. He is a licensed mining engineer with PRC registration number 887. He has given his consent to the attachment of this statement to the 17-A 2011 Annual Report concerning Ore Reserve Estimation.*

*** This mineral resources estimate was prepared by Mr. Radegundo S. De Luna, Consultant of Nickel Asia Corporation. Mr. De Luna 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 mineralization. He is a licensed geologist with License number 218. He has given his consent to the attachment of this statement to the 17-A 2011 Annual Report concerning Mineral Resources Estimation.*

Processing Facilities

CBNC

| | |
|---|---|
| Facility ........................ | Coral Bay HPAL nickel processing plant |
| Location ........................ | In a Special Economic Zone adjacent to Rio Tuba mine |
| Ownership..................... | Rio Tuba (10%)<br>Mitsui (18%)<br>Sojitz Corp (18%)<br>SMM (54%) |
| Operations..................... | Commissioned in 2005 with design capacity of 10,000 tonnes per year of contained nickel. Capacity doubled to 20,000 tonnes per year of contained nickel in June 2009 |
| Technology ................... | HPAL process |
| Source of ore ................. | Rio Tuba mine |
| Product ..................... | Nickel-cobalt sulfide sold exclusively to SMM |

Our subsidiary, RTN, holds a 10% equity interest in CBNC, the Philippine's first HPAL nickel processing plant. A consortium of Japanese companies led by SMM holds the remaining 90% equity interest. The plant was constructed adjacent to the Rio Tuba mine in an area designated as a Special Economic Zone by the Philippine Export Zone Authority. As such, CBNC enjoys tax incentives, including a tax holiday until 2011 (an application to extend the tax holiday until 2012 is pending). All of the limonite ore required for the plant is supplied by RTN from its extensive stockpile and from newly mined ore. RTN also supplies limestone and undertakes certain materials handling and transportation services. The plant produces a nickel sulphide precipitate containing approximately 57% nickel and 4% cobalt, which is sold exclusively to SMM for refining at its Niihama refinery. The facility uses proprietary SMM technology under a non-exclusive license.

Taganito HPAL Nickel

| | |
|---|---|
| Facility ........................ | Taganito HPAL nickel processing plant |
| Location ........................ | In a Special Economic Zone adjacent to the Taganito mine |
| Ownership..................... | NAC (22.5%)<br>SMM (62.5%)<br>Mitsui (15)% |
| Operations.................. | Scheduled to commence commercial operations at full capacity in August 2013 and expected to produce approximately 30,000 tonnes of contained nickel in 2014, the first full year of commercial operations at full capacity |
| Technology .................... | HPAL process |
| Investment cost/financing ..... | US$1,420 million, to be majority debt-financed, with remaining balance to be equity-financed based on ownership |
| Source of ore .................. | Taganito Mine |
| Product ........................ | Nickel-cobalt sulphide to be sold exclusively to SMM |

Following the success of the Coral Bay HPAL facility and taking into account the stockpile and reserves of limonite ore owned by our subsidiary, TMC, SMM conducted a feasibility study in September 2009 on a 30,000 tonnes-per-year HPAL plant to be located adjacent to our TMC mine site. The completion of the study led to the signing of a Memorandum of Understanding in September 2009 between us, our subsidiary, TMC, and SMM to proceed with the project. We expect that the plant will use technology similar to that used at the Coral Bay HPAL facility but will be triple the original size of the Coral Bay plant. TMC is expected to supply all the limonite ore required for the plant and the nickel-cobalt sulfide product will be sold exclusively to SMM for refining in Japan.

Pursuant to the Taganito HPAL Stockholders Agreement that we entered into on September 15, 2010, the project will be undertaken by Taganito HPAL Nickel, a company that will be jointly owned by us (as to 22.5%), SMM (as to 62.5%) and Mitsui (as to 15.0%). The agreement contains a term sheet with principal terms of an offtake agreement to be entered into between Taganito HPAL Nickel and TMC for the supply of limonite ore. Similar to the Coral Bay HPAL facility, the plant is located in a Special Economic Zone approved by the Philippine Export Zone Authority and should enjoy tax incentives. The operation of the facility should not only provide an additional dedicated customer for limonite ore from our Taganito mine, but, through our 22.5% equity interest, allow us to benefit from the higher percentage of payable nickel available further downstream in the nickel value chain.

Site works for the Taganito HPAL project have commenced, which include preparation work at the facility site, construction of offices and worker barracks and piling work for the new pier. Civil and mechanical construction work is scheduled to commence before the end of the year and is expected to be completed by the first quarter of 2013. The commissioning of the facility is scheduled to take place thereafter over an estimated six-month period, during which the facility is expected to commence operations at production rates below its full capacity. Commercial operations are scheduled to commence at full capacity in August 2013. The facility is expected to produce approximately 30,000 tonnes of contained nickel in 2014, the first full year of commercial operations at full capacity.

The estimated total cost is US$1.42 billion, which includes capital expenditures of US$1.3 billion for the plant, working capital and interest accrued during the construction phase. In addition to our ₱4.6 billion equity contribution which we made last November 2010, we have committed to contribute up to an additional ₱47.9 million in the event that Taganito HPAL Nickel requires additional funds prior to completion of construction of the HPAL facility. US$965 million of the project costs will be financed with debt financing that will be incurred by Taganito HPAL Nickel. The signing of the debt financing arrangement is expected in the second quarter of 2011. Under the terms of the Stockholders Agreement, we will be required to guarantee a portion of such debt financing equal to our 22.5% equity interest in Taganito HPAL Nickel. On September 15, 2010, we entered into an agreement with SMM whereby SMM will guarantee our pro-rata portion of Taganito HPAL Nickel's loan obligation in exchange for the payment of an annual guarantee fee to SMM of 1% of our pro-rata share of the outstanding loan obligation.

In the absence of cost overuns or major expansion plan, Taganito HPAL Nickel is expected to distribute all of its available cash as dividends to shareholders in any financial year, after payments have been made for operating expenses, applicable taxes, capital expenditure, working capital, scheduled loan principal and interest repayments, and after making provisions for upcoming installments of the loans and required working capital.

Liens and Encumbrances

Other than SMM's mortgage over RTN's pier facilities, none of our properties are subject to any liens, encumbrances or other security interests.

## Item 3. Legal Proceedings

In the ordinary course of our business, we are a party to various legal actions that are mainly labor cases and that we believe are routine and incidental to the operation of our business. We do not believe that we are subject to any ongoing, pending or threatened legal proceeding that is likely to have a material effect on our business, financial condition or results of operations.  However, there are a few cases that are now pending with the Courts.

NCIP Case

There is an ongoing case involving TMC whereby the complainants filed a case with the National Commission on Indigenous Peoples ("NCIP") seeking to invalidate the Memorandum of Agreement ("MOA") between TMC and the AMPANTRIMTU, the organization representing the Mamanwa tribe, which has a Certificate of Ancestral Domain Title over the mining area of TMC.

The complainants assert that TMC negotiated the MOA with the wrong tribal leaders, and thus, the MOA should be invalidated. In its answer, TMC alleges that the NCIP certified the authority of the tribal leaders to represent the indigenous people, and that the NCIP was a party to the MOA, with the Honorable Mayor of the host municipality, Claver, signing as a witness.

The case is currently pending with the NCIP and the parties are awaiting further notice as to whether the case will be set for hearing or be submitted for resolution on the basis of the pleadings filed.

Butuan Case involving Mamanwa Royalties

This is an Action which essentially prays for a complete and detailed accounting by TMC of the royalty fees from year 2006 to 2009 due to the indigenous peoples and for the deposit of alleged shortages in payment, the delivery of whatever amounts are due to the Caraga Indigenous Peoples Management & Development Corp. (CIPMAD), among others, which was filed by CIPMAD and Sergio Pascual.

The Complaint allegesclaims that the Memorandum of Agreement (MOA) between TMC and the other defendant-tribal chieftains is invalid for lack of proper consultation with the majority of the ICCs/IPs. TMC denied the allegations saying that the MOA is valid and was perfected after complying with the requirements of law as attested to by the NCIP and in fact it became the basis for the issuance of the Free and Prior Informed Consent (FPIC) in favor of TMC on the basis of which financial benefits were granted to the ICCs/IPs. TMC also argues that the complainants have no cause of action against it for the reimbursements as TMC never dealt with them but rather transacted directly with the representatives of the tribal communities by virtue of the valid MOA.

On January 2, 2012, an Order was issued by the Court for TMC to make a deposit of the amount of five (5) million pesos pending the action which TMC complied with. The matter is currently still pending before the Regional Trial Court of Butuan City.

Petition for the Issuance of a Writ of Kalikasan

Finally, pending before the Court of Appeals is a Petition for the issuance of a Writ of Kalikasan and a Temporary Environmental Protection Order (TEPO) filed against TMC and four (4) other mining companies. This case was originally filed with the Supreme Court, which remanded the same to the Court of Appeals for disposition. Thus, the Court of Appeals conducted evidentiary hearings wherein the Petitioners presented their evidence while the Respondents were allowed to observe the proceedingscross-examine their witnesses. After the presentation of the evidence of the petitioners, tThe parties were thereafter directed to file their respective memoranda on the basis of which a Resolution by the Court of Appeals shall be issued.

On March 2, 2012, a Writ of Kalikasan was issued by the Court of Appeals-Cagayan de Oro (CA-CDO) ordering TMC to file a Verified Return within a non-extendible period of ten (10) days from receipt. Accordingly, TMC timely filed the said Return as directed by the Court.

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

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

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

*Market Information*
The Company's common equity is traded in the Philippine Stock Exchange at a price of ₱15.0 per share on November 22, 2010. The stock prices for the Company's common equity since the initial public offering are as follows:

| | High | Low |
|---|---|---|
| 2010 | | |
| 4th quarter | ₱17.14 | ₱15.10 |
| 2011 | | |
| 1st Quarter | ₱22.85 | ₱15.24 |
| 2nd Quarter | ₱23.55 | ₱18.80 |
| 3rd Quarter | ₱21.50 | ₱16.50 |
| 4th Quarter | ₱20.95 | ₱16.80 |
| 2012 | | |
| 1st Quarter | ₱34.45 | ₱21.00 |

The Company's stocks share price was at ₱32.15 per share as of April 13, 2012.

*Holders*
The Company has 28 shareholders as of the end of 2011, with 1,339,831,828 common shares issued and outstanding. The top 20 stockholders of the Company as of December 31, 2011 are as follows:

| Name | Citizenship | Shares | % of Ownership |
|---|---|---|---|
| Mantra Resources Corporation | Filipino | 359,270,114 | 26.81% |
| PCD Nominee Corporation (Filipino) | Filipino | 276,577,197 | 20.64% |
| Sumitomo Metal Mining Philippine Holdings Corporation | Filipino | 256,828,076 | 19.17% |
| Luis J. L. Virata | Filipino | 176,381,559 | 13.16% |
| Philip T. Ang | Filipino | 152,933,704 | 11.41% |
| PCD Nominee Corporation (Non-Filipino) | Foreign | 85,186,361 | 6.36% |
| Ni Capital Corporation | Filipino | 27,818,542 | 2.08% |
| Pacific Metals Co., Ltd. | Japanese | 2,242,225 | 0.17% |
| Gerard H. Brimo | Filipino | 1,855,000 | 0.14% |
| Antonio L. Co | Filipino | 230,000 | 0.02% |
| Alice P. Lacson | Filipino | 200,000 | 0.01% |
| Magdangal B. Elma | Filipino | 65,000 | 0.00% |
| Eva Policar-Bautista | Filipino | 65,000 | 0.00% |
| William T. Enrile&/or Nelly R. Enrile&/or William R. Enrile II | Filipino | 50,000 | 0.00% |
| Cristina C. Pertierra ITF Michael C. Pertierra | Filipino | 50,000 | 0.00% |
| Luismil de Villa Gala &/or Sylvia Reynoso Gala | Filipino | 40,000 | 0.00% |
| Eduardo C. Arroyo Jr. | Filipino | 17,700 | 0.00% |
| Regina Captial Dev. Corp. | Filipino | 10,000 | 0.00% |
| Stephanie TancoGabaldon | Filipino | 5,000 | 0.00% |
| Bernarda P. Torres | Filipino | 2,000 | 0.00% |

*Dividends*
On March 28, 2012, the Parent Company's BOD declaredcash dividends of ₱0.80 per share to stockholders of record as at April 16, 2012, payable on May 11, 2012 and stock dividends of 50% common shares subject to the approval of the SEC on the Company's application for increase in authorized capital stock.

On October 25, 2011, the Parent Company's BOD declared a special cash dividends amounting to ₱201.1 million, equivalent to ₱0.15 per share to stockholders of record as at November 11, 2011 which were paid on December 8, 2011.

On March 25, 2011, the Parent Company's BOD declared cash dividends amounting to ₱468.9 million, equivalent to ₱0.35 per share to stockholders of record as at April 11, 2011 which were paid on May 9, 2011.

On August 13, 2010, the Company's BOD declared cash dividends amounting to US$70.0 million, equivalent to ₱3.16 per share to stockholders of record as at August 31, 2010 which were paid on November 25, 2010.

*Recent Sales of Unregistered or Exempt Securities.*

No unregistered securities were sold in 2011.

**Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis is based on the audited consolidated financial statements as at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009, prepared in conformity with PFRS and accompanying Notes to the Consolidated Financial Statements and should be read in conjunction with those audited consolidated financial statements.

**Summary Financial Information**

The Consolidated Financial Statements as at December 31, 2011 and 2010 and for the periods ended 2011, 2010 and 2009 are hereto attached.

The following table sets forth the summary financial information for the three years ended December 31, 2011 and as at December 31, 2011 and 2010:

**Summary Consolidated Statements of Income**

| | For the Year Ended Dec 31 | | | Horizontal Analysis | | | |
|---|---|---|---|---|---|---|---|
| | | | | Increase (Decrease) | | Increase (Decrease) | |
| | 2011 | 2010 | 2009 | 2011 vs. 2010 | % | 2010 vs. 2009 | % |
| | *(In thousand pesos)* | | | | | | |
| Revenues | 12,694,706 | 8,336,038 | 4,686,726 | 4,358,668 | 52% | 3,649,312 | 78% |
| Cost and expenses | (6,287,499) | (5,060,454) | (4,054,243) | 1,227,045 | 24% | 1,006,211 | 25% |
| Finance income | 208,440 | 130,768 | 230,294 | 77,672 | 59% | (99,526) | -43% |
| Finance expense | (65,089) | (81,240) | (161,629) | (16,151) | 20% | (80,389) | -50% |
| Other income (charges) - net | 600,122 | (6,405) | (71,375) | 606,527 | 9470% | 64,970 | -91% |
| Provision for income tax - net | (1,685,123) | (946,779) | (169,254) | 738,344 | -78% | 777,525 | 459% |
| Net income | 5,465,557 | 2,371,928 | 460,519 | 3,093,629 | 130% | 1,911,409 | 415% |
| Net income attributable to: | | | | | | | |
| Equity holders of the parent | 3,536,474 | 1,546,889 | 302,887 | 1,989,585 | 129% | 1,244,002 | 411% |
| Non-controlling interests | 1,929,083 | 825,039 | 157,632 | 1,104,044 | 134% | 667,407 | 423% |
| | 5,465,557 | 2,371,928 | 460,519 | 3,093,629 | 130% | 1,911,409 | 415% |

**Summary Consolidated Statements of Income**

| | For the Year Ended Dec 31 | | | Vertical Analysis | | | |
|---|---|---|---|---|---|---|---|
| | | | | Increase (Decrease) | | Increase (Decrease) | |
| | 2011 | 2010 | 2009 | 2011 vs. 2010 | % | 2010 vs. 2009 | % |
| | *(In thousand pesos)* | | | | | | |
| Revenues | 12,694,706 | 8,336,038 | 4,686,726 | 4,358,668 | 141% | 3,649,312 | 191% |
| Cost and expenses | (6,287,499) | (5,060,454) | (4,054,243) | 1,227,045 | 40% | 1,006,211 | 53% |
| Finance income | 208,440 | 130,768 | 230,294 | 77,672 | 3% | (99,526) | -5% |
| Finance expense | (65,089) | (81,240) | (161,629) | (16,151) | -1% | (80,389) | -4% |
| Other income (charges) - net | 600,122 | (6,405) | (71,375) | 606,527 | 20% | 64,970 | 3% |
| Provision for income tax - net | (1,685,123) | (946,779) | (169,254) | 738,344 | 24% | 777,525 | 41% |
| Net income | 5,465,557 | 2,371,928 | 460,519 | 3,093,629 | 100% | 1,911,409 | 100% |
| Net income attributable to: | | | | | | | |
| Equity holders of the parent | 3,536,474 | 1,546,889 | 302,887 | 1,989,585 | 64% | 1,244,002 | 65% |
| Non-controlling interests | 1,929,083 | 825,039 | 157,632 | 1,104,044 | 36% | 667,407 | 35% |
| | 5,465,557 | 2,371,928 | 460,519 | 3,093,629 | 100% | 1,911,409 | 100% |

**Summary Consolidated Statements of Financial Position**

| | 2011 | 2010 | 2009 | Horizontal Analysis Increase (Decrease) 2011 vs. 2010 | % | Increase (Decrease) 2010 vs. 2009 | % |
|---|---|---|---|---|---|---|---|
| | *(In Thousand Pesos)* | | | | | | |
| Current assets | 14,234,599 | 9,858,623 | 11,269,852 | 4,375,976 | 44.4% | (1,411,229) | -12.5% |
| Noncurrent assets | 12,151,814 | 11,744,525 | 5,087,106 | 407,289 | 3.5% | 6,657,419 | 130.9% |
| Total assets | 26,386,413 | 21,603,148 | 16,356,958 | 4,783,265 | 22.1% | 5,246,190 | 32.1% |
| Current liabilities | 1,637,815 | 1,335,731 | 1,168,996 | 302,084 | 22.6% | 166,735 | 14.3% |
| Noncurrent liabilities | 2,455,789 | 2,123,849 | 911,107 | 331,940 | 15.6% | 1,212,742 | 133.1% |
| Non-controlling interests | 4,381,233 | 3,141,889 | 3,002,731 | 1,239,344 | 39.4% | 139,158 | 4.6% |
| Equity attributable to equity holders of the Parent | 17,911,576 | 15,001,679 | 11,274,124 | 2,909,897 | 19.4% | 3,727,555 | 33.1% |
| Total liabilities and equity | 26,386,413 | 21,603,148 | 16,356,958 | 4,783,265 | 22.1% | 5,246,190 | 32.1% |

**Summary Consolidated Statements of Financial Position**

| | 2011 | 2010 | 2009 | Vertical Analysis Increase (Decrease) 2011 vs. 2010 | % | Increase (Decrease) 2010 vs. 2009 | % |
|---|---|---|---|---|---|---|---|
| | *(In Thousand Pesos)* | | | | | | |
| Current assets | 14,234,599 | 9,858,623 | 11,269,852 | 4,375,976 | 91.5% | (1,411,229) | -26.9% |
| Noncurrent assets | 12,151,814 | 11,744,525 | 5,087,106 | 407,289 | 8.5% | 6,657,419 | 126.9% |
| Total assets | 26,386,413 | 21,603,148 | 16,356,958 | 4,783,265 | 100.0% | 5,246,190 | 100.0% |
| Current liabilities | 1,637,815 | 1,335,731 | 1,168,996 | 302,084 | 6.3% | 166,735 | 3.2% |
| Noncurrent liabilities | 2,455,789 | 2,123,849 | 911,107 | 331,940 | 6.9% | 1,212,742 | 23.1% |
| Non-controlling interests | 4,381,233 | 3,141,889 | 3,002,731 | 1,239,344 | 25.9% | 139,158 | 2.7% |
| Equity attributable to equity holders of the Parent | 17,911,576 | 15,001,679 | 11,274,124 | 2,909,897 | 60.8% | 3,727,555 | 71.1% |
| Total liabilities and equity | 26,386,413 | 21,603,148 | 16,356,958 | 4,783,265 | 100.0% | 5,246,190 | 100.0% |

## Summary Consolidated Statements of Cash Flows

| | For the Year Ended December 31 2011 | 2010 | 2009 |
|---|---|---|---|
| | *(In Thousand Pesos)* | | |
| Net cash flows (used in): | | | |
| Operating activities | 5,966,401 | 3,597,960 | 1,123,875 |
| Investing activities | (1,291,701) | (6,024,799) | (1,013,094) |
| Financing activities | (1,138,434) | 2,514,280 | (573,684) |
| Net increase (decrease) in cash and cash equivalents | 3,536,266 | 87,441 | (462,903) |
| Cash and cash equivalents, beginning | 6,805,968 | 6,779,215 | 7,452,631 |
| Effect of exchange rate changes in cash and cash equivalents | 8,358 | (60,688) | (210,513) |
| Cash and cash equivalents, end | 10,350,592 | 6,805,968 | 6,779,215 |

**Results of Operations**

**Calendar year ended December 31, 2011 compared with calendar year ended December 31, 2010**

*Revenues*
Our total revenues were ₱12,694.7 million in 2011 as compared to ₱8,336.0 million in 2010, an increase of ₱4,358.7 million, or 52%.

*Sale of ore*
Our revenue from sale of ore was ₱12,230.3 million in 2011 as compared to ₱8,074.3 million in the 2010, an increase of ₱4,156.0 million, or 51%. The increase in revenue was due both to a higher volume of nickel ore sold, mainly to our Chinese customers, and higher ore prices. Our realized London Metal Exchange ("LME") nickel price in 2011, applicable to sales of high and medium grade saprolite ore sold to our Japanese and Chinese customers and sales of limonite ore to Coral Bay Nickel Corporation ("CBNC"), averaged $10.53 per pound of payable nickel compared to $9.61 per pound of payable nickel in 2010. The weighted average price per wet metric ton ("WMT") of low gradesaprolite ore and limonite ore sold to our Chinese customers in 2011 amounted to $24.47 compared to $18.15 in 2010. The increased demand as well as higher prices for our various types of ore was largely due to the increase in both the nickel pig iron (NPI) and carbon steel production in China.

We sold an aggregate 10,386.8 thousand WMT of nickel ore in 2011 as compared to 8,339.2 thousand WMT of nickel ore in 2010. Our sales in 2011 included 3,954.9 thousand WMT of saprolite ore sold to Japanese and Chinese customers, 3,455.1 thousand WMT of limonite ore to our Chinese customers and 2,976.9 thousand WMT of limonite ore to CBNC compared to sales of 3,217.4 thousand WMT, 2,432.4 thousand WMT and 2,689.3 thousand WMT, respectively, in 2010.

We own 60% of Rio Tuba Nickel Mining Corporation ("RTN"), which owns and operates the Rio Tuba mining operations. RTN's revenue from sale of ore was ₱5,963.9 million in 2011 as compared to ₱3,402.8 million in 2010, an increase of ₱2,561.1 million, or 75%. RTN sold an aggregate 5,099.1 thousand WMT of nickel ore in 2011 as compared to an aggregate 3,876.4 thousand WMT of nickel ore sold in 2010. The volume of saprolite ore sold to Japanese and Chinese customers increased by 866.9 thousand WMT or 69%, while the volume of limonite ore sold to CBNC increased by 355.9 thousand WMT, or 14%.

We own 65% of Taganito Mining Corporation ("TMC"), which owns and operates the Taganito mining operations. TMC's revenue from sale of ore was ₱2,751.9 million in 2011 as compared to ₱2,089.0 million in 2010, an increase of ₱662.9 million, or 32%. TMC sold an aggregate 1,664.8 thousand WMT of nickel ore in 2011 as compared to an aggregate 1,200.0 thousand WMT of nickel ore in 2010. The volume of saprolite ore sold to customers from Japan and China decreased by 118.4 thousand WMT, or 10%. In addition, TMC sold 651.5 thousand WMT of limonite ore to Chinese customers in 2011 compared to nil in 2010, while it sold 68.3 thousand WMT of limonite ore to CBNC in 2010 as compared to nil in 2011.

Most of the limonite ore mined by TMC is being stockpiled in preparation for the expected commencement of the Taganito HPAL facility by the latter part of 2013. Following the signing of a Stockholders' Agreement on September 15, 2010 among the shareholders of the facility, which included the terms of an off-take of limonite ore from TMC to the facility, expenses associated with the mining of limonite ore are being charged to inventory, while prior to the signing of the Stockholders' Agreement, such costs were expensed during the period that they were incurred.

We own 100% of Cagdianao Mining Corporation ("CMC"), which owns and operates the Cagdianao mining operations. CMC's revenue from sale of ore was ₱1,723.7 million in 2011 as compared to ₱1,225.8 million in 2010, an increase of ₱497.9 million, or 41%. CMC sold an aggregate 1,034.0 thousand WMT of nickel ore in 2011 as compared to an aggregate 896.0 thousand WMT of nickel ore in 2010. The volume of saprolite ore sold to Japanese and Chinese customers increased by 138.5 thousand WMT or 24%. CMC also sold 330.3 thousand WMT of limonite ore to Chinese customers in 2011 compared to 330.6 thousand WMT in 2010.

We own 100% of Hinatuan Mining Corporation ("HMC"), which owns and operates the Taganaan mining operations. HMC's revenue from sale of ore was ₱1,790.7 million in 2011 as compared to ₱1,356.7 million in 2010, an increase of ₱434.0 million, or 32%. HMC sold an aggregate 2,588.9 thousand WMT of saprolite and limonite ore to Chinese customers in 2011 as compared to 2,366.9 thousand WMT in the same period last year.

*Services and Others*
Our revenue from services and others was ₱464.4 million in 2011 as compared to ₱261.7 million in 2010, an increase of ₱202.7 million, or 77%. In 2010, services revenue mainly consists of hauling, manpower and other ancillary services that RTN provides to CBNC. In 2011, additional revenues consisted of a usage fee which TMC began charging Taganito HPAL Corporation ("THPAL") for the use of its newly constructed pier facility, as well as commission income.

<u>*Costs and Expenses*</u>
Our costs and expenses amounted to ₱6,287.5 million in 2011 as compared to ₱5,060.4 million in 2010, an increase of ₱1,227.1 million, or 24%.

*Cost of Sales*
Our cost of sales was ₱3,349.7 million in 2011 as compared to ₱3,062.0 million in 2010, an increase of ₱287.7 million, or 9%. The increase was largely due to higher volume of production and shipments.

*Cost of Services*
Cost of services was ₱189.8 million in 2011 as compared to ₱144.0 million in 2010, an increase of ₱45.8 million, or 32%. Cost of services largely consists of the cost of providing hauling, manpower and other ancillary services by RTN to CBNC.

*Shipping and Loading Costs*
Shipping and Loading Costs were ₱1,344.7 million 2011 as compared to ₱855.5 million in 2010, an increase of ₱489.2 million, or 57%. The increase was due to higher contract fees from ₱511.4 million to ₱817.3 million brought about by additional LCT rentals, increase in fuel, oil and lubricants from ₱108.3 million to ₱226.8 million, as well as an increase in other services and fees from ₱132.6 million to ₱160.6 million due to higher wharfage, stevedoring charges and materials and supplies consumption. The increase in shipping and loading costs is related to the substantial increase in our sales volume in 2011.

*General and Administrative*
General and administrative expenses were ₱667.0 million in 2011 as compared to ₱475.7 million in 2010, an increase of ₱191.3 million, or 40%. The higher expenses in 2011 was primarily due to an increase in personnel costs attributable to new key personnel hires at our subsidiaries and higher employee bonuses, as well as an increase in depreciation expense due to acquisition of property and equipment in 2011.

*Excise Taxes and Royalties*
Our excise taxes and royalties were ₱736.3 million in 2011 as compared to ₱523.2 million in 2010, an increase of ₱213.1 million, or 41%. The increase in excise taxes and royalties was a result of the increase in our sale of ore in 2011.

<u>*Finance Income*</u>
Our finance income was ₱208.4 million in 2011 as compared to ₱130.8 million in 2010, an increase of ₱77.6 million, or 59%. Our finance income in 2011 consists of interest income on our cash balances and other investments. Our finance income in 2010 primarily consisted of ₱128.8 million of interest income on our cash balances and other investments and a ₱2.0 million increase in fair value of certain portfolio investments.

*Finance Expense*
Our finance expense was ₱65.1 million in 2011 as compared to ₱81.2 million in 2010, a decrease of ₱16.1 million, or 20%. Our finance expense in 2011 primarily consisted of a ₱34.9 million interest expense on our long-term loan, an ₱18.3 million loss recognized upon the sale of AFS investments, a ₱7.9 million accretion interest on mine rehabilitation and decommissioning and a provision for impairment losses of ₱4.0 million related to trade and other receivables. Our finance expense in 2010 primarily consisted of a ₱47 million loss on our nickel commodity collar contracts, interest expense on our long-term loan of ₱10.9 million, a ₱9.5 million loss recognized upon the sale of AFS investments, a ₱9.2 million accretion interest on mine rehabilitation and decommissioning and a provision for impairment losses of ₱4.6 million related to trade and other receivables.

*Other Income (Charges) - net*
Our other income in 2011 was ₱600.1 million as compared to a charge of ₱6.4 million in 2010. The turnaround was due largely to an inventory write-up on the long-term stockpile at our Rio Tuba mine in the amount of ₱573.1 million, and a ₱436.4 million dividend payment from CBNC to RTN. These gains were partially offset by a ₱239.5 million casualty loss due to the damages incurred as a result of an insurgency attack which occurred at the Taganito mine site and a ₱196.2 million equity in net losses of a 22.5%-owned associate, Taganito HPAL Nickel Corporation. In 2010, we incurred a net foreign exchange loss of ₱482.1 million as a result of the decrease in value of our U.S. dollar denominated assets, primarily our cash and cash equivalents and portfolio investments. The higher net foreign exchange loss in 2010 was partially offset by our other income consisting of ₱120.2 million of dividend income, the majority of which was a dividend payment from CBNC to RTN , a ₱80.7 million gain resulting from the bargain purchase of La Costa Shipping and Lighterage Corporation, a company engaged in the chartering of Landing Craft Transports, a ₱74.1 million reversal of accruals that we made in prior periods for vessel demurrage, ₱61.5 million of other services provided by RTN to CBNC, a ₱56.3 million reversal of allowance for inventory losses of nickel ore provided for in 2008, which inventory was sold in 2010 and a one-time fee of ₱33.7 million for the handling of TMC ore which was delivered to the CBNC HPAL facility.

*Provision for (Benefit from) Income Tax*
Provision for income tax was ₱1,685.1 million in 2011 compared to ₱946.8 million in 2010, an increase of ₱738.3 million, or 78%. Our current provision for income tax in 2011 was ₱1,619.8 million compared to ₱1,148.6 million in 2010, an increase of ₱471.2 million, or 41% primarily due to the increase in our income in 2011. Our provision for deferred income tax in 2011 was ₱65.3 million as compared to ₱201.8 million in 2010, a decrease of ₱267.1 million, or 132%which was the result of a deferred income tax benefit on the writeup of long-term stockpile inventory partially offset by additional NOLCO, accrued SDMP and cost of share-based payment recognized in 2011. The deferred benefit in 2010 was the result of the reversal of the deferred tax asset recognized on the Company's unrealized foreign exchange losses in 2010, partially offset by NOLCO recognized by the Parent Company in 2010.

*Net Income*
As a result of the foregoing, our consolidated net income was ₱5,465.6 million in 2011 compared to ₱2,371.9 million in 2010. Net of noncontrolling interests, our net income was ₱3,536.5 million in 2011 as compared to ₱1,546.9 million in 2010, an increase of ₱1,989.6 million, or 129%.

**Calendar year ended December 31, 2010 compared with calendar year ended December 31, 2009**

*Revenues*
Our total revenues were ₱8,336.0 million in 2010 as compared to ₱4,686.7 million in 2009, an increase of ₱3,649.3 million, or 78%.

*Sale of Ore*
Our revenue from sale of ore was ₱8,074.3 million in 2010 as compared to ₱4,333.2 million in the 2009, an increase of ₱3,741.1 million, or 86%. The increase in revenue was due both to a higher volume of nickel ore sold, mainly to our Chinese customers, and higher ore prices. Our realized LME nickel price in 2010, applicable to sales of saprolite ore to PAMCO and sales of limonite ore to CBNC, averaged $9.60 per pound of payable nickel compared to $6.45 per pound of payable nickel in 2009. The weighted average

price per WMT of ore sold to our Chinese customers in 2010 amounted to $18.32 compared to $12.72 in 2009. The increased demand for nickel ore as well as higher prices for our various types of ore was largely due to an improvement in global economic conditions and the effect of the Chinese government's economic stimulus programs, particularly during the first-half of 2010.

We sold an aggregate 8,339.2 thousand WMT of nickel ore in 2010 as compared to 6,458.5 thousand WMT of nickel ore in 2009. Our sales in 2010 included 1,115.6 thousand WMT of saprolite ore to PAMCO, 4,504.2 thousand WMT of low-grade saprolite and limonite ore to our Chinese customers and 2,621.0 thousand WMT of limonite ore to CBNC compared to sales of 880.0 thousand WMT, 3,058.2 thousand WMT and 2,520.2 thousand WMT, respectively, in 2009. In addition, we had our first shipment of 30.0 thousand WMT of low grade saprolite to SMM in December 2010.

We own 60% of RTN, which owns and operates the Rio Tuba mining operations. RTN's revenue from sale of ore was ₱3,402.8 million in 2010 as compared to ₱1,503.8 million in 2009, an increase of ₱1,899.0 million, or 126%. RTN sold an aggregate 3,876.4 thousand WMT of nickel ore in 2010 as compared to an aggregate 2,982.7 thousand WMT of nickel ore sold in 2009. The volume of saprolite ore sold to PAMCO increased by 4.3 thousand WMT or 2%, the volume of low-grade saprolite ore sold to Chinese customers increased by 758.6 thousand WMT, or 279%, while the volume of limonite ore sold to CBNC increased by 100.8 thousand WMT, or 4%.

We own 65% of TMC, which owns and operates the Taganito mining operations. TMC's revenue from sale of ore was ₱2,089.0 million in 2010 as compared to ₱1,041.4 million in 2009, an increase of ₱1,047.6 million, or 101%. TMC sold an aggregate 1,200.0 thousand WMT of nickel ore in 2010 as compared to an aggregate 743.5 thousand WMT of nickel ore in 2009. The volume of saprolite ore sold to PAMCO increased by 182.8 thousand WMT, or 37%. In addition, TMC sold 454.8 thousand WMT of low-grade saprolite ore to Chinese customers and 68.3 thousand WMT of limonite ore to CBNC in 2010, whereas 249.4 thousand WMT of low-grade saprolite ore was shipped to Chinese customers and no sales were made to CBNC in 2009. TMC sold limonite ore to CBNC in the first half of 2010 in order to test its ore at CBNC's high pressure acid leach (HPAL) facility in connection with the planned construction of the Taganito HPAL facility.

Other than the sale of limonite ore to CBNC for testing purposes, all limonite ore mined by TMC is being stockpiled in preparation for the expected commencement of the Taganito HPAL facility by mid-2013. Following the signing of a Stockholders' Agreement on September 15, 2010 among the shareholders of the facility, which included the terms of an off-take of limonite ore from TMC to the facility, expenses associated with the mining of limonite ore are being charged to inventory, while prior to the signing of the Stockholders' Agreement, such costs were expensed during the period that they were incurred.

We own 100% of CMC, which owns and operates the Cagdianao mining operations. CMC's revenue from sale of ore was ₱1,225.8 million in 2010 as compared to ₱575.4 million in 2009, an increase of ₱650.4 million, or 113%. CMC sold an aggregate 896.0 thousand WMT of nickel ore in 2010 as compared to an aggregate 545.9 thousand WMT of nickel ore in 2009. The volume of saprolite ore sold to PAMCO increased by 48.2 thousand WMT or 25%. CMC sold 651.9 WMT of low-grade saprolite and limonite ore to Chinese customers in 2010 compared to only 350.0 WMT in 2009.

We own 100% of HMC, which owns and operates the Taganaan mining operations. HMC's revenue from sale of ore was ₱1,356.7 million in 2010 as compared to ₱1,212.5 million in 2009, a decrease of ₱144.2 million, or 12%. HMC sold an aggregate 2,366.9 thousand WMT of low-grade saprolite and limonite ore to Chinese customers in 2010 as compared to 2,186.6 thousand WMT of nickel ore in the same period last year.

*Services and Others*

Our revenue from services and others was ₱261.7 million in 2010 as compared to ₱353.5 million in 2009, a decrease of ₱91.8 million, or 26%. Services revenue largely consists of hauling, manpower and other ancillary services that RTN provides to CBNC. We discontinued certain services to CBNC in the second half of 2009 to deploy equipment that we had utilized in such activities to RTN's mining operations in order to meet the increased volume of sales in 2010. The discontinuation of these services resulted in a decrease in services and other revenue in 2010 as compared to 2009.

*Costs and Expenses*
Our costs and expenses amounted to ₱5,060.4million in 2010 as compared to ₱4,054.2 million in 2009, an increase of ₱1,006.2 million, or 25%.

*Cost of Sales*
Our cost of sales was ₱3,062.0 million in 2010 as compared to ₱2,516.3 million in 2009, an increase of ₱545.7 million, or 22%. The increase was due to higher volume of production and shipments. To cope with this higher level of activity in 2010, we increased our dependence on outside services, notably the use of contractors to augment our mining, hauling and ship loading activities. As a result, outside services increased by ₱542.5 million in 2010.

*Cost of Services*
Cost of services was ₱144.0million in 2010 as compared to ₱240.9 million in 2009, a decrease of ₱96.9 million, or 40%. Cost of services largely consists of the cost of providing hauling, manpower and other ancillary services by RTN to CBNC.

*Shipping and Loading Costs*
Shipping and Loading Costs were ₱855.4 million 2010 as compared to ₱552.0 million in 2009, an increase of ₱303.4million, or 55%. The increase was due to higher contract fees from ₱315.9 million in 2009 to ₱511.4 million in 2010 brought about by additional LCT rentals, as well as an increase in other services and fees from ₱45.2 million to ₱132.6million due to higher wharfage, stevedoring charges and materials and supplies consumption. The increase in marketing expenses is related to the substantial increase in our sales volume in 2010.

*General and Administrative*
General and administrative expenses were ₱475.7 million in 2010 as compared to ₱456.2 million in 2009, an increase of ₱19.5 million, or 4%. The increase was primarily due to increase in personnel costs, largely attributable to higher employee bonuses and the cost related to the granting of compensation shares to a key executive of the Company, as well as an increase in depreciation expense due to acquisition of property and equipment in 2010.

*Excise Taxes and Royalties*
Our excise taxes and royalties were ₱523.2 million in 2010 as compared to ₱288.9 million in 2009, an increase of ₱234.3 million, or 81%. The increase in excise taxes and royalties was a result of the increase in our sales revenue in 2010.

*Finance Income*
Our finance income was ₱130.8 million in 2010 as compared to ₱230.3 million in 2009, a decrease of ₱99.5 million, or 43%. Our finance income in 2010 primarily consisted of ₱128.8 million of interest income on our cash balances and other investments. Our finance income in 2009 primarily consisted of ₱162.1 million of interest income on our cash balances and other investments and a ₱52.9 million increase in fair value of certain portfolio investments.

*Finance Expense*
Our finance expense was ₱81.2 million in 2010 as compared to ₱161.6 million in 2009, a decrease of ₱80.4 million, or 50%. Our finance expense in 2010 primarily consisted of a ₱47.0 million loss on our nickel commodity collar contracts, interest expense on our long-term loan of ₱10.9 million and a ₱9.5 million loss recognized upon the sale of AFS investments. Our finance expense in 2009 primarily consisted of a ₱78.7 million loss on derivative instruments as a result of the appreciation of the U.S. dollar relative to the peso, a ₱40.8 million provision for impairment losses on trade and other receivables and a ₱20.8 million interest expense on our long-term loan.

*Other Income (Charges) - net*
Our other income (charges) in 2010 was a charge of ₱6.4million as compared to a charge of ₱71.4 million in 2009 or a decrease of ₱65.0million. The decrease was due largely to a higher net foreign exchange loss of ₱482.1 million in 2010 as compared to a net foreign exchange loss of ₱214.1 million in 2009, as a result of the decrease in value of our U.S. dollar denominated assets, primarily our cash and cash equivalents and portfolio investments. The higher net foreign exchange loss in 2010 was partially

offset by our other income consisting of ₱120.2 million of dividend income, the majority of which was a dividend payment from CBNC to RTN , a ₱74.1 million reversal of accruals that we made in prior periods for vessel demurrage, ₱61.5 million of other services provided by RTN to CBNC, a ₱56.3 million reversal of allowance for inventory losses of nickel ore provided for in 2008, which inventory was sold in 2010,a one-time fee of ₱33.7 million for the handling of TMC ore which was delivered to the CBNC HPAL facility and the gain on bargain purchase of LCSCL of ₱80.7 million. Our other income in 2009 of ₱46.7 million primarily consisted of other services and supplies that RTN provides to CBNC, as well as throughput income.

*Provision for (Benefit from) Income Tax*
Provision for income tax was ₱946.8million in 2010 compared to ₱169.3 million in 2009, an increase of ₱777.5 million, or 459%. Our current provision for income tax in 2010 was ₱1,148.6 million compared to ₱391.6 million in 2009, an increase of ₱757.0 million, or 193% primarily due to the increase in our income in 2010. Our deferred benefit from income tax in 2010 was ₱201.8 million as compared to ₱222.3 million in 2009, a decrease of ₱20.5 million, or 9%. which was the result of the reversal of deferred tax asset recognized on the Company's unrealized foreign exchange losses in 2009, partially offset by the net operating loss carry over (NOLCO) recognized by the Parent Company in 2010.

*Net Income*
As a result of the foregoing, our consolidated net income was ₱2,371.9 million in 2010 compared to ₱460.5 million in 2009. Net of noncontrolling interests, our net income was ₱1,546.9 million in 2010 as compared to ₱302.9 million in 2009, an increase of ₱1,244.0 million, or 411%.

**<u>Financial Position</u>**

**Calendar year as at December 31, 2011 and 2010**

Total Assets amounted to ₱26,386.4 million in 2011 compared to ₱21,603.1 million in 2010.

Current assets increased to ₱14,234.6 million in 2011 from ₱9,858.6 million in 2010 due mainly to the increase in cash and cash equivalents from ₱6,806.0 million to ₱10,350.6 million and inventories from ₱1,416.4 million to ₱2,008.0 million

Noncurrent assets increased from ₱11,744.5 million in 2010 to ₱12,151.8 million in 2011 due largely to the increase in long-term stock pile inventory – net of current portion from ₱965.0 million to ₱1,357.7 million and property and equipment from ₱3,859.7 million to ₱4,216.8 million, consisting mostly of the new pier facility at our Taganito mine, as well as additional acquisition of machinery and equipment.

Total current liabilities increased to ₱1,637.8 million in 2011 from ₱1,335.7 million in 2010 due to increases in trade and other payables from ₱935.2 million to ₱1,238.1 million and current portion of long-term debt from ₱78.4 million to ₱124.5 million.

Total noncurrent liabilities likewise increased to ₱2,455.8 million from ₱2,123.8 million largely due to the increase in long-term debt - net of current portion to ₱1,643.9 million from ₱1,465.8 million and deferred income tax liabilities - net from ₱469.8 million to ₱591.1 million.

Equity - net of non-controlling interests increased to ₱17,911.6 million as at year ended 2011 from ₱15,001.7 million as at year ended 2010 due to net earnings in 2011

**Calendar year as at December 31, 2010 and 2009**

Total Assets amounted to ₱21,603.1 million in 2010 compared to ₱16,357.0 million in 2009.

Current assets decreased to ₱9,858.6 million in 2010 from ₱11,269.9 million in 2009 due to the decrease in available for sale (AFS) investments from ₱1,081.3 million to ₱470.0 million, the full settlement of our financial assets at fair value through profit and loss ("FVPL") amounting to ₱318.2 million and the decrease in other current assets from ₱248.9 million to ₱53.0 million, mainly as a result of the utilization of tax credit certificates.

Noncurrent assets increased from ₱5,087.1 million in 2009 to ₱11,744.5million in 2010 due to the investment in an associate of ₱4,570.5 million, representing our 22.5% investment in the THPAL and the increase in property and equipment from ₱2,156.7 million in 2009 to ₱3,859.9million in 2010, consisting mostly of construction in progress related to the pier facility at our Taganito mine, as well as additional acquisition of machinery and equipment.

Total current liabilities increased to ₱1,335.7 million in 2010 from ₱1,169.0 million in 2009 due to increases in trade and other payables from ₱866.2 million to ₱935.2 million and income tax payable from ₱252.4 million to ₱322.1 million.

Total noncurrent liabilities likewise increased to ₱2,094.8 million from ₱911.1 million largely due to the increase in long-term debt - net of current portion to ₱1,458.1 million from ₱337.5 million.

Equity - net of non-controlling interests increased to ₱15,001.7 million as at year ended 2010 from ₱11,274.1 million as at year ended 2009 due to net earnings in 2010, issuance of capital stock and sale of treasury shares for the funding requirements of a new pier facility at our Taganito mine and payment of cash dividend.

**Cash Flows**

**Calendar year ended December 31, 2011, 2010 and 2009**

The net cash flows from operating activities amounted to ₱5,966.4 million in 2011, compared to ₱3,598.0 million in 2010 and ₱1,123.9 million in 2009, as proceeds from the sale of ore substantially increased in 2011 compared to years 2010 and 2009.

Net cash used for investment activities amounted to ₱1,291.6 million in 2011, mainly for the acquisition of property and equipment and net acquisition of AFS investments. In 2010, net cash used for investing activities amounted to ₱5,924.7 million, largely as a result of our investments in the THPAL, as well as acquisition of property and equipment; Net cash used for investing activities amounted to ₱1,013.1 million in 2009 due to net acquisitions of AFS investments and property and equipment.

Net cash used in financing activities was ₱1,138.5 million in 2011, mostly for the payment of cash dividends. Cash generated from financing activities in 2010, net of payments of cash dividend and long-term debt amounted to ₱2,514.3 million, was largely a result of the issuance of capital stock, sale of treasury shares and the availment of long-term debt while cash flows from financing activities amounted to ₱573.7 million in 2009 due to acquisition of treasury shares.

As at December 31, 2011, 2010 and 2009, cash and cash equivalents amounted to ₱10,350.6 million, ₱6,806.0 million and₱6,779.2 million, respectively.

**<u>Top Five (5) Key Performance Indicators</u>**

**LME price**

We typically sell high- and low-grade saprolite ore to PAMCO and SMM under long-term agreements and we are the exclusive supplier of limonite ore, also under a long-term agreement, to the Coral Bay HPAL facility. The price of high and low-gradesaprolitenickel ore sold to our customersand the Coral Bay HPAL facility is determined based on a payable percentage of the nickel contained in the ore, multiplied by average LME nickel prices over specified quotational periods. The payable percentage of the nickel contained in the ore is correlated, in a non-linear manner, with LME nickel prices, with higher LME prices resulting in a higher payable percentage of nickel and vice versa. Accordingly, higher LME nickel prices results both in a higher percentage of payable nickel in our ore to these customers as well as in higher prices, and can therefore have a substantial effect on our overall revenue. Nickel prices and demand for nickel typically increase during periods of high global demand for stainless steel.

Nickel prices have historically exhibited considerable volatility. Nickel prices climbed from as low as US$4.25 per pound in March 2009 to a high of US$12.51per pound in April 2010. After recent corrections, the nickel price was US$11.32 per pound at the end of 2010. The average LME nickel prices per poundin 2007, 2008, 2009, 2010 and 2011 were US$16.82, US$9.55, US$6.67, US$9.89 and US$10.35, respectively.

The sensitivity of our revenues to LME nickel prices is not completely linear, because, in our experience, when nickel prices reach certain levels, the demand for our limonite ore increases. As a result of this effect, very high nickel prices have, in the past, resulted in increased volumes of nickel ore sold, as well as increased prices for our recurring sales of saprolite ore to PAMCO and limonite ore to the Coral Bay HPAL facility under long-term contracts. Increases and decreases in the LME nickel price will have a broadly proportional effect on our revenues from these sales.

**Volume**

The volume of saprolite ore that we sell largely depends on the grade of saprolite ore that we mine. The volume of limonite ore that we sell to our customers in China largely depends on the demand for NPI and lately, carbon steel,in China. Our sales of high-grade saprolite ore are mainly to PAMCO, who purchases our high-grade saprolite ore that we are able to extract and ship at any given time. With respect to our low-grade saprolite and limonite ore, in periods when we are able to extract more ore than we are able to ship, we generally continue our mining operations and stockpile such ore for sale when demand improves or when prices rise to more attractive levels. As stated above, the volume of our low-grade saprolite ore and limonite ore sales to our Chinese customers is roughly correlated with the LME nickel price, with volume increasing as nickel prices rise. In addition to sales of nickel ore to PAMCO, SMM and our customers in China, we sell limonite ore from our Rio Tuba mine to the Coral Bay HPAL facility, in which we have a minority interest. CBNC purchases an amount of limonite ore from us sufficient to meet its ore requirements. The annual capacity of its Coral Bay HPAL facility was originally 10,000 tonnes of contained nickel and was expanded to 20,000 tonnes of contained nickel in the second half of 2009, resulting in a higher volume of limonite ore sales from RTN. In 2010, the Coral Bay HPAL facility was able to attain an annual capacity of 23,000 tonnes as a result of the facility's expansion in 2009 which became fully operational in 2010.

**The type and grade of ore that we mine**

We realize higher sales prices for our saprolite ore than for our limonite ore. Accordingly, the type and grade (which is a factor of nickel content) of the ore that we mine affects our revenues from year to year. The quantity of saprolite ore that we mine annually depends on the customer demand and the availability of such ore at our mine sites. The mix between high-and low-grade saprolite ore at our mine sites coupled with our long-term mining plan determines the quantities of each that we extract on an annual basis. The quantity of limonite ore that we mine on an annual basis depends on the amount of such ore that needs to be removed in order to extract the saprolite ore, as well as market demand.

**Mine Site Cash Cost per Volume Sold**
The mine site cash cost per volume of ore sold provides a cost profile for each operating mine and allows us to measure and compare operating performance as well as changes in per unit costs from year to year.

The mine site cash cost includes production and marketing expenses incurred by the Company in mining, handling and barging ore to customer's vessels, and excludes excise taxes and royalties.

The average mine site cash cost per volume sold in 2011 is ₱420.64 per WMT on the basis of aggregate cash costs of ₱4,430.5 million and a total sales volume of 10,533.8 thousand WMT of ore. This compares to ₱364.45 per WMT during the same period in 2010 on the basis of aggregate cash costs of ₱3,121.2 million and a total sales volume of 8,564.1 thousand WMT of ore.

To augment our operations in 2011 in order to meet the surge in demand for our ore, the Company engaged third party contractors to assist in the hauling and loading of ore  Typically, the unit cost associated with the use of outside services is higher compared to costs incurred when volume handling is done by the Company.

**Currency exchange rates**
We earn substantially all of our revenues in U.S. dollars while most of our expenses are paid in pesos. The appreciation of the peso against the United States dollar reduces our revenue in peso terms. Accordingly, appreciation of the peso against the U.S. dollar effectively reduces our revenue without a corresponding reduction in our expenses and can result in a reduction in our net income. In addition, because a portion of our cash and cash equivalents and other portfolio investments are denominated in U.S. dollars, the appreciation of the peso against the U.S. dollar reduces the value of these assets in peso terms in our financial statements. Our current policy is not to hedge our exposure to foreign currency exchange risk.

The Company's average realized peso-to-dollar rates for 2011, 2010 and 2009 are ₱43.15, ₱44.86 and ₱48.17, respectively.

**Liquidity and Capital Resources**
In the years ended 2011, 2010 and 2009, our principal source of liquidity was cash from our operations. We incurred long-term debt to finance the construction of our Rio Tuba and Taganitopier facilities and we receive income from CBNC and THNC, respectively, under a throughput agreement whereby amounts are payable by CBNC to RTN for use of the pier facilities. The revenue that we receive from CBNC and THNC under the throughput agreement have typically been sufficient to service our long-term debt.

As of December 31, 2011 and 2010, our working capital, defined as the difference between our current assets and current liabilities, was ₱12.6 billion and ₱8.5 billion, respectively. We may also from time to time seek other sources of funding, which may include debt or equity financings, depending on our financing needs and market conditions.

**Off-balance sheet arrangements**
We have not entered into any off-balance sheet transactions or obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons.

**Item 7. Financial Statements**

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

**Item 8. Information on Independent Accountants and other Related Matters**

Our consolidated financial statements have been audited by SyCipGorresVelayo& Co ("SGV & Co") (a member practice of Ernst & Young Global Limited), independent auditors, as stated in their reports appearing herein.

Mr. Jaime F. Del Rosario is our current audit partner and has served as such since the incorporation of NAC- Philippines or less than five years following the regulatory policy of audit partner rotation every five years. We have not had any disagreements on accounting and financial disclosures with our current external auditors for the same periods or any subsequent interim period.

The following table sets out the aggregate fees billed for each of the years ended December 31, 2011 and 2010 for professional services rendered by SGV & Co.:

| | 2011 | 210 |
|---|---|---|
| | *(In Thousands)* | |
| Audit and Audit-Related Services | ₱9,075 | ₱24,760 |
| Non-Audit Services | 775 | 1,325 |
| Total | ₱9,850 | 26,085 |

**PART III – CONTROL AND COMPENSATION INFORMATION**

**Item 9. Directors and Executive Officers of the Issuer**

1. List of Directors and Executive Officers of the Issuer

*Directors*

The following table sets forth information regarding our Directors.

As of the date of this Prospectus, our directors and executive officers are as follows:

| Name | Age | Citizenship | Position | Date Elected |
|---|---|---|---|---|
| Manuel B. Zamora, Jr. | 72 | Philippine National | Chairman | June 16, 2010 |
| Gerard H. Brimo | 59 | Philippine National | Executive Director, President and Chief Executive Officer | June 16, 2010 |
| Ronaldo B. Zamora | 66 | Philippine National | Director | June 16, 2010 |
| Philip T. Ang | 69 | Philippine National | Executive Director and Vice-Chairman | June 16, 2010 |
| Luis J. L. Virata | 56 | Philippine National | Executive Director | June 16, 2010 |
| Takanori Fujimura | 66 | Japanese National | Executive Director | June 16, 2010 |
| Takeshi Kubota | 56 | Japanese National | Executive Director | June 16, 2010 |
| Fulgencio S. Factoran, Jr. | 67 | Philippine National | Independent Director | June 16, 2010 |
| Frederick Y. Dy | 55 | Philippine National | Independent Director | September 24, 2010 |

Mr. Manuel B. Zamora, Jr. is majority shareholder Mantra Resources Corp. Mr. Philip T. Ang is a majority shareholder of Ni Capital Corporation.

Certain information on the business and working experience of our Directors and Executive Officers is set out below:

***Manuel B. Zamora, Jr.*** is the Chairman and a founder of the Company. He is the Chairman ofRTN and TMC. Mr. Zamora is also a director of a number of other companies in the Philippines, including CLSA Exchange Capital Inc. He was previously Chairman and President of the Chamber of Mines of the Philippines. Mr. Zamora is a lawyer and a member of the Integrated Bar of the Philippines.

***Gerard H. Brimo***is a director and the President and Chief Executive Officer of the Company and the President of RTN, TMC, HMC and CMC. Mr. Brimo joined the Company in 2008 and is also the President of two privately owned exploration companies, Newminco Nickel Mining Corp. and Newminco Pacific Mining Corp. Mr. Brimo began his mining career with Philex Mining Corp. as a Vice President in 1985 and served as Chairman and Chief Executive Officer of Philex Mining from 1994 until his retirement from the company in December 2003. He was President of the Chamber of Mines of the Philippines from 1993 to 1995 and Chairman from 1995 to 2003. Mr. Brimo received a Bachelor of Science in Business Administration from Manhattan College in New York and a Master in Business Management from the Asian Institute of Management.

***Ronaldo B. Zamora*** is a director of the Company. Mr. Zamora joined the company in 2010. Mr. Zamora has served in various functions with the Philippine Government, both in the executive and legislative departments. He is likewise a Partner of the Zamora Poblador Vazquez &Bretana law office.

***Philip T. Ang*** is the Vice Chairman of the Company. He is also presently a director of Security Bank Corporation and two of its subsidiaries, namely SB Capital Investment Corporation, and Security Finance, Inc.

***Luis J. L. Virata*** is a director of the Company. He is presently the Chairman and Chief Executive Officer of CLSA Exchange Capital, an investment banking joint venture formed in 2001 between CLSA Emerging Markets and Exchange Capital, which Mr. Virata formed in 1998. Mr. Virata is also presently the President and Chief Executive Officer of Coastal Road Corp., Chairman and President of Exchange Properties Resources Corp., Founder and Trustee of Asia Society and a director of Benguet Corporation, Huntsman Foundation and Group 4 Securitas. Mr. Virata has previously held positions with Dillon, Read and Co., Crocker National Bank, Bankers Trust Company, Philippine Airlines, NSC Properties, Inc., The Philippine Stock Exchange, the Makati Stock Exchange, and National Steel Corp. Mr. Virata received a Master of Business Administration from the Wharton School, University of Pennsylvania in 1979, and a Bachelor of Arts and Master of Arts in Economics from Trinity College, Cambridge University in 1976.

***Fulgencio S. Factoran, Jr.*** is an independent director of the Company. Mr. Factoran joined the company in 2010 and is also a Director of Banco de Oro Leasing & Finance, Chairman of GAIA South, Inc., Chairman of Agility, Inc., and a Director of Geo-Surveys & Mapping, Inc. He was previously a Director of Central Azucarera de Tarlac and Business Certification International, Ltd. He previously held various government positions, such as Trustee of the Government Service and Insurance System, Secretary of the Department of Environment and Natural Resources, Chairman of the National Electrification Administration, Chairman of the Philippine Charity Sweepstakes, Director of the National Development Corp., Trustee of the Development Academy of the Philippines and Deputy Executive Secretary of the Office of the President of the Philippines.

***Frederick Y. Dy*** is an independent director of the Company. Mr. Dy joined the company in 2010 and is also the Chairman and a director of Security Bank Corporation, Chairman of City Industrial Corporation, Vice-Chairman of St. Luke's Medical Center and a director of Ponderosa Leather Goods Company, Inc.

***Takanori Fujimura*** is a director of the Company. Mr. Fujimura joined the Company in 2009 and he is also the President of CBNC.

***Takeshi Kubota*** is a director of the company. Mr. Kubota joined the company in 2010 and is also currently a director and Managing Executive Officer of Sumitomo Metal Mining Co. Ltd. and General Manager of its Non-Ferrous Metals Division.

*Executive Officers*

Our Executive Officers, together with our Executive Directors, are responsible for our day-to-day management and operations. The following table sets forth information regarding our Executive Officers.

| Name | Age | Citizenship | Occupation |
|---|---|---|---|
| Jose S. Saret | 60 | Philippine National | Chief Operating Officer |
| Emmanuel L. Samson | 52 | Philippine National | Chief Financial Officer |
| Rolando R. Cruz | 51 | Philippine National | Vice President of Operations |
| Martin Antonio G. Zamora | 39 | Philippine National | Vice President for Purchasing and Marketing |
| Jose Roderick F. Fernando | 38 | Philippine National | Vice President for Legal and Human Resources and Assistant Corporate Secretary |
| Koichi S. Ishihara | 38 | Japanese National | Assistant Vice President – Marketing & Purchasing |
| Ma. Angela G. Villamor | 46 | Philippine National | Assistant Vice President - Internal Audit |
| Barbara Anne C. Migallos | 57 | Philippine National | Corporate Secretary |

Information on the business and working experience of our other Executive Officers is set out below:

***Jose S. Saret*** is the Senior Vice President and Chief Operating Officer of the Company and is the head of operations and exploration for all of the NAC Group's mining properties. He is likewise the Senior Vice President for Operations of RTN since 1993. He also has more than 20 years experience in gold and copper ore open pit mining, base metals exploration and geothermal deep drilling having held positions with Permint Minerals Sdn. Bhd. (Malaysia), Apex Mining Co., Inc., Philippine Geothermal, Inc. and Western Minolco Corporation.

***Emmanuel L. Samson*** is the Senior Vice President and Chief Financial Officer of the Company and is responsible for the finance and treasury functions of the NAC Group. Prior to joining NAC in 2006, Mr. Samson was Senior Country Officer for Credit Agricole Indosuez in the Philippines. Mr. Samson has 11 years experience in the Philippine equities markets having held positions with W.I. Carr Indosuez Securities (Phils.) Inc., Amon Securities Corporation and Rizal Commercial Banking Corporation.

***Martin Antonio G. Zamora*** is the Vice President of the Company and is responsible for the marketing and strategic functions of the NAC Group. He is likewise the President of Samar Nickel Mining Resources Corporation. Prior to joining NAC in 2007, Mr. Zamora was a director and head of the Philippines of UPC Renewables, a global developer, owner, and operator of wind farms and solar facilities. He also has more than 10 years experience in corporate finance and investment banking, having held positions with firms such as CLSA, Robert Fleming & Co. (UK), Jardine Fleming, and SyCipGorresVelayo& Co.

***Rolando R. Cruz*** is the Vice President of Operations of the Company and is responsible for the operations and engineering functions of the Company's projects and the Company's Surigao and Dinagat-based operations. Mr. Cruz is a licensed mining engineer in the Philippines with 25 years of professional experience in both mining operations and project development in gold, copper, chromite, concrete aggregates, nickel, and oil sands deposits using the open pit and underground bulk mining methods. He has held various positions with firms such as Albian Sands Energy, Inc. (Canada), Berong Nickel Corporation, Concrete Aggregates Corporation, Philex Mining Corporation, and Benguet Corporation.

***Jose Roderick F. Fernando*** is the Vice President and Assistant Corporate Secretary of the Company and is responsible for the Group's legal and human resources matters. He is likewise the Corporate Secretary of NAC's subsidiaries. Prior to joining the Company in 2008, Mr. Fernando was a practicing lawyer with BalaneTamaseAlampay Law Office for 7 years, specializing in commercial litigation, labor and corporate law. Mr. Fernando is a member of the Integrated Bar of the Philippines and is a Commissioner of its Commission on Bar Discipline. He is also licensed to practice law in the state of New York.

***Koichi S. Ishihara,*** is the Assistant Vice President of the Company is responsible for marketing and purchasing functions of the NAC Group. Prior to joining NAC in 2011, he was a Manager and Philippine Representative of Pacific Metals Co. Ltd. handling nickel and stainless market analysis and update in Asian countries. He has also supported establishing a Hydro Metallurgical Processing Plant.

***Ma. Angela G. Villamor,***Assistant Vice President of the Company is responsible for reviewing the Company's organizational and operational controls, risk management policies, and governance. Prior to joining NAC in 2011, she was a Senior Director in the Assurance Division of SyCipGorresVelayo& Co. She also worked as Senior Manager in KPMG UAE.

***Barbara Anne C. Migallos*** is the Corporate Secretary of the Company. She is the Managing Partner of Migallos and Luna Law Offices, and was a Senior Partner of RocoKapunanMigallos and Luna from 1986 to 2006. A practicing lawyer since 1980, Ms. Migallos focuses principally on corporate law, mergers and acquisitions, and securities law. She is a Director of Mabuhay Vinyl Corporation, a listed company, Philippine Resins Industries, Inc. and several other corporations, and is the Corporate Secretary of Philex Mining Corporation, Eastern Telecommunications Philippines, Inc. and other corporations. Ms. Migallos lectures regularly for the Supreme Court-mandated Continuing Legal Education program on the topics Corporate Governance, Securities Law and Ethics for Corporate Lawyers.

2. Significant employees

No single person is expected to make a significant contribution to the business since the Company considers the collective efforts of all its employees as instrumental to the overall success of the Company's performance.

3. Family Relationship

Aside from Mr. Martin Antonio G. Zamora being the son of Mr. Manuel B. Zamora, Jr., none of our Executive Officers are related to each other or to our Directors and substantial Shareholders.

4. Involvement in Certain Legal Proceedings

None of the members of our Board, nor any of our executive officers, has been or is involved in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to the date of this Prospectus. None of the members of our Board, nor any of our executive officers, has been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or of any other nation or country. None of the members of our Board nor any of our executive officers have been or are subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities. None of the members of our Board nor any of our executive officers have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation.

**Item 10. Executive Compensation**

The following table identifies our Chief Executive Officer ("CEO") and three most highly compensated executive officers (the "named executive officers") and summarizes their aggregate compensation in 2010, 2011 and 2012. The amounts set forth in the table below have been prepared based on what we paid for the compensation of our executive officers for the years indicated, inclusive of one-time IPO bonus paid out in 2010 and what we expect to pay on the ensuing year.

| | December 31, 2010 | | | December 31, 2011 | | | December 31, 2012(Estimated) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Salary | Bonus | Total | Salary | Bonus | Total | Salary | Bonus | Total |
| | (In Php Thousands) | | | | | | | | |
| Named executive officers [1] | ₱15,898 | ₱44,884 | ₱60,782 | ₱24,029 | ₱15,035 | ₱39,065 | ₱25,231 | ₱11,498 | ₱36,728 |
| All other officers and directors as a group unnamed | 2,522 | 1,460 | 3,982 | 6,198 | 4,234 | 10,429 | 6,508 | 3,237 | 9,745 |

[1]*The named executive officers are: Gerard H. Brimo (President and CEO), Emmanuel L. Samson (Chief Financial Officer), Jose S. Saret (Chief Operating Officer), Rolando R. Cruz (Vice President of Operations), Martin Antonio G. Zamora (Vice President for Purchasing and Marketing).*

*Compensation of Directors*

Board of Directors' compensation is on a per diem basis in the amount of ₱10,000 at each meeting of the Board. Currently, there are no arrangements for additional compensation of directors.

*Stock option plan*

On June 16, 2010, our Board of Directors and stockholders approved the NAC Executive Stock Option Plan (the "ESOP" or the "Plan") covering up to twelve million (12,000,000) Shares allocated to our officers and the officers of our subsidiaries, specifically those with a position of Assistant Vice President and higher, including all Resident Mine Managers of our subsidiaries. The optionees of the ESOP may avail of the ESOP Shares at ninety percent (90%) of the Offer Price for a number of ESOP Shares equivalent to up to three (3) years annual salary of the optionee. The term of the ESOP shall be six (6) years commencing from the date of the approval of the Plan and may be availed of by the optionees one (1) year from such commencement for up to twenty five percent (25%) of the optionee's entitlement and henceforth, up to another 25% of the optionee's entitlement per year thereafter. The optionee can exercise the vested option by giving notice to NAC within the term of the Plan, and can opt to either purchase the shares directly at the exercise price or request the Company to advance the purchase price and to sell the shares, in which case the participant will receive the sales proceeds less the exercise price. Cost of the executive stock option plan in 2011 and 2010 amounted to ₱63.2 million and ₱1.1 million, respectively.

In March 2012, several executive officers have exercised their option under the ESOP totaling 798,157 shares at an exercise price of ₱13.50.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

*Security Ownership of Certain Record and Beneficial Owners*

The list of registered stockholders owning five (5%) percent or more of the Company's stock as of December 31, 2010 follows:

| Title of class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent |
|---|---|---|---|---|---|
| Common Stock | Mantra Resources Corporation 2/F NAC Centre, 143 dela Rosa cor. Adelantado Streets, Legaspi Village, Makati City | | Filipino | 359,270,114 | 26.81% |
| Common Stock | PCD Nominee Corporation (Filipino) | | Filipino | 276,577,197 | 19.17% |
| Common Stock | Sumitomo Metal Mining Philippine Holdings Corporation 24F Pacific Star Building Makati Avenue, Makati City | | Filipino | 256,828,076 | 19.17% |
| Common Stock | Luis J. L. Virata 3/F Corporate Business Centre, 151 Paseo de Roxas Makati City | Nonillion Holding Corporation* | Filipino | 176,381,559 | 13.16% |
| Common Stock | Philip T. Ang 3/F NAC Centre, 143 dela Rosa cor. Adelantado Streets, Legaspi Village, Makati City | Ni Capital Corporation* | Filipino | 152,933,704 | 11.41% |
| Common Stock | PCD Nominee Corporation (Non-Filipino) | | Foreign | 85,186,361 | 6.36% |

| Title of class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent |
|---|---|---|---|---|---|
| Preferred Stock | Nickel Asia Holdings, Inc. 6/F NAC Centre, 143 dela Rosa cor. Adelantado Streets, Legaspi Village, Makati City | Direct ownership | Filipino | 720,000,000 | 100% |

** Transfers from the individual shareholders to the respective corporations are covered by deed of assignments and pending issuance of Certificate Authorizing Registration from the BIR*

*Security Ownership of Management*

The beneficial ownership of the Company's directors and executive officers as of December 31, 2010 follows:

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | Percent |
|---|---|---|---|---|
| Common Stock | Mantra Resources Corporation | 359,270,114 | Filipino | 26.81 |
| Common Stock | Gerard H. Brimo | 1,855,000 | Filipino | 0.14% |
| Common Stock | Ronaldo B. Zamora | 150 | Filipino | 0% |
| Common Stock | Philip T. Ang | 152,933,704—Direct<br>27,818,542—through Ni Capital Corporation | Filipino | 11.41% |
| Common Stock | Luis J. L. Virata | 176,381,559—Direct | Filipino | 13.16% |
| Common Stock | Fulgencio S. Factoran, Jr. | 150 | Filipino | 0% |
| Common Stock | Frederick Y. Dy | 150 | Filipino | 0% |
| Common Stock | Takanori Fujimura | 200 | Japanese | 0% |
| Common Stock | Takeshi Kubota | 200 | Japanese | 0% |
| Common Stock | Michio Iwai | — | Japanese | 0% |
| Common Stock | Emmanuel L. Samson | — | Filipino | 0% |
| Common Stock | Rolando R. Cruz | — | Filipino | 0% |
| Common Stock | Martin Antonio G. Zamora | — | Filipino | 0% |
| Common Stock | Jose Roderick F. Fernando | — | Filipino | 0% |
| Common Stock | Barbara Anne C. Migallos | — | Filipino | 0% |

*Voting Trust Holders of 5% or More*

There is no voting trust holder of 5% or more of the Company's stock.

*Changes in Control*

There are no arrangements which may result in a change in control of the Company.

**Item 12. Certain Relationship and Related Transactions**

The following are the significant transactions with stockholder who owns ten percent (10%) or more of total outstanding shares of the Company or its subsidiaries:

Nickel Ore Sale Agreements with PAMCO

HMC, CMC and TMC supply saprolite ore to PAMCO under renewable annual agreements. PAMCO is a stockholder of the Company and TMC. All sales made to PAMCO are transacted at prevailing market prices. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on London Metal Exchange. PAMCO shall pay the Group ninety percent (90%) of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined.

Nickel Ore Sale Agreement with PAMCO and Sojitz Corporation (“Sojitz”)

RTN supplies saprolite ore to PAMCO under a sale agreement, which shall continue to be valid and in effect until December 2012, wherein PAMCO appointed Sojitz as agent. PAMCO owns thirty six percent (36%) and Sojitz four percent (4%) of the outstanding shares in the capital stock of RTN.

Nickel Ore Sale Agreements with SMM

RTN and CMC suppliessaprolite ore to SMM under renewable annual agreements. SMM is a stockholder of the Company. All sales made to SMM are transacted at prevailing market prices. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on London Metal Exchange. SMM shall pay the Group ninety percent (90%) of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined.

Other Receivables from SMM

Other receivables from SMM amounting to ₱0.8 million and ₱0.7 million as at December 31, 2011 and 2010, respectively, included in trade and other receivables pertain to reimbursable costs and expenses advanced by the Company to the related party.

Funding Commitment with SMM

RTN’s long-term debt was incurred to complete infrastructure projects to support the development of the Coral Bay HPAL facility. These projects included the causeway, trestles and dolphins in the Rio Tuba foreshore and offshore areas.

Note 32 of the Notes to Consolidated Financial Statements of the Exhibits in Part V is incorporated hereto by reference.

## PART IV – DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

### Item 14. Corporate Governance

The Company adopted its Manual on Corporate Governance (the “Manual”) on June 16, 2010 and the amendments thereto on March 25, 2011, so as to incorporate certain mandatory provisions of the Revised Code of Corporate Governance. The Amended Manual was submitted to the SEC on March 31, 2011.

The Company is committed to the principles of sound corporate governance and believes that it is a necessary component of what constitutes sound strategic business investment. The Amended Manual has institutionalized the principles of good corporate governance within the Company and embodies the framework of rules, systems and processes that governs the performance by the Board of Directors (BOD) and of Management of their respective duties and responsibilities to the shareholders.

The Company has substantially complied with its Manual of Corporate Governance.

The Company is taking further steps to enhance adherence to principles and practices of good governance including the designation of a Chief Risk Officer (“CRO”) who is the champion of enterprise risk management at the Company and oversees the entire risk management function. Foremost on the CRO’s program is the drafting of a risk management policy for approval by the Board in May 2012. Risk officers at each operating company have also been designated.

For 2012, the Company will engage the services of an outside consultant to assist the Company in the rollout of a more focused enterprise risk management framework. The rollout will include a formal risk awareness session and self-assessment workshops with all the functional units of the Company. The Audit Committee has initiated the institutionalization of an enterprise risk management function across all the subsidiaries.

The Company's BOD is comprised of nine (9) Directors, with two (2) being Independent Directors, namely Atty. Fulgencio S. Factoran, Jr. and Mr. Frederick Y. Dy. The Company espouses the definition of independence pursuant to the Securities Regulation Code. The Company thus considers as an Independent Director one who, except for his director's fees and shareholdings, is independent of management and free from any business or other relationship which, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a Director.

The BOD is primarily responsible for the governance of the Company and shall provide the policies for the accomplishment of the corporate objectives, including the means by which to effectively monitor Management's performance. It is the BOD's responsibility to foster the long-term success of the Company and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its stockholders.

The BOD has constituted the following Committees and appointed the named Officers to effectively manage the operations of the Company:

*Audit Committee*—Aside from overseeing the internal and external auditors of the Company, the Audit Committee is responsible for assisting the Board in its fiduciary responsibilities by providing an independent and objective assurance to our management and shareholders of the continuous improvement of our risk management systems, business operations, and the proper safeguarding and use of our resources and assets. The Audit Committee provides a general evaluation and assistance in the overall improvement of our risk management, control and governance processes.

The Audit Committee is comprised of Mr. Frederick Y. Dy, an Independent Director, as Chairman, and Messrs. Gerard H. Brimo and Takanori Fujimura as members. The Audit Committee reports to the Board and is required to meet at least once every three months.

The BOD, upon the recommendation of the Audit Committee, appointed the Company's Internal Auditor, who assumed office last 01 April 2011. The Internal Auditor shall report directly to the Audit Committeeand shall be primarily tasked with monitoring the adequacy and effectiveness of the Company's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness of operations, the safeguarding of assets, and compliance with laws, rules, regulations, and contracts.

*Nomination Committee*—The Nomination Committee is responsible for providing shareholders with an independent and objective evaluation of and assurance that the members of its Board are competent and will foster the Company's long-term success and secure our competitiveness.

The Nomination Committee is comprised of Mr. Manuel B. Zamora, Jr. as Chairman of the Committee and Messrs. Takeshi Kubota and Fulgencio S. Factoran, Jr. as members, the latter being an Independent Director. The Nomination Committee reports directly to the Board and is required to meet at least once a year.

*Corporate Secretary*—Ms. Barbara Anne C. Migallos is the incumbent and duly qualified Corporate Secretary of the Company. She is currently fulfilling the duties and responsibilities of her office, ensuring that all Board procedures, rules and regulations are strictly followed.

*Compliance Officer*—Mr. Jose Roderick F. Fernando, aside from being designated as the Assistant Corporate Secretary of the Company, has likewise been appointed by the Board as the Compliance Officer, designated to monitor compliance by the Company with the Manual and the rules and regulations of regulatory agencies.

## PART V – EXHIBITS AND SCHEDULES

### Item 13. Exhibits and Reports on SEC Form 17-C

*Exhibits*
See accompanying Index to Exhibits as well as the Company's Audited Financial Statements for the recently completed fiscal year. These financial statements are reports from the Corporation's Independent Public Accountant, SGV& Co.

*Reports on SEC Form 17-C*
There are SEC Forms 17-C filed in 2011 covered by this report, to wit:

| Item Reported | Date Reported |
|---|---|
| Press Release on Financial and operating results for Period Ended September 30, 2011, Updates on Taganito Mining, and Special Cash Dividend | October 25, 2011 |
| 2011 Third Quarter Progress Report on the Application of the Proceeds from the Initial Public Offering | October 14, 2011 |
| Press Release on Shipments Tonnage and Values for Period Ended September 30, 2011 | October 06, 2011 |
| Press Release on Update on Taganito Mining operation after insurgency attacks | October 05, 2011 |
| Press Release on Disclosing information about Taganito Mining Corporation | October 03, 2011 |
| Press Release on Financial and operating results for Period Ended June 30, 2011 | July 29, 2011 |
| Press Release on BOD appoints Mr. Koichi Ishihara as Assistant Vice President for Procurement and Marketing | July 29, 2011 |
| 2011 Second Quarter Progress Report on the Application of the Proceeds from the Initial Public Offering | July 14, 2011 |
| Press Release on Shipments Tonnage and Values for Period Ended June 30, 2011 and Update on PAMCO Operations | July 06, 2011 |
| Clarification on the news article "Nickel Asia eyes 20% sales growth this year" posted in Philstar.com | June 27, 2011 |
| Resolutions from the 2011 Annual Stockholders' Meeting | June 24, 2011 |
| Press Release on Financial and operating results for Period Ended March 31, 2011 | May 12, 2011 |
| Press Release on Nickel Asia brings in partner for gold and copper exploration | May 11, 2011 |
| 2011 First Quarter Progress Report on the Application of the Proceeds from the Initial Public Offering | April 27, 2011 |
| Press Release on Nickel Asia Q1 Shipments Up 97% | April 07, 2011 |
| Corporate Governance: Disclosure Survey Dated March 30, 2011 | March 31, 2011 |
| Press Release on Financial and operating results for Period Ended December 31, 2011and cash dividend declaration | March 25, 2011 |
| Earthquake and Tsunami Hit PAMCO Hachinohe Plant | March 15, 2011 |

**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 Makati on April , 14 , 2012.

By:

**Gerard H. Brimo**
President and Chief Executive Officer

**Emmanuel L. Samson**
Senior Vice President and
Chief Financial Officer

**Jose S. Saret**
Senior Vice President and
Chief Operating Officer

**Barbara Ann C. Migallos**
Corporate Secretary

**Sheila Marie A. Melad**
Senior Finance Manager

Subscribed and sworn to before me this APR 14 2012 day of ________, 2012 affiant (s) exhibiting to me his/theirPassport Number, as follows:

| Names | Passport No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Gerard H. Brimo | XX18002285 | August 12,2008 | Manila |
| Emmanuel L. Samson | XX 1554109 | July 5, 2008 | Manila |
| Jose S. Saret | XX 5493443 | February 9, 2010 | Manila |
| Barbara Ann C. Migallos | XX4141150 | July 11, 2009 | Manila |
| Sheila Marie A. Melad | EB0271871 | May 26, 2010 | Manila |

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SERIES OF 20 12

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until December 31, 2013
Appt. No. M-136, Makati City
IBP # 864149-Pasig City-12/21/11
PTR # 0334743-MAKATI-01/02/12
TIN # 212-965-989
S.C. Roll No. 28757
G/F JAKA Center 2111 Chino Roces Ave.
Makati City

**NICKEL ASIA CORPORATION**

SEC FORM 17-A

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

**CONSOLIDATED FINANCIAL STATEMENTS**



**SUPPLEMENTARY SCHEDULES**

NICKEL ASIA CORP.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

SyCip Gorres Velayo & Co, the independent auditors and appointed by the stockholders, has examined the financial statements of the Company as of and for the year ended December 31, 2011 in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signature: ______________________
Manuel B. Zamora
Chairman

Signature: ______________________
Gerard H. Brimo
President and Chief Executive Officer

Signature: ______________________
Emmanuel L. Samson
Chief Financial Officer

Subscribed and sworn to before me this ___ day of APR 16 2012, 2012 affiant(s) exhibiting to me his/their Passport Number/SSS Number, as follows:

| Names | Passport No. | Date of Issue | Place of Issue | SSS Number |
|---|---|---|---|---|
| Manuel B. Zamora | XX2624610 | 12/3/2008 | Manila | 33-0224811-4 |
| Gerard H. Brimo | XX1802285 | 8/12/2008 | Manila | 03-4644814-8 |
| Emmanuel L. Samson | XX1554109 | 7/5/2008 | Manila | 03-7004436-9 |

DOC. No: 115
PAGE No: 24
BOOK No: 296
SERIES OF 2012

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until December 31, 2013
Appt. No. M-136, Makati City
IBP # 864149-Pasig City-12/21/11
PTR # 0334743-MAKATI-01/02/12
TIN # 212-965-989
S.C. Roll No. 28757
G/F JAKA Centre 2111 Chino Roces Ave
Makati City

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
Nickel Asia Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of Nickel Asia Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nickel Asia Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-2 (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174591, January 2, 2012, Makati City

March 28, 2012

# NICKEL ASIA CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**(Amounts in Thousands)**

| | December 31 | |
|---|---|---|
| | **2011** | 2010 (As restated, see Note 30) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | **₱10,350,592** | ₱6,805,968 |
| Trade and other receivables (Note 5) | **1,156,293** | 1,113,255 |
| Available-for-sale (AFS) financial assets (Note 7) | **660,523** | 469,976 |
| Inventories (Note 6) | **2,008,003** | 1,416,431 |
| Other current assets (Note 8) | **59,188** | 52,993 |
| **Total Current Assets** | **14,234,599** | 9,858,623 |
| **Noncurrent Assets** | | |
| AFS financial assets (Note 7) | **907,297** | 907,161 |
| Property and equipment (Note 9) | **4,216,838** | 3,859,694 |
| Investment property (Note 10) | **53,637** | 50,845 |
| Investment in an associate (Note 11) | **4,371,867** | 4,570,453 |
| Long-term stock pile inventory - net of current portion (Note 12) | **1,357,675** | 964,994 |
| Deferred income tax assets - net (Note 33) | **481,493** | 414,014 |
| Other noncurrent assets (Note 13) | **763,007** | 977,364 |
| **Total Noncurrent Assets** | **12,151,814** | 11,744,525 |
| **TOTAL ASSETS** | **₱26,386,413** | ₱21,603,148 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 14) | **₱1,238,101** | ₱935,179 |
| Income tax payable | **275,169** | 322,127 |
| Current portion of long-term debt (Note 15) | **124,545** | 78,425 |
| **Total Current Liabilities** | **1,637,815** | 1,335,731 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Note 15) | **1,643,908** | 1,465,826 |
| Deferred income tax liabilities - net (Note 33) | **591,069** | 469,838 |
| Deferred rent income (Note 31) | **84,154** | 83,799 |
| Provision for mine rehabilitation and decommissioning (Note 16) | **61,726** | 55,419 |
| Pension liability (Note 32) | **74,932** | 48,967 |
| **Total Noncurrent Liabilities** | **2,455,789** | 2,123,849 |
| **Equity Attributable to Equity Holders of the Parent** | | |
| Capital stock (Note 17) | **677,116** | 677,116 |
| Additional paid-in capital (Note 17) | **8,075,641** | 8,075,641 |
| Other components of equity: | | |
| Cost of share-based payment plan (Note 18) | **64,308** | 1,101 |
| Net valuation gains on AFS financial assets (Note 7) | **20,889** | 37,589 |
| Share in cumulative translation adjustment (Note 11) | **118,251** | 120,411 |
| Asset revaluation surplus (Note 30) | **34,395** | 34,778 |
| Retained earnings | **8,920,976** | 6,055,043 |
| | **17,911,576** | 15,001,679 |
| **Non-controlling Interests** | **4,381,233** | 3,141,889 |
| **Total Equity** | **22,292,809** | 18,143,568 |
| **TOTAL LIABILITIES AND EQUITY** | **₱26,386,413** | ₱21,603,148 |

*See accompanying Notes to Consolidated Financial Statements.*

## NICKEL ASIA CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME
**(Amounts in Thousands, Except Earnings per Share)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 (As restated, see Note 30) | 2009 |
| **REVENUES** (Notes 10 and 31) | | | |
| Sale of ore | **₱12,230,278** | ₱8,074,298 | ₱4,333,208 |
| Services and others | **464,428** | 261,740 | 353,518 |
| | **12,694,706** | 8,336,038 | 4,686,726 |
| **COSTS AND EXPENSES** | | | |
| Cost of sales (Note 20) | **3,349,690** | 3,062,028 | 2,516,289 |
| Cost of services (Note 21) | **189,774** | 144,036 | 240,899 |
| Shipping and loading costs (Note 22) | **1,344,734** | 855,450 | 551,963 |
| Excise taxes and royalties (Notes 23 and 36) | **736,262** | 523,208 | 288,897 |
| General and administrative (Note 24) | **667,039** | 475,732 | 456,195 |
| | **6,287,499** | 5,060,454 | 4,054,243 |
| **FINANCE INCOME** (Note 27) | **208,440** | 130,768 | 230,294 |
| **FINANCE EXPENSES** (Note 28) | **(65,089)** | (81,240) | (161,629) |
| **OTHER INCOME (CHARGES)** - net (Note 29) | **600,122** | (6,405) | (71,375) |
| **INCOME BEFORE INCOME TAX** | **7,150,680** | 3,318,707 | 629,773 |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 33) | | | |
| Current | **1,619,779** | 1,148,564 | 391,594 |
| Deferred | **65,344** | (201,785) | (222,340) |
| | **1,685,123** | 946,779 | 169,254 |
| **NET INCOME** | **₱5,465,557** | ₱2,371,928 | ₱460,519 |
| Net income attributable to: | | | |
| Equity holders of the parent | **₱3,536,474** | ₱1,546,889 | ₱302,887 |
| Non-controlling interests | **1,929,083** | 825,039 | 157,632 |
| | **₱5,465,557** | ₱2,371,928 | ₱460,519 |
| Basic earnings per share (Note 19) | **₱2.64** | ₱1.49 | ₱0.31 |

## NICKEL ASIA CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 (As restated, see Note 30) | 2009 |
| **NET INCOME** | **₱5,465,557** | ₱2,371,928 | ₱460,519 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Share in translation adjustment of an associate (Note 11) | **(2,160)** | 120,411 | – |
| Net valuation gain (loss) on AFS financial assets (Note 7) | **(16,385)** | 11,947 | 63,475 |
| Asset revaluation surplus (Note 30) | **(383)** | (383) | (383) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS) - NET OF TAX** | **(18,928)** | 131,975 | 63,092 |
| **TOTAL COMPREHENSIVE INCOME - NET OF TAX** | **₱5,446,629** | ₱2,503,903 | ₱523,611 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | **₱3,517,231** | ₱1,676,245 | ₱367,364 |
| Non-controlling interests | **1,929,398** | 827,658 | 156,247 |
| | **₱5,446,629** | ₱2,503,903 | ₱523,611 |

*See accompanying Notes to Consolidated Financial Statements.*

# NICKEL ASIA CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

### (Amounts in Thousands)

| | Equity Attributable to Equity Holders of the Parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 17) | Additional Paid-in Capital (Note 17) | Cost of Share based Payment Plan (Note 18) | Net Valuation Gains (Losses) on AFS Financial Assets (Note 7) | Share in Cumulative Translation Adjustment of an Associate (Note 11) | Asset Revaluation Surplus (Note 30) | Retained Earnings | Total | Non-controlling Interests | Total |
| **Balances at December 31, 2010** | ₱677,116 | ₱8,075,641 | ₱1,101 | ₱37,589 | ₱120,411 | ₱34,778 | ₱5,987,024 | ₱14,933,660 | ₱3,141,889 | ₱18,075,549 |
| **Fair value adjustments (Note 30)** | – | – | – | – | – | – | 68,019 | 68,019 | – | 68,019 |
| **Balances at December 31, 2010, as restated** | ₱677,116 | ₱8,075,641 | ₱1,101 | ₱37,589 | ₱120,411 | ₱34,778 | ₱6,055,043 | ₱15,001,679 | ₱3,141,889 | ₱18,143,568 |
| **Net income** | – | – | – | – | – | – | 3,536,474 | 3,536,474 | 1,929,083 | 5,465,557 |
| **Other comprehensive income (loss)** | – | – | – | (16,700) | (2,160) | (383) | – | (19,243) | 315 | (18,928) |
| **Total comprehensive income (loss)** | – | – | – | (16,700) | (2,160) | (383) | 3,536,474 | 3,517,231 | 1,929,398 | 5,446,629 |
| **Cost of share-based payment (Note 18)** | – | – | 63,207 | – | – | – | – | 63,207 | – | 63,207 |
| **Cash dividends - ₱0.50 per common share (Note 17)** | – | – | – | – | – | – | (669,916) | (669,916) | – | (669,916) |
| **7% Cash dividends - Preferred share** | – | – | – | – | – | – | (1,008) | (1,008) | – | (1,008) |
| **Share of non-controlling interest in cash dividends of a subsidiary** | – | – | – | – | – | – | – | – | (757,500) | (757,500) |
| **Share of non-controlling interest in a subsidiary** | – | – | – | – | – | – | – | – | 67,446 | 67,446 |
| **Asset revaluation surplus transferred to retained earnings (Note 30)** | – | – | – | – | – | – | 383 | 383 | – | 383 |
| **Balances at December 31, 2011** | ₱677,116 | ₱8,075,641 | ₱64,308 | ₱20,889 | ₱118,251 | ₱34,395 | ₱8,920,976 | ₱17,911,576 | ₱4,381,233 | ₱22,292,809 |

| | Capital Stock (Note 17) | Additional Paid-in Capital (Note 17) | Cost of Share based Payment Plan (Note 18) | Net Valuation Gains (Losses) on AFS Financial Assets (Note 7) | Share in Cumulative Translation Adjustment of an Associate (Note 11) | Asset Revaluation Surplus (Note 30) | Retained Earnings (As restated, Note 30) | Treasury Shares (Notes 1 and 17) | Total | Non-controlling Interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity Attributable to Equity Holders of the Parent | | | | | | | | | | |
| Balances at December 31, 2009 | ₱478,812 | ₱4,894,613 | ₱– | ₱28,261 | ₱– | ₱35,161 | ₱7,659,271 | (₱1,821,994) | ₱11,274,124 | ₱3,002,731 | ₱14,276,855 |
| Net income, as previously stated | – | – | – | – | – | – | 1,478,870 | – | 1,478,870 | 825,039 | 2,303,909 |
| Fair value adjustments (Note 30) | – | – | – | – | – | – | 68,019 | – | 68,019 | – | 68,019 |
| Net income, as restated | – | – | – | – | – | – | 1,546,889 | – | 1,546,889 | 825,039 | 2,371,928 |
| Other comprehensive income (loss) | – | – | – | 9,328 | 120,411 | (383) | – | – | 129,356 | 2,619 | 131,975 |
| Total comprehensive income (loss) | – | – | – | 9,328 | 120,411 | (383) | 1,546,889 | – | 1,676,245 | 827,658 | 2,503,903 |
| Cost of share-based payment (Note 18) | – | – | 1,101 | – | – | – | – | – | 1,101 | – | 1,101 |
| Issuance of shares (Notes 1 and 17) | 123,304 | 3,008,155 | – | – | – | – | – | – | 3,131,459 | – | 3,131,459 |
| Cash dividends - ₱3.16 per share (Note 18) | – | – | – | – | – | – | (3,076,500) | – | (3,076,500) | – | (3,076,500) |
| Asset revaluation surplus transferred to retained earnings (Note 30) | – | – | – | – | – | – | 383 | – | 383 | – | 383 |
| Reissuance of treasury shares (Notes 1 and 17) | – | 172,873 | – | – | – | – | – | 1,821,994 | 1,994,867 | – | 1,994,867 |
| Stock dividends (Note 17) | 75,000 | – | – | – | – | – | (75,000) | – | – | – | – |
| Share of non-controlling interests in cash dividends of a subsidiary | – | – | – | – | – | – | – | – | – | (688,500) | (688,500) |
| Balances at December 31, 2010 | ₱677,116 | ₱8,075,641 | ₱1,101 | ₱37,589 | ₱120,411 | ₱34,778 | ₱6,055,043 | ₱– | ₱15,001,679 | ₱3,141,889 | ₱18,143,568 |

| | | | Equity Attributable to Equity Holders of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 17) | Additional Paid-in Capital (Notes 17) | Cost of Share-based Payment Plan (Note 18) | Net Valuation Gains (Losses) on AFS Financial Assets (Note 7) | Share in Cumulative Translation Adjustment of an Associate (Note 11) | Asset Revaluation Surplus (Note 30) | Retained Earnings | Treasury Shares (Notes 1 and 17) | Total | Non-controlling Interests | Total |
| Balances at December 31, 2008 | ₱410,891 | ₱3,089,349 | ₱– | (₱36,599) | ₱– | ₱35,544 | ₱7,498,213 | ₱– | ₱10,997,398 | ₱3,276,484 | ₱14,273,882 |
| Net income | – | – | – | – | – | – | 302,887 | – | 302,887 | 157,632 | 460,519 |
| Other comprehensive income (loss) | – | – | – | 64,860 | – | (383) | – | – | 64,477 | (1,385) | 63,092 |
| Total comprehensive income (loss) | – | – | – | 64,860 | – | (383) | 302,887 | – | 367,364 | 156,247 | 523,611 |
| Issuance of shares (Note 17) | 67,921 | 1,801,238 | – | – | – | – | – | – | 1,869,159 | – | 1,869,159 |
| Repurchase of own shares (Note 17) | – | – | – | – | – | – | – | (2,882,228) | (2,882,228) | – | (2,882,228) |
| Sale of treasury shares (Note 17) | – | 4,026 | – | – | – | – | – | 1,060,234 | 1,064,260 | | 1,064,260 |
| Cash dividends - ₱0.35 per share (Note 17) | – | – | – | – | – | – | (142,212) | – | (142,212) | – | (142,212) |
| Asset revaluation surplus transferred to retained earnings (Note 30) | – | – | – | – | – | – | 383 | – | 383 | – | 383 |
| Share of non-controlling interests in cash dividends of a subsidiary | – | – | – | – | – | – | – | – | – | (430,000) | (430,000) |
| Balances at December 31, 2009 | ₱478,812 | ₱4,894,613 | ₱– | ₱28,261 | ₱– | ₱35,161 | ₱7,659,271 | (₱1,821,994) | ₱11,274,124 | ₱3,002,731 | ₱14,276,855 |

*See accompanying Notes to Consolidated Financial Statements.*

# NICKEL ASIA CORPORATION AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS
## (Amounts in Thousands)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2011** | 2010 (As restated, see Note 30) | 2009 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱7,150,680** | ₱3,318,707 | ₱629,773 |
| Adjustments for: | | | |
| Depreciation and depletion (Note 26) | **733,821** | 563,139 | 470,384 |
| Loss (gain) on : | | | |
| Write-up of long-term stockpile inventory (Notes 12 and 29) | **(573,090)** | – | – |
| Casualty losses (Note 29) | **239,459** | – | – |
| Valuation on AFS financial assets transferred from equity to profit or loss - net (Notes 7 and 27) | **18,316** | 9,520 | 1,191 |
| Sale of property and equipment (Note 29) | **2,896** | – | 719 |
| Changes in fair value of financial assets at fair value through profit or loss (FVPL) (Note 27) | **–** | (2,010) | (52,865) |
| Change in provision for mine rehabilitation and decommissioning estimates (Note 27) | **–** | – | (15,377) |
| Derivative transactions - net (Note 29) | **–** | 46,987 | 78,748 |
| Dividend income (Notes 7 and 29) | **(436,369)** | (120,246) | (1,028) |
| Interest income (Note 27) | **(208,440)** | (128,758) | (162,052) |
| Equity in net losses of an associate (Note 11) | **196,185** | 6,412 | – |
| Cost of share-based payment plan (Note 18) | **63,207** | 1,101 | – |
| Interest expense (Note 28) | **34,949** | 10,865 | 20,762 |
| Movements in pension liability | **25,965** | (1,358) | 13,464 |
| Unrealized foreign exchange losses (gains) – net | **(23,937)** | 73,798 | 238,449 |
| Accretion interest on provision for mine rehabilitation and decommissioning (Notes 16 and 28) | **7,862** | 9,217 | 7,621 |
| Operating income before working capital changes | **7,231,504** | 3,787,374 | 1,229,789 |
| Decrease (increase) in: | | | |
| Trade and other receivables | **(46,994)** | 148,508 | (398,371) |
| Inventories | **(450,008)** | 230,078 | 648,024 |
| Other current assets | **(6,374)** | 195,935 | (68,380) |
| Increase in trade and other payables | **302,922** | 98,210 | 133,426 |
| Net cash generated from operations | **7,031,050** | 4,460,105 | 1,544,488 |
| Interest received | **208,440** | 112,373 | 148,956 |
| Dividends received | **436,369** | 120,246 | 1,028 |
| Income taxes paid | **(1,666,737)** | (1,078,810) | (549,835) |
| Interest paid | **(42,721)** | (15,954) | (20,762) |
| Net cash flows from operating activities | **5,966,401** | 3,597,960 | 1,123,875 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Property and equipment and investment property (Notes 9 and 10) | **(1,291,272)** | (2,158,553) | (240,048) |
| AFS financial assets (Note 7) | **(889,929)** | (1,732,591) | (2,143,085) |
| Investment in an associate (Note 11) | **–** | (4,443,075) | – |
| Financial assets at FVPL | **–** | (136,881) | (1,546,225) |
| Proceeds from: | | | |
| Sale of AFS financial assets (Note 7) | **674,387** | 2,323,172 | 1,436,410 |
| Sale of property and equipment | **401** | 845 | 3,261 |
| Sale of financial assets at FVPL | **–** | 457,106 | 1,568,077 |
| Settlement of derivative transactions | **–** | (46,987) | (274,273) |
| Decrease (increase) in: | | | |
| Deferred rent income (Note 31) | **355** | 83,799 | – |
| Other noncurrent assets | **214,357** | (371,634) | 182,789 |
| Net cash flows used in investing activities | **(1,291,701)** | (6,024,799) | (1,013,094) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from: | | | |
| Availment of long-term debt (Note 15) | **308,142** | 1,202,781 | – |
| Investment of noncontrolling interest in a subsidiary | **67,446** | – | – |
| Issuance of capital stock (Note 17) | **–** | 3,131,459 | 1,869,159 |
| Reissuance of treasury shares (Note 17) | **–** | 1,994,867 | 1,064,260 |
| Payments of: | | | |
| Cash dividends (Note 17) | **(1,428,424)** | (3,765,000) | (572,212) |
| Long-term debt | **(85,598)** | (49,827) | (52,663) |
| Repurchase of own shares (Note 17) | **–** | – | (2,882,228) |
| Net cash flows from (used in) financing activities | **(1,138,434)** | 2,514,280 | (573,684) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **3,536,266** | 87,441 | (462,903) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **6,805,968** | 6,779,215 | 7,452,631 |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **8,358** | (60,688) | (210,513) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱10,350,592** | ₱6,805,968 | ₱6,779,215 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information

Nickel Asia Corporation (the Company, Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on July 24, 2008. The Company is primarily engaged in investing in and holding of assets of every kind and description and wherever situated, as and to the extent permitted by law. It is also registered, within the limits prescribed by law, to engage in the business of mining of all kinds of ore, metals and minerals.

Initial Public Offering (IPO)

On June 16, 2010, the Board of Directors (BOD) of the Company approved the resolutions for the IPO of up to 304,500,000 common stock with a par value of ₱0.50 subject to the registration requirement of the SEC and the Philippine Stock Exchange (PSE). On October 20, 2010, the PSE approved the application of the Company for the initial listing of 304,500,000 common shares. On October 21, 2010, the SEC approved the Company's Registration Statement. The listing ceremony was held on November 22, 2010 (the Listing Date), the Company's stock symbol, NIKL officially entered into the electronic board of the PSE marking the start of the public trading of the Company's common stock through the stock market.

The IPO of the Company's shares with an offer price of ₱15.00 per share, consisted of the following:

- 304,500,000 common shares (consisting of 132,991,182 shares held in treasury and new common shares of 171,508,818)

- The Company has granted an option, exercisable in whole or in part to purchase up to 45,675,000 Optional Shares at the offer price, on the same terms and conditions as the common shares, solely to cover over-allotments, if any. The Over-Allotment Option is exercisable from and including the Listing Date and ending on the date thirty (30) days from the Listing Date.

Reorganization of the Group
On February 25, 2009, the Stockholders of the Company and Nickel Asia Corp. (NAC), a company incorporated under the laws of the British Virgin Islands (BVI) to acquire and hold the nickel mining and processing assets of members of the founding shareholders, approved the Plan of Merger between the Company and NAC. Under the Plan of Merger:

- The Company is the surviving corporation and that NAC's corporate existence shall cease by operation of law as provided under the laws of BVI upon the effective date of merger which is March 15, 2009, subject to the approval by the SEC;
- The Company shall become the owner of all the rights, businesses, assets and other properties and shall assume all the debts and liabilities of NAC as shown in NAC's audited statement of financial position as at December 31, 2008, NAC owned all of the shares of Hinatuan Mining Corporation (HMC), sixty percent (60%) of the shares of Rio Tuba Nickel Mining Corporation (RTN) and twenty percent (20%) of the shares of Cagdianao Mining Corporation (CMC) held directly or indirectly by the founding shareholders and certain directors of HMC, RTN and CMC; and

- The Company shall issue to the stockholders of NAC 385,891,199 common shares in exchange for the assets and liabilities of NAC.

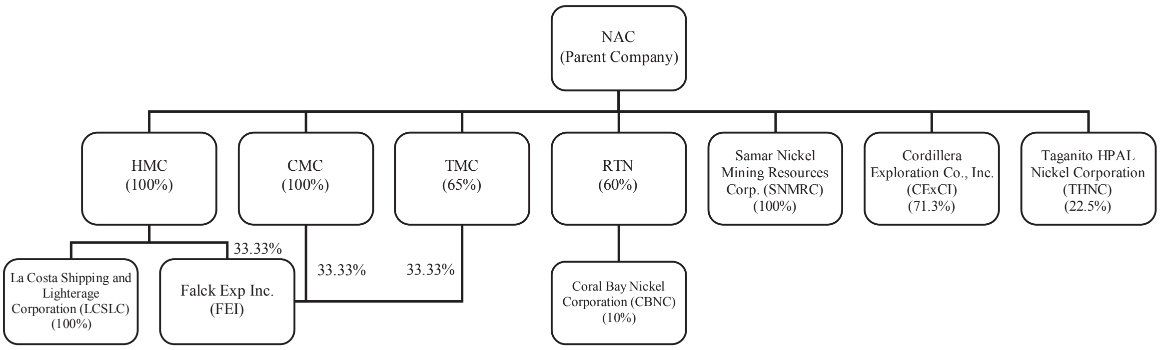
On April 15, 2009, the SEC approved the merger which was accounted for as a tax-free transaction using the pooling of interest method (see Note 30). There were no material pre-merger transactions between the Company and NAC.

On November 30, 2009, the Company received tax-free property dividends from HMC in the form of HMC's investment in subsidiaries in CMC and Taganito Mining Corporation (TMC) based on CMC and TMC's book values as at August 31, 2009. The said declaration of property dividends were approved by the SEC and Bureau of Internal Revenue (BIR) on February 3, 2010 and December 22, 2009, respectively. This resulted to the Company's direct ownership in CMC and TMC.

All of these transactions are collectively referred to herein as the 'Reorganization'.

As a result of the Reorganization, the Parent Company owns all of the outstanding shares of HMC and CMC, sixty-five percent (65%) of TMC and sixty percent (60%) of RTN.

Parent Company Ownership Map




The Subsidiaries

*HMC*

HMC was registered with the SEC on October 9, 1979, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Hinatuan, Nonoc and Manicani Islands, Surigao del Norte. The registered office address of HMC is 3rd Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City.

*CMC*

CMC was registered with the SEC on July 25, 1997, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Barangay Valencia, Municipality of Cagdianao, Province of Dinagat Island. The registered office address of CMC is 4th Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City, Philippines.

*TMC*
TMC was registered with the SEC on March 4, 1987, is a sixty-five percent (65%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of nickel ore located in Claver, Surigao del Norte. The registered office address of TMC is 4th Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City.

*RTN*
RTN was registered with the SEC on July 15, 1965, is a sixty percent (60%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting nickel ore and providing non-mining services located in Barangay Rio Tuba, Municipality of Bataraza, Palawan. The registered office address of RTN is 2nd Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City, Philippines.

*FEI*
FEI was registered with the SEC on November 22, 2005, is an eighty-eight percent (88%) owned subsidiary of the Company through HMC, CMC and TMC, and is primarily engaged in the business of exploring, prospecting, and operating mines and quarries of all kinds of ores and minerals, metallic and non-metallic. FEI is dormant until the Company decides to resume its operations. The registered office address of FEI is 3rd Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City, Philippines.

*LCSLC*
LCSLC was registered with the SEC on October 23, 1992, is a one hundred percent (100%) owned subsidiary of the Company through HMC, and is primarily engaged in the chartering out of Landing Craft Transport (LCT) and providing complete marine services. The registered office address of LCSLC is 7th Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City, Philippines. LCSLC was acquired by HMC in April 2010 (see Note 30).

*SNMRC*
SNMRC was registered with the SEC on May 11, 2010, is a one hundred percent (100%) owned subsidiary of the Company and is primarily engaged in the exploration, mining and exporting of mineral ores. SNMRC has not yet started commercial operations. The registered office address of SNRMC is 4th Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City, Philippines.

*CEXCI*
CEXCI was registered with the SEC on October 19, 1994, is a seventy-one percent (71%) owned subsidiary of the Company and is primarily engaged in the business of large-scale exploration, development and utilization of mineral resources. CEXCI has a number of mining properties at various stages of exploration. It is currently not engaged in any development or commercial production activities. The registered office address of CEXCI is 7th Floor, NAC Centre, 143 Dela Rosa corner Adelantado Streets, Legaspi Village, Makati City, Philippines.

The Parent Company's registered office address is 6th Floor, NAC Centre, 143 Dela Rosa Street, Legaspi Village, Makati City.

The consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issuance by the Parent Company's BOD on March 28, 2012.

## 2. Basis of Preparation and Consolidation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for AFS financial assets, which are measured at fair value. The consolidated financial statements and these notes are presented in Philippine peso, the Parent Company's and its subsidiaries' functional currency. All amounts are rounded to the nearest thousand (₱000) except when otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation from January 1, 2010
The consolidated financial statements include the Parent Company and the following subsidiaries (collectively referred to as the Group):

| | Country of Domicile | Nature of Business | Effective Ownership | |
|---|---|---|---|---|
| | | | **2011** | 2010 |
| HMC | Philippines | Mining | **100%** | 100% |
| CMC | Philippines | Mining | **100%** | 100% |
| SNMRC | Philippines | Mining | **100%** | 100% |
| LCSLC* | Philippines | Services | **100%** | 100% |
| FEI* | Philippines | Mining | **88%** | 88% |
| CExCI | Philippines | Mining | **71%** | 100% |
| TMC | Philippines | Mining | **65%** | 65% |
| RTN | Philippines | Mining and Services | **60%** | 60% |

*Direct and indirect ownership

*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.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the Subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

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

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

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

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent company's share of components previously recognized in other comprehensive income to profit or loss.

<u>Basis of Consolidation Prior to January 1, 2010</u>
The above mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:
- Non-controlling interests represented the portion of profit or loss and net assets in the Subsidiaries not held by the Group and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of financial position separately from the parent's equity.
- Acquisition of non-controlling interest is 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.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

<u>Reorganization of the Group</u>
As discussed in Note 1, the acquisition of NAC by the Company fell outside the scope of PFRS 3, *Business Combinations*. Following the guidance regarding the selection of an appropriate accounting policy provided by Philippine Accounting Standards (PAS) 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the transaction has been accounted for in the consolidated financial statements using the pooling of interests method, which reflects the economic substance of the transaction. In accordance with the requirements of the pooling of interests method, the comparative information in the consolidated financial statements has been extracted from the consolidated financial statements of NAC, and the financial statements of the combined Group represent a continuation of NAC's financial statements.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011.

- PAS 24, *Related Party Disclosures (Revised)*
  The revised standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. Furthermore, the revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The revised standard does not have an impact on the financial position or performance of the Group.

- PAS 32, *Financial Instruments: Presentation (Amendments) - Classification of Rights Issues*
  The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment has no impact on the Group after initial application.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 14, *Prepayments of a Minimum Funding Requirement (Amendments)*
  The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset.
  The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has no effect on the financial statements of the Group.

- Improvements to PFRS 2010
  Improvements to IFRS are an omnibus of amendments to PFRS. The amendments have been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011.
  - PFRS 3, *Business Combinations (Measurement options available to noncontrolling interest)*
  - PFRS 3, *Business Combinations [Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)]*

- PFRS 3, *Business Combinations (Unreplaced and voluntarily replaced share-based payment awards)*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programme*

The new, revised, amended and improved standards and/or interpretations that have been adopted are deemed to have no impact on the financial position or performance of the Group.

<u>New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2011</u>

The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on its financial statements.

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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. Implementation of this interpretation has been deferred until the final *Revenue Standard* is issued by the International Accounting Standards Board and after an evaluation on the requirements and guidance in the said standard vis-a vis the practices and regulations in the Philippine real estate industry is completed.

*Effective in 2012:*

- PAS 12, *Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets*
  The amendment becomes effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will, normally, be through sale.

- PFRS 7, *Financial Instruments: Disclosures (Amendments)* **-** *Transfers of Financial Assets*
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

*Effective in 2013:*

- PAS 1, *Presentation of Financial Statements (Amendments) - Presentation of Items of Other Comprehensive Income*
  The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments change the grouping of items presented in other comprehensive income. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in other comprehensive income, nor do they impact the determination of whether items of other comprehensive income are classified through profit or loss in the future periods. The amendments will be applied retrospectively.

- PAS 19, *Employee Benefits (Revised)*
  The revised standard is effective for annual periods beginning on or after January 1, 2013. The revised standard includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The significant changes include immediate recognition of actuarial gains or losses for defined benefit plans in other comprehensive income when they occur, new disclosure requirements including qualitative information of sensitivity of the defined benefit obligation, recognition of termination benefits and distinction between short-term and long-term employee benefits. The revised standard will be applied retrospectively. This standard will have an impact in the financial statements of the Group.

- PAS 27, *Separate Financial Statements (Amendments)*
  As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- PAS 28, *Investments in Associates and Joint Ventures (Amendments)*
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities*
  The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  This standard is effective for annual periods beginning on or after January 1, 2013.
  PFRS 10 replaces the portion of PAS 27, *Separate and Consolidated Financial Statements*, which addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12, *Consolidation - Special Purpose Entities*, resulting to SIC being withdrawn. It does not change the consolidation procedures. Rather, it changes whether an entity is consolidated by revising the definition of control. It also provides a number of clarifications in applying this new definition. The new standard will be applied retrospectively.

- PFRS 11, *Joint Arrangements*
  This standard is effective for annual periods beginning on or after January 1, 2013.
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 introduces the definition of "joint control", for which the reference to "control" in "joint control" refers to the definition of "control" in PFRS 10. It also changes the accounting for joint arrangements by moving from three categories under PAS 31 to two categories, either joint operation or joint venture. Under this new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either joint operation or a joint venture. Further, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances. In addition, PAS 28, *Investment in Associates*, was amended to include the application of the equity method to investments in joint ventures. PFRS 11 will be applied using modified retrospective approach.

- PFRS 12, *Disclosure of Interests in Other Entities*
  This standard is effective for annual periods beginning on or after January 1, 2013.
  PFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of the financial statements to understand the effects of an entity's interests in other

entities on its financial position, financial performance and cash flows and the nature of, and the risks associated with, the entity's interest in other entities. It also includes more extensive qualitative and quantitative disclosures. PFRS 12 will be applied retrospectively.

- PFRS 13, *Fair Value Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by PFRS.

  Under PFRS 13, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Fair value as used in PFRS 2, *Share-based Payments*, and PAS 17, *Leases* is excluded from the scope of PFRS 13. The standard also provides clarification on a number of areas. New disclosures related to fair value measurements are also required to help users understand the valuation techniques and inputs used to develop fair value measurement and the effect of fair value measurements on profit or loss. PFRS 13 is applied prospectively. Early application is permitted and must be disclosed.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation becomes effective for annual periods beginning on or after January 1, 2013 and applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

*Effective in 2014:*

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

*Effective in 2015:*

- PFRS 9, *Financial Instruments: Classification and Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2015. It introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement*. The approach in the new standard is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39. The Group will evaluate the impact of the standard on its consolidated financial statements.

The revised, amended and additional disclosure or accounting changes provided by the standards and interpretations will be included in the consolidated financial statements in the year of adoption, if applicable.

Summary of Significant Accounting Policies

Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso (₱), which is the Parent Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the entities in the Group is also the Philippine peso. Transactions in foreign currencies are initially recorded in Philippine peso at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at functional currency rate of exchange ruling at the end of reporting period. All differences are taken to consolidated statements of income.

As at the financial reporting period, the statements of financial position of an associate (whose functional currency is other than the Philippine peso) is translated into the presentation currency of the Company (the Philippine peso) at the rate of exchange at the financial reporting period and, the statements of income is translated at the monthly average exchange rates for the year. The exchange differences arising on the translation is recognized in other comprehensive income. Upon disposal of such associate, the component of other comprehensive income relating to that particular foreign operation will be recognized in the consolidated statements of income.

Financial Instruments

*Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position 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 (regular way trades) are recognized on the trade date (i.e., the date that the Company commits to purchase or sell the asset).

*Initial recognition of financial instruments*

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting period.

The Group's financial assets are in the nature of loans and receivables and AFS financial assets. The Group has no financial assets classified as FVPL and HTM investments as at December 31, 2011 and 2010.

The Group's financial liabilities are in the nature of other financial liabilities.

Determination of Fair Values of Financial Instruments
The fair value of financial instruments that are traded in active markets at each end of the financial reporting period is determined by reference to quoted market prices or dealer price quotations, bid price for long positions and ask price short positions, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

The Group uses hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - Quoted prices in active markets for identical asset or liability
Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3 - Those with inputs for asset or liability that are not based on observable market date (unobservable inputs)

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

Subsequent Measurement
The subsequent measurement of financial instruments depends on their classification as follows:

*Loans and Receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate short-term resale and are not classified or designated as AFS financial assets or financial assets at FVPL. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The amortization is included under "Finance expense" in the consolidated statements of income. The losses arising from impairment are recognized in the consolidated statements of income as "Finance expense".

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2011 and 2010, the Group's loans and receivables include cash and cash equivalents, trade and other receivables, cash held in escrow and mine rehabilitation fund (MRF) included in other noncurrent assets in the consolidated statements of financial position (see Notes 4, 5 and 13).

*AFS Financial Assets*
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as at FVPL, HTM investments or loans and receivables.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are measured at fair value. The effective yield component of AFS debt instruments, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statements of income under "Finance income" or "Finance expense". The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported in other comprehensive income as "Net valuation gains (losses) on AFS financial assets". Unquoted AFS financial assets, where there is no reliable basis of their fair values, are measured at cost less any impairment loss.

AFS financial assets are included in current assets if it is expected to be realized or disposed of within twelve (12) months from the financial reporting period. Otherwise, these are classified as noncurrent assets.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS financial assets are reported as "Interest income" using the EIR. Dividends earned on holding AFS financial assets are recognized in the consolidated statements of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statements of income.

The Group's investments in quoted debt securities and quoted and unquoted equity securities are classified under this category (see Note 7).

*Other Financial Liabilities*
Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon inception of the liability. These include liabilities arising from operations or borrowings. Loans and borrowings are classified as current liabilities if maturity is within twelve (12) months from financial reporting date. Otherwise, these are classified as noncurrent liabilities.

Loans and borrowings are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, such loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statements of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in "Finance expense" in the statements of income.

This accounting policy applies primarily to the Group's long-term debt, trade payables and other obligations that meet the above definition (other than liabilities that are covered by other accounting standards, such as income tax payable and pension) (see Notes 14 and 15).

<u>Derecognition of Financial Instruments</u>
*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 the 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 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. In such case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

*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 of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each financial reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event 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 debtors or a group of debtors 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables*
For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 there is objective evidence that an impairment loss has 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 (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets' original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Interest income continues to be recognized based on the original EIR of the asset. The interest income is recorded as part of "Finance income" in the consolidated statements of income. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreases because of 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 statements 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 financial reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the 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. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. 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 as other comprehensive income is removed from equity and recognized in the consolidated statements of income. Impairment losses on equity investments are not reversed through the consolidated statements of income while increases in fair value after impairment are recognized directly in equity through the consolidated statements 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. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statements of income.

Future interest income continues to be accrued based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. The interest income is recorded as part of "Finance income" in the consolidated statements of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized through the consolidated statements of income, the impairment loss is reversed through the consolidated statements of income.

If there is objective evidence that an impairment loss on an unquoted equity instrument for AFS financial assets carried at cost, such as unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 for a similar financial asset. Objective evidence of impairment includes, but is not limited to, significant financial difficulty of the issuer or obligor and it becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Offsetting of Financial Instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statements of financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated statements of financial position.

Business Combinations and Goodwill starting January 1, 2010

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the consolidated statements of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in consolidated statements of income or as change to other income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statements of income.

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

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

Business Combination Prior to January 1, 2010

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets. Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Business Combination Accounted for Using the Pooling of Interest Method

Business combinations involving entities or entities under common control with no consideration transferred are accounted for using the pooling of interest method which is scoped out of PFRS 3, *Business Combination*. The pooling of interests method generally involve the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, that would otherwise be done under the purchase method. The only adjustments that are made are to harmonize accounting policies;
- No new goodwill is recognized as a result of the combination; the only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity;
- The consolidated statements of income reflects the results of the combining entities for the full year, irrespective of when the combination took place;
- Comparatives are presented as if the entities had always been combined.

Inventories
Inventories, excluding the long-term stock pile inventory, are valued at the lower of cost or net realizable value (NRV). Cost is determined by the average production cost during the year for beneficiated nickel silicate ore and limestone ore exceeding a determined cut-off grade and moving average method for materials and supplies. NRV of beneficiated nickel silicate and limestone ore inventories is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. For materials and supplies, cost is composed of purchase price, transport, handling and other costs directly attributable to its acquisition. NRV of materials and supplies is the current replacement cost.

Long-term Stock Pile Inventory
The long-term stock pile inventory of RTN is carried at the lower of cost or NRV. Cost is represented by the fair value of the long-term stock pile inventory related to the acquisition of the controlling interest in RTN in August 2006. The fair value was determined using the present value of the estimated cash flows, which RTN will derive from the sale of this inventory to Coral Bay Nickel Corporation (CBNC) under its Nickel Ore Supply Agreement with CBNC (see Note 31). NRV of long-term inventory stock pile is the cost less any allowance for impairment losses.

Property and Equipment
Except for land, property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment loss. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land is stated at cost less any impairment in value.

Depreciation is computed on the straight-line basis over the following estimated useful lives of the assets:

| Category | Number of Years |
|---|---|
| Machinery and equipment | 5 |
| Buildings and improvements | 5-25 |

Mining properties and development costs include the capitalized cost of mine rehabilitation and decommissioning. Depletion on mining properties and development costs is calculated based on the unit-of-production method based on the estimated economically recoverable reserves to which they relate to or are written-off if the property is abandoned.

The asset revaluation surplus which arose from the acquisition of the controlling interest in RTN in August 2006, relates to the land, machinery and equipment, and building improvements. The related and applicable depreciation on these assets is transferred periodically to retained earnings.

Construction in-progress represents work under construction and is stated at cost. Construction in-progress is not depreciated until such time that the relevant assets are completed and available for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The assets' estimated recoverable reserves, residual values, useful lives and depreciation and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, residual values, periods and methods of depreciation and depletion are consistent with the expected pattern of economic benefits from items of property and equipment. The residual values, if any, is reviewed and adjusted, if appropriate, at each end of reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the year the asset is derecognized.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Borrowing Cost

Borrowing costs are generally expensed as incurred. Interest on borrowed funds used to finance the construction of the asset to the extent incurred during the period of construction is capitalized as part of the cost of the asset. The capitalization of the borrowing cost as part of the cost of the asset: (a) commences when the expenditures and borrowing costs are being incurred during the construction and related activities necessary to prepare the asset for its intended use are in progress; and (b) ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

Investment Property

Investment property is measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation.

Depreciation is computed on a straight-line basis over estimated useful life of twelve (12) years.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statements of income in the year of retirement or disposal.

As the accounting for the investment property uses the cost model, transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes.

Investment in an Associate

The Group's investment in an associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statements of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statements of income reflect the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statements of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of earnings or losses of an associate is shown on the face of the consolidated statements of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Deferred Mine Exploration Costs
Expenditures for mine exploration work prior to drilling are charged to operations. Expenditures for the acquisition of property rights are capitalized. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), costs subsequently incurred to develop a mine on the property prior to the start of mining operations are capitalized. Upon the start of commercial operations, such costs are transferred to property and equipment. Capitalized amounts may be written down if future cash flows, including potential sales proceeds related to the property, are projected to be less than the carrying value of the property. If no mineable ore body is discovered, capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

Costs incurred during the start-up phase of a mine are expensed as incurred. Ongoing mining expenditures on producing properties are charged against earnings as incurred. Major development expenditures incurred to expose the ore, increase production or extend the life of an existing mine are capitalized.

Impairment of Nonfinancial Assets
*Property and Equipment, Investment Property and Other Noncurrent Assets*
Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or CGU is written down to its 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 asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses are recognized in the consolidated statements of income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in profit or loss. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depletion, depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

*Investment in an Associate*
After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in an associate. The Group determines at end of reporting period whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statements of income.

*Deferred Mine Exploration Costs*
An impairment review is performed, either individually or at the CGU level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined. Deferred mine exploration costs are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

<u>Other Current Assets</u>
Other current assets include tax credit certificates, advances and deposits and various prepayments which the Group's expects to realize or consume the assets within twelve (12) months after the end of the reporting period.

<u>Other Noncurrent Assets</u>
Other noncurrent assets of the Group include input tax, advances to claimowners, cash held in escrow, deferred mine exploration costs, MRF and pension asset. These are classified as noncurrent since the Group expects to utilize the assets beyond twelve (12) months from the end of the reporting period.

<u>Provisions</u>
*General*
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. The expense relating to any provision is presented in the consolidated statements of

income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

*Provision for Mine Rehabilitation and Decommissioning*
The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statements of income as "Finance expense". Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and provision for mine rehabilitation and decommissioning when they occur. Decrease in rehabilitation liability that exceeds the carrying amount of the corresponding rehabilitation asset is recognized immediately in the consolidated statements of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income.

MRF committed for use in satisfying environmental obligations are included within "Other noncurrent assets" in the consolidated statements of financial position.

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

Capital Stock
Common shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to additional paid-in capital.

Preferred shares are classified as equity if it is non-redeemable, or redeemable only at the Parent Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Parent Company's BOD. Preferred shares are classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in the consolidated statements of income as accrued.

Where the Parent Company or any of its subsidiaries purchases the Parent Company's shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Parent Company's stockholders.

Dividend distribution to the Parent Company's stockholders is recognized as a liability in the consolidated financial statements in the period in which the dividends are approved or declared by the Parent Company's BOD.

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.

Basic/Diluted Earnings (Loss) Per Share
Basic earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares, excluding treasury shares.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Beneficiated Nickel Silicate and Limestone Ore*
Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, which in the case of deliveries other than to CBNC, coincides with the loading of the ores into the buyer's vessel. In the case of deliveries to CBNC, this occurs at the time the ore passes into the ore preparation hopper of CBNC's plant. Under the terms of the arrangements with customers, the Group bills the remaining ten to twenty percent (10% - 20%) of the ores shipped based on the assay tests agreed by both the Group and the customers. Where the assay tests are not yet available as at end of financial reporting period, the Group accrues the remaining ten to twenty percent (10% - 20%) of the revenue based on the amount of the initial billing made.

*Rendering of Services*
Revenue from rendering of services of RTN consists of construction contracts and service fees. Contract fee is recognized by reference to the stage of completion of the service. Service fee is recognized as the services are substantially rendered.

*Interest*
Revenue is recognized as interest accrues (using the EIR method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

*Dividend*
Dividend income is recognized when the Group's right to receive payment is established.

*Rental*
Revenue is recognized based on a straight-line basis over the term of the lease agreement.

Cost and Expenses Recognition

Cost and expenses are decreases in economic benefits during the financial reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost and expense, interest expense and other finance costs are recognized in the consolidated statements of income in the period these are incurred.

Leases

*Determination of Whether an Arrangement Contains a Lease*

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Group as a Lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are amortized as an expense in consolidated statement of income on a straight-line basis over the lease term.

*Group as a Lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Pension Benefits

The Group has two funded and two unfunded noncontributory defined benefit retirement plans covering substantially all of its employees. Pension costs are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded ten percent (10%) of the higher of the defined benefit 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 plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately in the consolidated statements of income.

The defined pension asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized 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.

Share-based Payment Transactions

The executives of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

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

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or 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 vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The option to purchase the Parent Company's 12 million common shares was excluded from the computation of diluted earnings per share because the effect was antidilutive (see Note 19).

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 end of the reporting period.

Current income tax relating to items recognized directly in the consolidated statements of changes in equity is recognized in equity and not in the consolidated statements of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred Income Tax*
Deferred income tax is provided using the liability method on temporary differences at the end of reporting period 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, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized outside consolidated statements of income is recognized outside consolidated statements of income.  Deferred income tax items are recognized in correlation to the underlying transaction either in other income or directly in equity.

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

Business Segments
For management purposes, the Group is organized into operating segments (mining and services) according to the nature of the products and the services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The segment locations are the basis upon which the Group reports its primary segment information for the mining segment. All of the segments operate and generate revenue only in the Philippines. Financial information on business segments is presented in Note 39.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events after the Reporting Period
Post year-end events that provide additional information about the Group's position at the end of reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 3. Significant Accounting Judgments, Estimates and Assumptions

The consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. However, actual outcome can differ from these estimates.

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

*Determining Functional Currency*
Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. Each subsidiary in the Group also determines its own functional currency. The functional currency of the subsidiaries in the Group is also the Philippine peso. The functional currency is the currency of the primary economic environment in which the Parent Company and its subsidiaries operates. It is the currency that mainly influences the expenses, in which funds from financing activities are generated, and in which receipts from operating activities are generally retained.

*Classification of Financial Instruments*
The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the

contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument, rather than its legal form, governs its classification in the statements of financial position.

*Estimation of Long-term Inventory Stock Pile*
The determination of the Group's long-term inventory stockpile include among others, projected revenues, operating and delivering costs from the sale of the long-term stock pile. Actual results that differ from the Group's assumptions generally affect the Group's recognized expense and recorded obligation in such future periods. The long-term stock pile inventory is carried at the lower of cost or NRV. An allowance for inventory losses is recognized when the carrying value of those assets is not recoverable and exceeds their NRV. Long-term stock pile inventory - net of current portion amounted to ₱1,357.7 million and ₱965.0 million as at December 31, 2011 and 2010, respectively (see Note 12).

*Assessing Recoverability of Deferred Mine Exploration Costs*
The application of the Group's accounting policy for deferred mine exploration costs requires judgment in determining whether it is likely that future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after mine explorations costs are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the consolidated statements of income in the period when the new information becomes available. An impairment loss is recognized when the carrying value of those assets is not recoverable and exceeds their fair value.

Deferred mine exploration costs, included in "Other noncurrent assets", as at December 31, 2011 and 2010 amounted to ₱118.3 million and ₱89.6 million, respectively. Allowance for impairment losses recognized on deferred mine exploration costs amounted to ₱72.2 million and ₱10.3 million as at December 31, 2011 and 2010, respectively (see Note 13).

*Determining Operating Lease Commitments - Group as a Lessee*
The Group has entered into commercial property and vehicle leases. The Group has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased on operating leases.

*Determining Operating Lease Commitments - Group as a Lessor*
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Assessing Production Start Date*
The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase. Some of the criteria include, but are not limited to the following:

- the level of capital expenditure compared to construction cost estimates;
- completion of a reasonable period of testing of the property and equipment;
- ability to produce ore in saleable form; and
- ability to sustain ongoing production of ore.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements, mine development or mineable reserve development. It is also at this point that depreciation or amortization commences.

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty as at reporting period, that have the most significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are as follows:

*Estimating Allowance for Impairment Losses on Trade and Other Receivables*
The Group evaluates specific accounts where the Group has information that certain customers are unable to meet their financial obligations. The Group assesses individually the receivables based on factors that affect its collectibility. Factors such as the Group's length of relationship with the customers and the customer's current credit status are considered to ascertain the amount of allowances that will be recorded in the receivables account. These allowances are re-evaluated and adjusted as additional information is received.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group's assessments take into consideration factors such as any deterioration in country risk and industry, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of trade and other receivables amounted to ₱1,156.3 million and ₱1,113.3 million as at December 31, 2011 and 2010, respectively. Allowance for impairment losses on trade and other receivables amounted to ₱226.2 million and ₱214.3 million as at December 31, 2011 and 2010, respectively (see Note 5).

*Estimating Beneficiated Nickel Ore and Limestone Ore Reserves*
Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves based on information compiled by Competent Persons as defined in accordance with Philippine Mineral Reporting Code (PMRC) which depend significantly on the interpretation of geological data obtained from drill holes and other sampling techniques, which is extrapolated to produce estimates of the size, shape, depth and grade of ore bodies. In addition, to calculate the reserves in accordance with the Joint Ore Reserves Committee (JORC) Code, the Group makes estimates and assumptions regarding a number of economic and technical factors, such as production rates, grades, production and transport costs and prices. These economic and technical estimates and assumptions may change in the future in ways that affect the quality and quantity of the reserves. The Group reviews and updates estimates as required, but at least annually, to reflect actual production, new exploration data or developments and changes in other assumptions or parameters. These estimates will change from time to time to reflect mining activities, analyses of new engineering and geological data, changes in ore reserve and mineral resource holdings, modifications of mining plans or methods, changes in nickel prices or production costs and other factors.

*Estimating Allowance for Impairment Losses on Inventory*
The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV tests are performed at least annually and

represent the estimated future sales price of the product based on prevailing spot metals prices at the reporting period, less estimated costs to complete production and bring the product to sale. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained ore ounces based on assay data. Stockpile tonnages are verified by periodic surveys. Increase in the NRV of inventories will increase the cost of inventories but only to the extent of their original production costs.

As at December 31, 2011 and 2010, inventories carried at lower of cost or NRV amounted to ₱2,008.0 million and ₱1,416.4 million, respectively. Allowance for inventory losses recognized amounted to ₱403.5 million and ₱384.3 million as at December 31, 2011 and 2010, respectively (see Note 6).

*Estimating Impairment Losses on AFS Financial Assets*
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the 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 twenty percent (20%) or more of the original cost of investment, and “prolonged” as greater than six (6) months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities in determining the amount to be impaired.

The carrying value of AFS financial assets amounted to ₱1,567.8 million and ₱1,377.1 million as at December 31, 2011 and 2010, respectively (see Note 7).

*Estimating Useful Lives of Property and Equipment and Investment Property*
The Group estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The carrying values of property and equipment as at December 31, 2011 and 2010 amounted to ₱4,216.8 million and ₱3,859.7 million, respectively. The balance of the accumulated depreciation of property and equipment amounted to ₱2,982.8 million and ₱2,584.5 million as at December 31, 2011 and 2010, respectively. The carrying values of investment property as at December 31, 2011 and 2010 amounted to ₱53.6 million and ₱50.8 million, respectively. The balance of the accumulated depreciation of investment property amounted to ₱62.5 million and ₱53.3 million as at December 31, 2011 and 2010, respectively (see Notes 9 and 10).

*Estimating Impairment Losses on Property and Equipment and Investment Property*
The Group assesses impairment on property and equipment and investment property whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to earnings if the discounted expected future cash flows are less than the carrying amount. Fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows. No impairment loss was recognized in 2011 and 2010.

*Estimating Impairment Losses on Investment in an Associate*
Impairment review of investment in an associate is performed when events or changes in circumstances indicate that the carrying value exceeds its fair value. Management has determined that there are no events or changes in circumstances in 2011 and 2010 that may indicate that the carrying value of investment in an associate may not be recoverable. The carrying values of the Group's investment in an associate amounted to ₱4,371.9 million and ₱4,570.5 million as at December 31, 2011 and 2010, respectively (see Note 11).

*Estimating Allowance for Impairment Losses on Nonfinancial Other Current Assets and Other Noncurrent Assets*
The Group provides allowance for impairment losses on nonfinancial other current assets and other noncurrent assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease other current assets or other noncurrent assets.

The carrying value of other current assets amounted to ₱59.2 million and ₱53.0 million as at December 31, 2011 and 2010, respectively, while other noncurrent assets, net of cash held in escrow and MRF, amounted to ₱604.6 million and ₱647.6 million as at December 31, 2011 and 2010, respectively. There is no allowance for impairment losses on the Group's nonfinancial other current assets as at December 31, 2011 and 2010 (see Note 8). Allowance for impairment losses on the Group's nonfinancial other noncurrent assets as at December 31, 2011 and 2010 amounted to ₱94.5 million and ₱10.3 million, respectively (see Note 13).

*Estimating Provision for Mine Rehabilitation and Decommissioning*
The Group assesses its provision for mine rehabilitation and decommissioning annually. Significant estimates and assumptions are made in determining the provision for mine

rehabilitation as there are numerous factors that will affect the provision. 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 end of reporting period 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 statements of financial position by adjusting the rehabilitation asset and liability. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income.

Provision for mine rehabilitation and decommissioning amounted to ₱61.7 million and ₱55.4 million as at December 31, 2011 and 2010, respectively (see Note 16).

*Determining Pension Benefits*
The determination of the Group's obligation and cost for pension benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions, as described in Note 32, include among others, discount rates, expected rates of return and future salary increase rates. In accordance with PAS 19, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Group's pension and other retirement obligations.

As at December 31, 2011 and 2010, pension asset included under "Other noncurrent assets" account amounted to ₱3.9 million and ₱19.8 million, respectively (see Notes 13 and 32). Pension liability amounted to ₱74.9 million and ₱49.0 million as at December 31, 2011 and 2010, respectively (see Note 32).

*Share-based Payment Transactions*
The Parent Company's Executive Stock Option Plan (ESOP) grants qualified participants the right to purchase common shares of the Company at a grant price. The ESOP recognizes the services received from the eligible employees and an equivalent adjustment to the equity account over the vesting period. The Parent Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 18. While management believes that the estimates and assumptions used are reasonable and appropriate, significant differences in actual experience or significant changes in the estimates and assumptions may materially affect the stock compensation costs charged to operations.

The cost of share-based payment plan recognized as expense in 2011 and 2010, with a corresponding charge to the equity account amounted to ₱63.2 million and ₱1.1 million, respectively. As at December 31, 2011 and 2010, the balance of employee share-based payment plan amount in the equity section of the consolidated statements of financial position amounted to ₱64.3 million and ₱1.1 million, respectively (see Note 18).

*Assessing Recoverability of Deferred Income Tax Assets*
The Group reviews the carrying amounts of deferred income tax assets at each end of reporting period and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has net deferred income tax assets amounting to ₱481.5 million and ₱414.0 million as at December 31, 2011 and 2010, respectively (see Note 33).

*Determining Fair Values of Financial Instruments*
Where the fair values of financial assets and liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility and correlation. Certain financial assets and liabilities were initially recorded at its fair value (see Note 35).

## 4. Cash and Cash Equivalents

| | 2011 | 2010 |
|---|---|---|
| Cash on hand and with banks | **₱1,135,838** | ₱1,847,488 |
| Short-term cash investments | **9,214,754** | 4,958,480 |
| | **₱10,350,592** | ₱6,805,968 |

Cash with banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the respective short-term cash investment rates.

The Group has United States dollar (US$)-denominated cash and cash equivalents amounting to ₱3,573.6 million and ₱4,006.0 million as at December 31, 2011 and 2010, respectively (see Note 34).

Interest income earned from cash and cash equivalents amounted to ₱196.7 million, ₱114.3 million and ₱140.2 million in 2011, 2010 and 2009, respectively (see Note 27).

Cash with banks amounting to ₱125.6 million and ₱297.0 million as at December 31, 2011 and 2010, respectively, representing proceeds from the IPO, were deposited in escrow and are restricted as to withdrawal for specified purpose as determined in the prospectus submitted with the SEC, thus, are classified as “Other noncurrent assets” (see Note 13).

## 5. Trade and Other Receivables

| | 2011 | 2010 |
|---|---|---|
| Trade (see Note 31) | **₱735,851** | ₱433,810 |
| Receivable from CBNC (see Note 31) | **360,888** | 662,561 |
| Amounts owed by related parties (see Note 31) | **5,435** | 2,871 |
| Others (see Note 31) | **280,326** | 228,326 |
| | **1,382,500** | 1,327,568 |
| Less allowance for impairment losses | **226,207** | 214,313 |
| | **₱1,156,293** | ₱1,113,255 |

Trade receivables and receivable from CBNC are noninterest-bearing and are generally on seven (7)-day to thirty (30)-day terms.

The Group has United States dollar (US$)-denominated trade and other receivables amounting to ₱911.0 million and ₱728.1 million as at December 31, 2011 and 2010, respectively (see Note 34).

Other receivables comprise mainly of receivables from contractors and suppliers which are noninterest-bearing and are generally collectible on demand. These include receivable from THNC amounting to ₱32.1 million and ₱3.1 million as at December 31, 2011 and 2010, respectively (see Note 31).

Movements of allowance for impairment losses as at December 31, 2011 and 2010 follow:

| **2011** | **Trade** | **Others** | **Total** |
|---|---|---|---|
| **Balances at January 1** | **₱212,247** | **₱2,066** | **₱214,313** |
| **Provision (see Note 28)** | **–** | **3,962** | **3,962** |
| **Writeoff** | **–** | **(2,946)** | **(2,946)** |
| **Foreign exchange adjustment** | **10,878** | **–** | **10,878** |
| **Balances at December 31** | **₱223,125** | **₱3,082** | **₱226,207** |

| 2010 | Trade | Others | Total |
|---|---|---|---|
| Balances at January 1 | ₱213,168 | ₱2,066 | ₱215,234 |
| Acquisition of LCSLC (see Note 30) | 5,633 | – | 5,633 |
| Provision (see Note 28) | 26,756 | – | 26,756 |
| Recovery (see Note 28) | (22,105) | – | (22,105) |
| Foreign exchange adjustment | (11,205) | – | (11,205) |
| Balances at December 31 | ₱212,247 | ₱2,066 | ₱214,313 |

6. **Inventories**

| | **2011** | 2010 |
|---|---|---|
| Beneficiated nickel ore and limestone ore - at cost | **₱1,046,943** | ₱740,852 |
| Beneficiated nickel ore - at NRV | **340,116** | 275,119 |
| Current portion of long-term stock pile inventory (see Note 12) | **180,409** | 143,184 |
| Materials and supplies: | | |
| At NRV | **404,414** | 214,805 |
| At cost | **36,121** | 42,471 |
| | **₱2,008,003** | ₱1,416,431 |

Movements of allowance for inventory losses in 2011 and 2010 follow:

| **2011** | **Beneficiated nickel ore** | **Materials and supplies** | **Total** |
|---|---|---|---|
| **Balances at January 1** | **₱361,847** | **₱22,469** | **₱384,316** |
| **Provisions (see Note 29)** | **–** | **20,936** | **20,936** |
| **Recovery (see Note 29)** | **(1,795)** | **–** | **(1,795)** |
| **Balances at December 31** | **₱360,052** | **₱43,405** | **₱403,457** |

| 2010 | Beneficiated nickel ore | Materials and supplies | Total |
|---|---|---|---|
| Balances at January 1 | ₱418,177 | ₱22,469 | ₱440,646 |
| Recovery (see Note 29) | (56,330) | – | (56,330) |
| Balances at December 31 | ₱361,847 | ₱22,469 | ₱384,316 |

The cost of beneficiated nickel ore provided with allowance for inventory losses amounted to ₱700.2 million and ₱637.0 million as at December 31, 2011 and 2010, respectively, while the cost of materials and supplies provided with allowance for inventory losses amounted to ₱447.8 million and ₱237.3 million as at December 31, 2011 and 2010, respectively.

In 2011, materials and supplies with carrying amount of ₱38.8 million were written off due to damages incurred as a result of an insurgency attack, which occurred in the Taganito minesite, under TMC (see Notes 9 and 29).

Costs of inventories charged as expense amounted to ₱3,576.5 million, ₱3,170.3 million and ₱2,629.1 million in 2011, 2010 and 2009, respectively.

## 7. AFS Financial Assets

| | **2011** | 2010 |
|---|---|---|
| Quoted instruments: | | |
| Debt securities | **₱331,977** | ₱295,481 |
| Equity securities | **381,458** | 227,271 |
| Unquoted equity securities | **854,385** | 854,385 |
| | **₱1,567,820** | ₱1,377,137 |

Quoted instruments are carried at fair market value as at end of the reporting period. Unquoted equity instruments are carried at cost as at end of the reporting period, since the fair values of these investments cannot be reliably measured.

The movements in AFS financial assets account follow:

| | **2011** | 2010 |
|---|---|---|
| Balances at January 1 | **₱1,377,137** | ₱1,964,699 |
| Additions | **889,929** | 1,732,591 |
| Disposals | **(665,624)** | (2,323,172) |
| Effect of changes in foreign exchange rate | **(17,237)** | (8,928) |
| Movements recognized in equity: | | |
| Gains (losses) recognized in equity | **(29,919)** | 1,701 |
| Reclassification adjustments for income included in consolidated statements of income (see Note 28) | **18,316** | 9,520 |
| Income tax effect | **(5,097)** | (1,893) |
| Valuation gains taken into the consolidated statements of comprehensive income - net of tax | **(16,700)** | 9,328 |
| Non-controlling interest in gains recognized in equity | **315** | 2,619 |
| Balances at December 31 | **1,567,820** | 1,377,137 |
| Less: noncurrent portion | **907,297** | 907,161 |
| Current portion | **₱660,523** | ₱469,976 |

AFS financial assets pertain to investments in common and preferred shares of various local and foreign public and private companies, golf club shares and debt securities. As at December 31, 2011 and 2010, quoted shares amounting to ₱381.5 million and ₱227.3 million, respectively, were classified as current based on management's intention to dispose the shares within one (1) year from end of reporting period. The noncurrent portion of AFS financial assets amounted to ₱907.3 million and ₱907.2 million as at December 31, 2011 and 2010, respectively. As at December 31, 2011, the Group has no intention to dispose its unquoted equity shares within the next year.

Dividend income earned from AFS financial assets amounted to ₱436.4 million, ₱120.2 million and ₱1.0 million in 2011, 2010 and 2009, respectively, of which ₱434.2 million, ₱114.0 million and nil relates to dividends coming from investments in unquoted securities (see Note 29), while interest income from debt securities amounted to ₱8.5 million, ₱14.5 million and ₱21.9 in 2011, 2010 and 2009, respectively (see Note 27).

The valuation gains (losses) of (₱16.7 million), ₱9.3 million and ₱64.9 million is net of share in non-controlling interest amounting to ₱0.03 million, ₱2.6 million and (₱1.4 million) as at December 31, 2011, 2010 and 2009, respectively.

The Group uses the specific identification method in determining the cost of securities sold.

## 8. Other Current Assets

| | 2011 | 2010 |
|---|---|---|
| Tax credit certificates | **₱29,680** | ₱22,702 |
| Advances and deposits | **12,197** | 3,058 |
| Prepaid insurance | **5,051** | 10,411 |
| Prepaid rent | **1,024** | 13,222 |
| Others | **11,236** | 3,600 |
| | **₱59,188** | ₱52,993 |

## 9. Property and Equipment

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Mining Properties and Development Costs** | **Machinery and Equipment** | **Buildings and Improvements** | **Construction In-progress** | **Total** |
| **Cost:** | | | | | | |
| **Balances at January 1** | **₱242,237** | **₱408,617** | **₱3,816,459** | **₱757,985** | **₱1,218,921** | **₱6,444,219** |
| **Additions** | **–** | **1,063** | **781,131** | **205,740** | **291,338** | **1,279,272** |
| **Adjustment for capitalized cost of mine rehabilitation and decommissioning (see Note 16)** | **–** | **(1,555)** | **–** | **–** | **–** | **(1,555)** |
| **Capitalized borrowing costs (see Note 15)** | **–** | **–** | **–** | **–** | **7,772** | **7,772** |
| **Transfers** | **–** | **–** | **1,949** | **1,380,559** | **(1,382,508)** | **–** |
| **Disposals** | **–** | **–** | **(527,095)** | **(3,021)** | **–** | **(530,116)** |
| **Balances at December 31** | **242,237** | **408,125** | **4,072,444** | **2,341,263** | **135,523** | **7,199,592** |

(Forward)

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Mining Properties and Development Costs** | **Machinery and Equipment** | **Buildings and Improvements** | **Construction In-progress** | **Total** |
| **Accumulated depreciation and depletion:** | | | | | | |
| **Balances at January 1** | **₱–** | **₱176,081** | **₱2,055,003** | **₱353,441** | **₱–** | **₱2,584,525** |
| **Depreciation and depletion (see Note 26)** | **–** | **3,277** | **521,529** | **199,807** | **–** | **724,613** |
| **Disposals** | **–** | **–** | **(323,363)** | **(3,021)** | **–** | **(326,384)** |
| **Balances at December 31** | **–** | **179,358** | **2,253,169** | **550,227** | **–** | **2,982,754** |
| **Net book values** | **₱242,237** | **₱228,767** | **₱1,819,275** | **₱1,791,036** | **₱135,523** | **₱4,216,838** |

| | 2010 (As restated, see Note 30) | | | | | |
|---|---|---|---|---|---|---|
| | Land | Mining Properties and Development Costs | Machinery and Equipment | Buildings and Improvements | Construction In-progress | Total |
| Cost: | | | | | | |
| Balances at January 1 | ₱241,417 | ₱314,476 | ₱3,283,525 | ₱789,349 | ₱13,062 | ₱4,641,829 |
| Acquisition of LCSLC (see Note 30) | – | – | 257,753 | – | – | 257,753 |
| Additions | 820 | – | 754,527 | 13,534 | 1,209,673 | 1,978,554 |
| Capitalized borrowing costs (see Note 15) | – | – | – | – | 5,089 | 5,089 |
| Transfers (see Note 38) | – | 94,141 | (3,788) | 12,691 | (8,903) | 94,141 |
| Disposals | – | – | (475,558) | (57,589) | – | (533,147) |
| Balances at December 31 | 242,237 | 408,617 | 3,816,459 | 757,985 | 1,218,921 | 6,444,219 |
| Accumulated depreciation and depletion: | | | | | | |
| Balances at January 1 | – | 174,094 | 1,985,626 | 325,422 | – | 2,485,142 |
| Acquisition of LCSLC (see Note 30) | – | – | 77,754 | – | – | 77,754 |
| Depreciation and depletion (see Note 26) | – | 1,987 | 466,336 | 85,608 | – | 553,931 |
| Disposals | – | – | (474,713) | (57,589) | – | (532,302) |
| Balances at December 31 | – | 176,081 | 2,055,003 | 353,441 | – | 2,584,525 |
| Net book values | ₱242,237 | ₱232,536 | ₱1,761,456 | ₱404,544 | ₱1,218,921 | ₱3,859,694 |

Borrowing costs amounting to ₱7.8 million and ₱5.1 million in 2011 and 2010, respectively, were capitalized as part of construction in-progress. The rate used to determine the amount of borrowing costs eligible for capitalization was 2.45%, which is the EIR of the specific borrowing (see Note 15).

Pier facilities (included under "Buildings and Improvements") with a carrying value of ₱1,532.0 million and ₱290.7 million as at December 31, 2011 and 2010, respectively, were mortgaged as collateral for the long-term debt mentioned in Note 15.

On October 3, 2011, an insurgency attack occurred in the Taganito minesite, under TMC, where certain equipment were lost and damaged. The net book value of the lost and damaged property and equipment amounted to ₱200.4 million (see Note 29). Depreciation on the excess of the fair value of the assets acquired from RTN over their corresponding book values transferred to retained earnings amounted to ₱0.4 million in 2011, 2010 and 2009.

The cost of fully depreciated property and equipment still used in the Group's operations amounted to ₱1,117.9 million and ₱1,502.7 million as at December 31, 2011 and 2010, respectively.

## 10. **Investment Property**

| | **2011** | 2010 |
|---|---|---|
| Cost: | | |
| Balances at January 1 | **₱104,096** | ₱104,096 |
| Addition | **12,000** | – |
| Balances at December 31 | **116,096** | 104,096 |
| Accumulated depreciation: | | |
| Balances at January 1 | **53,251** | 44,043 |
| Depreciation (see Note 26) | **9,208** | 9,208 |
| Balances at December 31 | **62,459** | 53,251 |
| Net book values | **₱53,637** | ₱50,845 |

Investment property consists of condominium units rented out as office spaces (see Note 36g). Rental income in 2011, 2010 and 2009 amounted to ₱11.3 million, ₱9.9 million and ₱8.4 million, respectively, included under "Services and others" in the consolidated statements of income. Direct operating expenses in 2011, 2010 and 2009 amounted to ₱11.7 million, ₱8.7 million and ₱4.7 million, respectively, included under the "General and administrative expenses".

Addition to investment property pertains to a parcel of land located in Surigao City with Certificate Title No. T-260 covering a total area of forty three thousand two hundred thirty seven (43,237) square meters. A Deed of Absolute sale was executed with the sellers on June 28, 2011. The said land will be leased out to THNC in the future. The fair value of the said property approximates its carrying value as at December 31, 2011.

The estimated fair value of investment property amounted to ₱162.3 million as at December 31, 2011 and 2010, respectively, based on the capital value per square meter of Grade B commercial condominiums in Makati Central Business District.

## 11. **Investment in an Associate**

The Parent Company, together with SMM and Mitsui Co., Ltd., signed a Shareholders' Agreement on September 15, 2010, dividing the ownership of THNC, into twenty two point five percent (22.5%), sixty two point five percent (62.5%) and fifteen percent (15.0%), respectively.

On November 4, 2010, pursuant to the terms of the above agreement, the Parent Company entered into a subscription agreement with THNC for the subscription of 921,375,000 common shares for the total amount of US$102.4 million or ₱4,443.1 million, equivalent to 22.5% interest in THNC.

THNC, a private entity that is not listed on any public exchange, was incorporated and registered with the Philippine SEC on August 22, 2008. Its principal activities, once operational, consist of the manufacture and export of nickel/cobalt mixed sulfide. THNC is currently undertaking construction and has not yet started commercial operations as at December 31, 2011.

The following are the summarized financial information of THNC as at December 31, 2011. THNC's financial statements are stated in US$ and translated at the closing rate of US$1 = ₱43.84 as at December 31, 2011 and 2010 for assets and liabilities accounts, historical rates for equity accounts and average rate of US$1 = ₱43.31 and US$1 = ₱45.12 for the statement of income accounts in 2011 and 2010, respectively.

| | **2011** | 2010 |
|---|---|---|
| Current assets | **₱1,956,888** | ₱7,238,310 |
| Noncurrent assets | **47,726,327** | 13,128,402 |
| Current liabilities | **7,967,425** | 53,586 |
| Net Assets | **₱41,715,790** | ₱20,313,126 |

| | **2011** | 2010 |
|---|---|---|
| Income | **₱47,115** | ₱5,969 |
| Expenses | **(919,049)** | (34,468) |
| Net loss | **(₱871,934)** | (₱28,499) |

Movements in the investment in an associate follow:

| | **2011** | 2010 |
|---|---|---|
| Acquisition costs | **₱4,443,075** | ₱4,443,075 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **(6,412)** | – |
| Equity in net losses for the period (see Note 29) | **(196,185)** | (6,412) |
| | **(202,597)** | (6,412) |
| Share in cumulative translation adjustment: | | |
| Balance at beginning of year | **133,790** | – |
| Movement | **(2,401)** | 133,790 |
| | **131,389** | 133,790 |
| Balances as at December 31 | **₱4,371,867** | ₱4,570,453 |

The balance of investment in an associate includes goodwill of ₱105.4 million as at December 31, 2011 and 2010, while the share in cumulative translation adjustment of an associate is gross of deferred income tax liability amounting to ₱13.1 million and ₱13.4 million, respectively (see Note 33).

## 12. Long-term Stock Pile Inventory

The long-term stockpile inventory pertains to low grade ore extracted from RTN's minesite. This amount was not recognized in RTN's books but was recognized by the Parent Company when it acquired the controlling interest in RTN (see Note 1). The low grade ore inventory was initially recognized and valued at fair value. The fair value of the long-term stockpile inventory was computed using the present value of the estimated future cash flows of RTN which it will derive from the long-term Nickel Ore Supply Agreement with CBNC (see Note 31a). Subsequently, this fair value represented the cost of the long-term stockpile inventory (see Note 30).

In 2011, the Parent Company performed a re-estimation of the future cash flows from the sale of the long-term stockpile inventories. As a result, a write-up in the carrying value of the long-term stockpile amounting to ₱573.1 million was recognized (see Note 29). The fair value of the inventory as at the date of acquisition amounted to ₱2,036.7 million (see Note 30). A portion amounting to ₱180.4 million and ₱143.2 million, representing the estimated future cash flows from the low grade ore inventory that will be delivered to CBNC in the next accounting period, was shown as part of "Inventories" as at December 31, 2011 and 2010, respectively (see Note 6).

The carrying value of long-term stockpile - net of current portion amounted to ₱1,357.7 million and ₱965.0 million as at December 31, 2011 and 2010, respectively.

## 13. Other Noncurrent Assets

| | **2011** | 2010 |
|---|---:|---:|
| Input tax | **₱320,115** | ₱289,111 |
| Advances to claimowners (see Note 36e) | **231,937** | 240,329 |
| Cash held in escrow (Note 4) | **125,598** | 297,010 |
| Deferred mine exploration costs (see Note 30) | **118,348** | 89,576 |
| MRF | **32,761** | 32,755 |
| Pension asset (see Note 32) | **3,873** | 19,750 |
| Others | **24,842** | 19,133 |
| | **857,474** | 987,664 |
| Less allowance for impairment losses | **94,467** | 10,300 |
| | **₱763,007** | ₱977,364 |

Input tax represents the value added tax (VAT) paid on purchases of applicable goods and services, net of output tax, 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.

Advances to claimowners represent advance royalty payments to East Coast Mineral Resources Co., Inc. (East Coast), La Salle Mining Exploration Company (La Salle), Kepha Mining Exploration Company (Kepha) and Ludgoron Mining Corporation (Ludgoron) (see Note 36e).

Deferred mine exploration costs include mining rights of ₱32.2 million at December 31, 2011 and 2010 (see Note 30).

Movements of allowance for impairment losses in 2011 follow:

| **2011** | **Advances to claimowners** | **Deferred mine exploration costs** | **Input VAT** | **Total** |
|---|---:|---:|---:|---:|
| **Balances at January 1** | **₱–** | **₱10,300** | **₱–** | **₱10,300** |
| **Provisions (see Note 29)** | **21,400** | **61,853** | **914** | **84,167** |
| **Balances at December 31** | **₱21,400** | **₱72,153** | **₱914** | **₱94,467** |

In 2010, allowance for impairment losses on deferred mine exploration costs amounted to ₱10.3 million.

## 14. Trade and Other Payables

| | **2011** | 2010 |
|---|---|---|
| Trade | **₱330,361** | ₱223,876 |
| Accrued expenses | **728,726** | 577,009 |
| Excise tax | **76,412** | 83,173 |
| Withholding tax | **44,519** | 29,160 |
| Others | **58,083** | 21,961 |
| | **₱1,238,101** | ₱935,179 |

Trade, accrued expenses and other payables are noninterest-bearing and are generally settled in less than thirty (30) days' term. Excise tax payable is settled within fifteen (15) days after the end of the quarter when the beneficiated nickel ore and limestone ore were shipped. Withholding taxes are payable ten (10) days after the end of each month.

Trade payables relate to payables to suppliers and relate to transactions in the ordinary course of business. Accrued expenses account substantially consists of contractor's fees, royalties and rental which are usual in the business operations of the Group.

The Group has US$-denominated trade and other payables amounting to ₱39.7 million and ₱54.3 million as at December 31, 2011 and 2010, respectively (see Note 34).

## 15. Long-term Debt

| | **2011** | 2010 |
|---|---|---|
| TMC | **₱1,496,040** | ₱1,224,013 |
| RTN | **272,413** | 320,238 |
| | **1,768,453** | 1,544,251 |
| Less current portion: | | |
| TMC | **76,720** | 30,600 |
| RTN | **47,825** | 47,825 |
| | **124,545** | 78,425 |
| | **₱1,643,908** | ₱1,465,826 |

<u>TMC Loan</u>
On October 4, 2010, TMC entered into an Omnibus Agreement with THNC, wherein the latter granted the former a total loan facility amounting to $35.0 million at a prevailing 180-day British Banker Association London Inter-Bank Offered Rate (LIBOR) plus two percent (2%) spread, to finance the construction of the Pier Facilities. The loan shall be drawn down in one or multiple times by July 31, 2011. As at December 31, 2011 and 2010, TMC's total loan drawn down amounted to $34.1 million and $27.9 million, with peso equivalent of ₱1,496.0 million and ₱1,224.0 million, respectively.

Starting 2011, the interest on the loan is payable semi-annually on October 10 and April 10. The total principal is payable in semi-annual installments of $0.9 million, starting on October 10, 2011 up to April 10, 2031.

The Omnibus Agreement provides for restriction with respect to creation, assumption, incurrence and permission to exist any lien upon the Pier Facilities and all TMC's other real rights over the same except as permitted under the Omnibus Agreement. Also, the Omnibus Agreement provides for certain conditions which include, among others, maintenance and preservation of TMC's corporate existence, rights, privileges and licenses, prompt submission of written notice to THNC of any and all litigations and administrative arbitration proceedings before any governmental authority affecting TMC, prompt payment of all amounts due under the loan documents and maintenance of all governmental approvals necessary to perform the obligations. As at December 31, 2011 and 2010, TMC is in compliance with the restrictions.

Interest expense in 2011 amounted to ₱27.6 million (see Note 28). Borrowing cost in 2011 and 2010 amounting to ₱7.8 million and ₱5.1 million, respectively, was capitalized as part of the cost of construction in-progress (see Note 9).

<u>RTN Loan</u>
On November 25, 2002, RTN entered into an Omnibus Agreement with SMM, wherein the latter granted the former a loan facility amounting to US$1.8 million at prevailing 180-day LIBOR plus two percent (2%) spread, for the construction of the Pier Facilities. In July 2003, an additional loan amounting to US$0.2 million was granted by SMM. Starting 2003, the interest on the original and additional loans is payable semi-annually on February 28 and August 31.

The total principal is payable in 20 equal semi-annual installments starting February 28, 2004 up to August 31, 2013. In February 2007, RTN and SMM agreed to an additional loan facility amounting to US$9.0 million. Of the total loan facility, the remaining US$0.5 million was drawn during February and March 2008. The additional loan facility is payable in semi-annual installments starting August 31, 2008 up to February 28, 2018.

In consideration, and to ensure payment of these loans, RTN assigned, transferred, and set over to SMM, absolutely and unconditionally, all of RTN's rights, title, and interest over its future receivable from CBNC under the Throughput Agreement. RTN also constituted a first ranking Mortgage on the Pier Facilities (see Note 9).

The Omnibus Agreement provides for restrictions with respect to creation, assumption, incurrence and permission to exist any lien upon the Pier Facilities and all RTN's other real rights over the same except as permitted under the Omnibus Agreement. Also, the Omnibus Agreement provides for certain conditions which include, among others, maintenance and preservation of RTN's corporate existence, rights, privileges and licenses, prompt submission of written notice to SMM of any and all litigations or administrative or arbitration proceedings before any governmental authority affecting RTN. As at December 31, 2011 and 2010, RTN is in compliance with the restrictions.

Interest expense amounted to ₱7.3 million, ₱10.9 million, and ₱20.8 million in 2011, 2010 and 2009, respectively (see Note 28).

## 16. Provision for Mine Rehabilitation and Decommissioning

| | **2011** | 2010 |
|---|---|---|
| Balance at January 1 | **₱55,419** | ₱46,202 |
| Accretion interest on provision for mine rehabilitation and decommissioning (see Note 28) | **7,862** | 9,217 |
| Effect of change in estimate | **(1,555)** | – |
| Balance at December 31 | **₱61,726** | ₱55,419 |

Provision for mine rehabilitation and decommissioning pertains to the estimated decommissioning costs to be incurred in the future on the mined-out areas of the Group.

The Group makes a full provision for the future cost of rehabilitating mine site and related production facilities on a discounted basis on the development of mines or installation of those facilities. The rehabilitation provision represents the present value of rehabilitation costs. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mine ceases to produce at economically viable rates. This, in turn, will depend upon future ore prices, which are inherently uncertain.

In 2011 and 2009, the Group revised its estimate of the mine rehabilitation and decommissioning cost resulting to an adjustment on capitalized cost amounting to ₱1.6 million and a net reduction in the provision amounting to ₱15.4 million was recognized as a result of the change in estimate in 2011 and 2009, respectively (see Notes 9 and 27).

## 17. Equity

Capital Stock

The capital structure of the Parent Company as at December 31, 2011 and 2010 is as follows:

| | |
|---|---|
| Common Stock - ₱0.5 par value | |
| Authorized - 1,585,600,000 shares | |
| Subscribed and issued - 1,339,831,828 | ₱669,916 |
| Preferred Stock - ₱0.01 par value | |
| Authorized - 720,000,000 shares | |
| Subscribed and issued - 720,000,000 shares | 7,200 |
| Total | ₱677,116 |

Movements in common stock follow:

| | Number of Shares | Total |
|---|---|---|
| Balances at December 31, 2009 | 957,623,028 | ₱478,812 |
| Declaration of stock dividends | 150,000,000 | 75,000 |
| Issuance of capital stock | 232,208,800 | 116,104 |
| Balances at December 31, 2011 and 2010 | 1,339,831,828 | ₱669,916 |

Authorized Capital Stock
On February 25, 2009 and April 15, 2009, the Parent Company's stockholders and SEC, respectively, approved the increase in authorized capital stock of the Company from 100 million shares with ₱1.00 par value to 500 million shares with ₱1.00 par value.

On September 20, 2010 and June 16, 2010, the Parent Company's BOD authorized and approved the following resolutions:

a. Increase in authorized capital stock from ₱500.0 million to ₱800.0 million.
b. Creation, from out of the increased authorized capital stock, of 720.0 million preferred shares with a par value of ₱0.01 per share. Preferred share is voting, non-participating but with a fixed cumulative dividend rate of seven percent (7%) per annum.
c. Reduction of the par value of all common stock from ₱1.00 to ₱0.50 per share to effectuate a two-for-one stock split of its shares. The split will result to an additional 412.32 million common shares of stock outstanding.
d. Declaration of stock dividends amounting to ₱75.0 million to existing stockholders of record as at June 15, 2010 to support the increase in its authorized capital stock. On the same date, the stock dividend declaration was approved by the Parent Company's stockholders. The stock dividends correspond to 150.0 million common shares at the issue price equivalent to the reduced par value of ₱0.50 per share.

Issued Capital Stock
The IPO of the Company's shares with an offer price of ₱15.00 per share resulted to the issuance of 217,183,818 common shares and reissuance of 132,991,182 shares held in treasury (see Note 1).

In October 2010, shares were issued to Sumitomo Metal Mining Philipine Holdings Corporation (SMMPHC), Nickel Asia Holdings, Inc. (NAHI) and the President of the Parent Company pursuant to the Subscription Agreements entered into on September 24, 2010 whereby:

- SMMPHC subscribed to 13,169,982 common shares of the Parent Company for a consideration of ₱206.8 million.
- The President subscribed to 1,855,000 common shares of the Parent Company for a consideration of ₱26.9 million.
- NAHI subscribed to 720,000,000 preferred shares of the Parent Company for a consideration of ₱7.2 million.

In April 2009, pursuant to the Plan of Merger as discussed in Note 1 to the consolidated financial statements, the Company issued capital stock amounting to 385.0 million, divided into 385.0 million common shares with ₱1.0 par value, in exchange for the total net assets of NAC amounting to ₱3,858.9 million. This transaction resulted to the payment of the outstanding unpaid subscription of the Company amounting to ₱16.7 million and additional paid-in capital of ₱2,987.8 million.

Dividends
On October 25, 2011, the Parent Company's BOD declared a special cash dividends amounting to ₱170.9 million, equivalent to ₱0.15 per share to stockholders of record as at November 11, 2011 which were paid on December 8, 2011.

On March 25, 2011, the Parent Company's BOD declared cash dividends amounting to ₱468.9 million, equivalent to ₱0.35 per share to stockholders of record as at April 11, 2011. The dividends were paid on May 9, 2011.

On August 13, 2010, the Parent Company's BOD declared cash dividends amounting to US$70.0 million, equivalent to ₱3,076.5 million or ₱3.16 per share to stockholders of record as at August 31, 2010. The dividends were paid on November 25, 2010.

On January 23, 2009, the Parent Company's BOD declared cash dividends amounting to ₱142.2 million, equivalent to ₱0.35 per share to stockholders of record as at January 1, 2009. The dividends were paid on February 1, 2009.

Treasury Shares
As at December 31, 2009, the Parent Company held 133.0 million shares with total cost of ₱1,822.0 million which were reissued as part of the shares sold through IPO in 2010 (see Note 1).

As at December 31, 2011 and 2010, the Parent Company has 28 stockholders and 13 stockholders, respectively.

## 18. Executive Stock Option Plan (ESOP)

On June 16, 2010, the BOD and stockholders of the Parent Company approved the ESOP (the Plan). On December 20, 2010, the Plan was approved by the SEC.

The basic terms and conditions of the ESOP are:

1. The ESOP covers up to 12.0 million shares allocated to Parent Company's officers and the officers of the subsidiaries.
2. The eligible participants are the directors and officers of the Parent Company and its subsidiaries, specifically those with a position of Assistant Vice President and higher, including the Resident Mine Managers of the subsidiaries.
3. The exercise price is ₱13.50.
4. The grant date of the Plan is January 3, 2011 as determined by the Stock Option Committee.
5. The term of the Plan shall be six (6) years and the shares will vest to the participant at the rate of twenty five percent (25%) per year after the first year of the Plan or December 21, 2011.
6. The participant can exercise the vested options by giving notice within the term of the Plan, and can opt to either purchase the shares at the exercise price or request the Parent Company to advance the purchase price and to sell the shares in which case the participant will receive the sales proceeds less the exercise price.

The stock option agreement was made and executed on January 31, 2011 between the Parent Company and the option grantees.

The fair value of the stock options was estimated as at grant date, January 3, 2011, using the Black Scholes-Merton model, taking into account the terms and conditions upon which the options were granted.

The following assumptions were used to determine the fair value of the stock options at effective grant date:

| | |
|---|---|
| Grant Date | January 3, 2011 |
| Spot price per share | ₱15.0 |
| Exercise price | ₱13.5 |
| Expected volatility | 60.34% |
| Option life | 3.967 years |
| Dividend yield | 2.06% |
| Risk-free rate | 4.50% |

The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

Cost of share-based payments in 2011 and 2010 amounted to ₱63.2 million and ₱1.1 million, respectively (see Note 25). There have been no cancellations or modifications to the ESOP during 2011 or 2010.

In March 2012, several executive officers exercised their option under the ESOP totaling 798,157 shares at an exercise price of ₱13.50.

## 19. Basic Earnings Per Share

Basic earnings per common share were computed as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| a. Net income attributable to equity holders of the parent | **₱3,536,474** | ₱1,546,889 | ₱302,887 |
| b. Weighted average number of common shares issued and outstanding (in thousands) | **1,339,832** | 1,036,751 | 974,852 |
| Earnings per common share (a/b) | **₱2.64** | ₱1.49 | ₱0.31 |

The option to purchase the Parent Company's 12.0 million common shares was excluded from the computation of diluted earnings per share because the effect was antidilutive.

There have been no other transactions involving ordinary shares or potential ordinary shares between the financial reporting period and the date of completion of these consolidated financial statements.

## 20. Cost of Sales

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Production overhead | **₱1,594,701** | ₱1,060,868 | ₱952,624 |
| Outside services | **931,168** | 767,094 | 224,553 |
| Personnel costs (see Note 25) | **626,309** | 521,126 | 403,194 |
| Depreciation and depletion (see Note 26) | **423,621** | 389,699 | 337,962 |
| Long-term stockpile inventory (see Note 12) | **143,184** | 162,201 | 182,846 |
| | **3,718,983** | 2,900,988 | 2,101,179 |
| Net changes in beneficiated nickel ore and limestone ore | **(369,293)** | 161,040 | 415,110 |
| | **₱3,349,690** | ₱3,062,028 | ₱2,516,289 |

Outside services pertain to services offered by the contractors related to the mining activities of the Group. These services include, but are not limited to, hauling, stevedoring, janitorial, maintenance, security and blasting equipment rental.

## 21. Cost of Services

| | **2011** | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Overhead | **₱61,625** | ₱57,234 | ₱86,396 |
| Depreciation and depletion (see Note 26) | **51,392** | 17,711 | 14,286 |
| Outside services | **41,103** | 36,211 | 101,018 |
| Personnel costs (see Note 25) | **35,654** | 32,880 | 39,199 |
| | **₱189,774** | ₱144,036 | ₱240,899 |

## 22. Shipping and Loading Costs

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Contract fees | **₱817,276** | ₱511,379 | ₱315,944 |
| Supplies and fuel, oil and lubricants | **226,801** | 108,314 | 112,833 |
| Personnel costs (see Note 25) | **73,597** | 54,056 | 43,860 |
| Depreciation and depletion (see Note 26) | **66,453** | 49,145 | 34,136 |
| Other services and fees | **160,607** | 132,556 | 45,190 |
| | **₱1,344,734** | ₱855,450 | ₱551,963 |

## 23. Excise Taxes and Royalties

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Royalties (see Note 36e) | **₱491,656** | ₱361,722 | ₱202,233 |
| Excise taxes (see Note 36e) | **244,606** | 161,486 | 86,664 |
| | **₱736,262** | ₱523,208 | ₱288,897 |

## 24. **General and Administrative Expenses**

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Personnel costs (see Note 25) | **₱279,055** | ₱220,385 | ₱145,826 |
| Depreciation (see Note 26) | **139,161** | 55,040 | 32,903 |
| Outside services | **47,437** | 61,746 | 72,307 |
| Taxes and licenses | **32,398** | 21,125 | 64,061 |
| Guarantee fee (see Notes 31b and 36e) | **26,636** | 2,241 | 3,146 |
| Transportation and travel | **20,260** | 16,781 | 12,252 |
| Entertainment, amusement and recreation | **15,008** | 22,495 | 15,669 |
| Communications, light and water | **10,902** | 11,159 | 14,210 |
| Repairs and maintenance | **8,417** | 3,187 | 4,453 |
| Community relations | **5,569** | 17,736 | 48,064 |
| Others | **82,196** | 43,837 | 43,304 |
| | **₱667,039** | ₱475,732 | ₱456,195 |

## 25. **Personnel Costs**

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Salaries, wages and employee benefits | **₱879,688** | ₱779,060 | ₱598,575 |
| Pension cost (see Note 32) | **71,720** | 51,390 | 36,503 |
| Cost of share-based payment plan (see Note 18) | **63,207** | 1,101 | – |
| | **₱1,014,615** | ₱831,551 | ₱635,078 |

The amounts of personnel costs are distributed as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Cost of sales (see Note 20) | **₱626,309** | ₱521,126 | ₱403,194 |
| General and administrative (see Note 24) | **279,055** | 220,385 | 145,826 |
| Shipping and loading costs (see Note 22) | **73,597** | 54,056 | 43,860 |
| Cost of services (see Note 21) | **35,654** | 32,880 | 39,199 |
| Others | **–** | 3,104 | 2,999 |
| | **₱1,014,615** | ₱831,551 | ₱635,078 |

## 26. **Depreciation and Depletion**

| | **2011** | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Property and equipment (see Note 9) | **₱724,613** | ₱553,931 | ₱461,176 |
| Investment property (see Note 10) | **9,208** | 9,208 | 9,208 |
| | **₱733,821** | ₱563,139 | ₱470,384 |

The amounts of depreciation and depletion expense are distributed as follows:

| | 2011 | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Cost of sales (see Note 20) | **₱423,621** | ₱389,699 | ₱337,962 |
| General and administrative (see Note 24) | **139,161** | 55,040 | 32,903 |
| Shipping and loading costs (see Note 22) | **66,453** | 49,145 | 34,136 |
| Cost of services (see Note 21) | **51,392** | 17,711 | 14,286 |
| Others | **53,194** | 51,544 | 51,097 |
| | **₱733,821** | ₱563,139 | ₱470,384 |

27. **Finance Income**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest income (see Notes 4 and 7) | **₱208,440** | ₱128,758 | ₱162,052 |
| Gain on: | | | |
| Changes in fair value of financial assets at FVPL | – | 2,010 | 52,865 |
| Change in provision for mine rehabilitation and decommissioning estimates (see Note 16) | – | – | 15,377 |
| | **₱208,440** | ₱130,768 | ₱230,294 |

28. **Finance Expense**

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest expense (see Note 15) | **₱34,949** | ₱10,865 | ₱20,762 |
| Loss on: | | | |
| Transfer from equity to profit or loss of AFS financial assets (see Note 7) | **18,316** | 9,520 | 1,191 |
| Derivative transactions - net (see Note 36) | – | 46,987 | 78,748 |
| Write-off of trade receivables | – | – | 12,489 |
| Accretion interest on mine rehabilitation and decommissioning (see Note 16) | **7,862** | 9,217 | 7,621 |
| Provision for impairment losses on trade and other receivables - net (see Note 5) | **3,962** | 4,651 | 40,818 |
| | **₱65,089** | ₱81,240 | ₱161,629 |

29. **Other Income (Charges)** - net

| | **2011** | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Dividend income (see Note 7) | **₱436,369** | ₱120,246 | ₱1,028 |
| Gain (loss) on: | | | |
| Long-term stock pile inventory write-up (see Note 12) | **573,090** | – | – |
| Casualty (see Notes 6 and 9) | **(239,459)** | – | – |
| Sale of property and equipment | **(2,896)** | – | (719) |
| Reversal of long-outstanding payable | **–** | 74,071 | – |
| Bargain purchase (see Note 30) | **–** | 80,716 | – |
| Equity in net losses of an associate (see Note 11) | **(196,185)** | (6,412) | – |
| Reversals of (provisions for): | | | |
| Impairment of deferred mine and exploration costs (see Note 13) | **(61,853)** | – | – |
| Impairment of advances to claimowners (see Note 13) | **(21,400)** | – | – |
| Inventory losses (see Note 6) | **(19,141)** | 56,330 | (841) |
| Input VAT (see Note 13) | **(914)** | – | – |
| Foreign exchange gains (losses) - net | **39,695** | (482,073) | (214,078) |
| Despatch income | **18,457** | 14,055 | 11,927 |
| Other services | **14,044** | 61,530 | 26,017 |
| Issuance of fuel, oil and lubricants | **12,804** | 6,796 | 32,087 |
| Special projects | **7,432** | 4,997 | 24,657 |
| Rentals and accommodations | **4,296** | 13,744 | 11,928 |
| Materials handling and issuance | **2,307** | 33,691 | 604 |
| Others - net | **33,476** | 15,904 | 36,015 |
| | **₱600,122** | (₱6,405) | (₱71,375) |

Breakdown of the foreign exchange gains (losses) - net follow:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Realized foreign exchange gains (losses) | **₱12,060** | (₱413,291) | ₱17,672 |
| Unrealized foreign exchange gains (losses) on: | | | |
| Cash and cash equivalents | **8,358** | (60,688) | (210,513) |
| Trade and other receivables | **11,126** | 5,016 | (11,095) |
| Financial assets at FVPL | **–** | – | (6,657) |
| AFS financial assets | **17,237** | (8,928) | (16,676) |
| Long-term debt | **(1,659)** | (3,420) | 10,259 |
| Other accounts | **(7,427)** | (762) | 2,932 |
| | **₱39,695** | (₱482,073) | (₱214,078) |

30. **Business Combination**

Acquisition of LCSLC
In April 2010, HMC acquired one hundred percent (100%) of the voting shares of LCSLC, a company registered in the Philippines, primarily engaged in the chartering out of Landing Craft Transport and providing complete marine services. HMC has acquired LCSLC to provide charter services for the Group's nickel operations.

The provisional fair values and carrying values of LCSLC's assets and liabilities at acquisition date are as follows:

| | Fair Values (As restated) | Carrying Values |
|---|---|---|
| **Assets** | | |
| Cash on hand and with banks | ₱50 | ₱50 |
| Trade and other receivables - net | 3,088 | 3,088 |
| Inventories | 629 | 629 |
| Other current assets | 15,516 | 15,516 |
| Property and equipment - net | 180,000 | 38,229 |
| Deferred tax assets | 4,938 | 4,938 |
| **Total Assets** | 204,221 | 62,450 |
| **Liabilities** | | |
| Trade and other payables | 45,974 | 45,974 |
| Deferred income tax liability | 42,531 | – |
| **Total Liabilities** | 88,505 | 45,974 |
| **Net Assets** | 115,716 | ₱16,476 |
| % acquired | 100% | |
| Share on fair value of LCSLC net assets | 115,716 | |
| Acquisition cost | 35,000 | |
| **Gain on bargain purchase** (see Note 29) | ₱80,716 | |

| | |
|---|---|
| Cash flow on acquisition: | |
| Net cash acquired with the subsidiary | ₱50 |
| Cash paid | (35,000) |
| Net cash outflow | (₱34,950) |

From acquisition date to December 31, 2010, LCSLC has contributed revenues and net income amounting to ₱38.7 million and ₱6.0 million, respectively, to the consolidated statement of income. If the combination had taken place at the beginning of the year, total revenue would have been ₱8,392.0 million and net income for the Group would have been ₱2,312.1 million.

The net assets recognized in the consolidated financial statements were based on a provisional assessment of fair value as the Group had sought an independent valuation for the property and equipment owned by LCSLC. The complete results of this valuation were received in 2011 and showed that the fair value at the date of acquisition of LCSLC's assets were ₱204.2 million, an increase of ₱100.0 million compared with the provisional value. As a result, there was an increase in the deferred tax liability of ₱30.0 million resulting to a corresponding increase in the gain on bargain purchase of ₱70.0 million, to give total gain on bargain purchase arising on the acquisition of ₱80.7 million. This also resulted to a net restatement of the Group's retained earnings in the amount of ₱68.0 million, taking into account the impact of depreciation expense and deferred income tax liabilities had the gain on bargain purchase been recognized as at acquisition date.

Acquisition of Cordillera Exploration Co. (CEXCI)
In August 2010, the Parent Company entered into a Share and Asset Purchase Agreement (the Agreement) with Anglo American Exploration (Philippines) BV (AAEPB) and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Parent Company agreed to buy AAEPB's direct and indirect rights, interest and obligations in CEXCI, a company incorporated in the Philippines to primarily engage in the business of large-scale exploration, development and utilization of mineral resources.

On November 15, 2010, the Parent Company, AAEPB and AAEPI executed deeds of sale of shares and assets to complete the purchase. As a result of the purchase, the Parent Company acquired 128,000 common shares of CEXCI representing one hundred percent (100%) of its outstanding shares for a total consideration of $750,000 (₱32.2 million) recognized as mining rights for the deferred mine exploration costs of CEXCI with the provisional fair value of nil and a carrying value of ₱166.7 million as at November 15, 2010.

From acquisition date to the reporting period, CEXCI has contributed revenues and net loss amounting to nil and ₱0.3 million, respectively, to the consolidated statements of income. If the combination had taken place at the beginning of the year, total revenues would have been ₱8,336.0 million and net income for the Group would have been ₱2,324.7 million.

Merger with NAC
As discussed in Note 1 to the consolidated financial statements, the Parent Company merged with NAC effective March 15, 2009. The merger, a tax-free transaction, was accounted for using the pooling of interest method. As a result, all prior period consolidated financial statements presented have been restated to include the results of operations and financial position of both companies as if they had always been combined.

Acquisition of RTN
Prior to the merger in 2009, on August 4, 2006, NAC acquired forty percent (40%) of the voting shares of RTN held by one of the founding shareholders resulting in a controlling interest in RTN. NAC accounted for the purchase of RTN shares under the purchase method.

The acquisition resulted to the recognition of the long-term stock pile inventory amounting to ₱2,036.7 million. As at December 31, 2011 and 2010, the carrying value of the long-term stockpile inventory amounted to ₱1,357.7 million and ₱965.0 million, respectively (see Note 12).

The asset revaluation surplus transferred to retained earnings amounting to ₱0.4 million is net of income tax in 2011, 2010 and 2009.

## 31. **Related Party Transactions**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party 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 enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

Set out below are the Group's transactions with related parties in 2011, 2010 and 2009, including the corresponding assets and liabilities arising from the said transactions as at December 31, 2011 and 2010:

| Related Party | Relationship with Related Parties | | Sale of Ore | Sale of Services and Others |
|---|---|---|---|---|
| Pacific Metals Co., Ltd. (PAMCO) | Stockholder | **2011** | **₱1,998,651** | **₱63,202** |
| | | 2010 | ₱2,620,420 | ₱– |
| | | 2009 | ₱1,455,947 | ₱– |
| SMM | Stockholder | **2011** | **407,300** | – |
| | | 2010 | 58,130 | – |
| | | 2009 | – | – |
| CBNC | Affiliate | **2011** | **2,009,079** | **277,161** |
| | | 2010 | 1,762,077 | 210,581 |
| | | 2009 | 1,014,954 | 486,382 |
| **Totals** | | **2011** | **₱4,415,030** | **₱340,363** |
| Totals | | 2010 | ₱4,440,627 | ₱210,581 |
| Totals | | 2009 | ₱2,470,901 | ₱486,382 |

| Related Party | Relationship with Related Parties | | Trade and Other Receivables | Amounts Owed by Related Parties | Deferred Rent |
|---|---|---|---|---|---|
| PAMCO | Stockholder | **2011** | **₱83,147** | **₱75** | **₱–** |
| | | 2010 | ₱– | ₱– | ₱– |
| THNC | Associate | **2011** | **32,083** | **5,360** | **–** |
| | | 2010 | 3,104 | 2,871 | 83,799 |
| CBNC | Affiliate | **2011** | **360,888** | **–** | **–** |
| | | 2010 | 662,561 | – | – |
| **Totals** | | **2011** | **₱476,118** | **₱5,435** | **₱–** |
| Totals | | 2010 | ₱665,665 | ₱2,871 | ₱83,799 |

Terms and Conditions of Transactions with Related Parties
All sales and purchases from related parties are made at prevailing market prices. Outstanding balances as at December 31, 2011, 2010 and 2009 pertain to the extension and receipt of advances to and from related parties and these are unsecured, short-term, interest-free and settlement occurs in cash. Except for the guarantee on the CBNC Loan Obligations (see Note 36), there have been no guarantees received or provided for any related party receivables or payables, respectively. This assessment is undertaken each end of reporting period through the examination of the financial position of the related party and the market in which the related party operates.

a. Sales and Service Agreements

Nickel Ore Sale Agreements with PAMCO
HMC, CMC and TMC supply saprolite ore to PAMCO under renewable annual agreements. PAMCO is a stockholder of the Parent Company and TMC. All sales made to PAMCO are transacted at prevailing market prices. Under the terms of the agreement, the base price of the ore products for a specific shipment shall be based on London Metal Exchange. PAMCO shall pay the Group ninety percent (90%) of the provisional invoice amount upon receipt of the required documents and pay the final payment of each shipment after the final dry weight and applicable assay have been determined. Outstanding balances as at December 31, 2011 and 2010 are unsecured, interest-free and settlement occurs in cash. Receivable from PAMCO is included as part of trade receivables and is expected to be collected subsequently.

Nickel Ore Sale Agreement with PAMCO and Sojitz Corporation (Sojitz)
RTN supplies saprolite ore to PAMCO under a sale agreement, which shall continue to be valid and in effect until December 2012, wherein PAMCO appointed Sojitz as agent. PAMCO owns thirty-six percent (36%) and Sojitz owns four percent (4%) of the outstanding shares in the capital stock of RTN.

Nickel Ore Sale Agreement with SMM
RTN and CMC supply saprolite ore to SMM under renewable annual agreements. SMM has a 25.31% ownership interest in the Company.

Nickel Ore Supply Agreement with CBNC
RTN entered into an agreement with CBNC to supply all of the limonite ore requirements for the Coral Bay HPAL facility until the earlier of the cessation of operations of the facility and exhaustion of the limonite ore reserves at the Rio Tuba mine. RTN has also entered into an agreement with CBNC to supply limestone and provide ancillary services to the Coral Bay HPAL facility. CBNC is the owner of the Coral Bay HPAL facility. Receivable from CBNC is included as part of trade and other receivables and is expected to be collected subsequently.

Service Agreements with CBNC
RTN entered into various service agreements with CBNC pertaining to tailings dam construction, materials handling and others.

b. Stockholder Agreements

THNC Stockholder Agreement
On September 15, 2010, the Parent Company together with SMM and Mitsui agreed to make loans to THNC or guarantee the repayment of THNC loans obligation in accordance with the financial requirements of THNC in proportion to their existing shareholding ratio. The Parent Company owns twenty two point five percent (22.5%) of THNC's outstanding capital stock.

The guarantee fee amounting to ₱25.0 million in 2011 and nil in 2010 and 2009 is recorded as part of 'General and administrative expenses' in the consolidated statements of income (see Note 24).

CBNC Stockholder Agreement
On July 1, 2002, RTN together with the other stockholders of CBNC agreed to make loans to CBNC or guarantee the repayment of CBNC loans obligation in accordance with the financial requirements of CBNC in proportion to their shareholding ratio. RTN owns ten percent (10%) of CBNC's outstanding capital stock.

In a separate agreement dated October 22, 2002, SMM, which owns fifty-four percent (54%) of CBNC, has agreed to substitute for RTN's obligation to make loans to or guarantee the repayment of CBNC loans obligation. In consideration, RTN shall pay SMM an annual guarantee fee of one percent (1%) of the outstanding CBNC loans obligation (see Note 36f). The guarantee fee amounting to ₱1.7 million, ₱2.2 million and ₱3.1 million in 2011, 2010 and 2009, respectively, is recorded as part of 'General and administrative expenses' in the consolidated statements of income (see Note 24).

c. Other Agreements

Option Agreement with THNC
In December 2010, TMC and THNC entered into an Option Agreement wherein THNC signified its intention to use the parcels of land located within the mineral production sharing agreement (MPSA) area. The said parcels of lands will be used by THNC in connection with its project being constructed and located in the Taganito Special Economic Zone (TSEZ). The lease agreement is yet to be finalized and to reserve the exclusive right to use the parcels of land that will be subject of the lease, THNC shall pay a fee, the amount of which shall be determined by TMC, which shall constitute as an option fee to give THNC the irrevocable right to be the preferred lessee of the said parcels of land. The option fee will be considered as an advance rental which shall be deducted from the annual rental fees based on TMC's discretion, with proper and due notice given to THNC. Total option fee paid by THNC amounted to ₱84.2 million and ₱83.8 million classified under 'Deferred rent income' in the consolidated statements of financial position as at December 31, 2011 and 2010, respectively.

The Option Agreement shall terminate upon finalization of the lease agreement. As at December 31, 2011, the lease agreement has yet to be finalized.

Other Receivables from THNC
Other receivables from THNC amounting to ₱32.1 million and ₱3.1 million as at December 31, 2011 and 2010, respectively, included in 'Trade and other receivables' pertain to reimbursable costs and expenses advanced by the Company to the related party (see Note 5).

Funding Commitment with SMM
RTN's long-term debt was incurred to complete infrastructure projects to support the development of the Coral Bay HPAL facility. These projects included the causeway, trestles and dolphins in the Rio Tuba foreshore and offshore areas (see Note 15).

Funding Commitment with THNC
TMC's long-term debt was incurred for the infrastructure projects to support the development of the Taganito HPAL facility. These projects included the jetty, dolphins, rubber fender, jetty bollard and other pier facilities (see Note 15).

d. Compensation of Key Management Personnel

The Group considers as key management personnel all employees holding managerial positions up to the president. The short-term benefits of key management personnel of the Group in 2011, 2010 and 2009 amounted to about ₱144.7 million, ₱165.7 million and ₱93.7 million, respectively. The post-employment benefits of key management personnel of the Group amounted to ₱4.1 million, ₱1.3 million in 2010 and ₱2.9 million in 2011, 2010 and 2009, respectively.

## 32. Pension Costs

The Group has two (2) funded and two (2) unfunded, noncontributory defined benefit retirement plans covering substantially all of its employees.

The following tables summarize the components of net pension costs recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans:

Net Pension Costs (Note 25)

| **2011** | **RTN** | **TMC** | **CMC** | **HMC** | **Total** |
|---|---|---|---|---|---|
| **Current service cost** | **₱23,577** | **₱9,572** | **₱2,960** | **₱2,107** | **₱38,216** |
| **Interest cost** | **26,535** | **11,702** | **1,545** | **843** | **40,625** |
| **Past service cost** | **15,789** | **–** | **–** | **–** | **15,789** |
| **Expected return on plan assets** | **(20,845)** | **(4,200)** | **–** | **–** | **(25,045)** |
| **Actuarial losses** | **787** | **1,348** | **–** | **–** | **2,135** |
| **Expense recognized during the year** | **₱45,843** | **₱18,422** | **₱4,505** | **₱2,950** | **₱71,720** |

| 2010 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Current service cost | ₱15,696 | ₱6,461 | ₱2,769 | ₱1,855 | ₱26,781 |
| Interest cost | 29,638 | 8,107 | 1,990 | 1,039 | 40,774 |
| Past service cost | – | 960 | – | – | 960 |
| Expected return on plan assets | (13,339) | (4,063) | – | – | (17,403) |
| Actuarial losses (gains) | 449 | – | (437) | 266 | 278 |
| Expense recognized during the year | ₱32,444 | ₱11,465 | ₱4,322 | ₱3,160 | ₱51,390 |

| 2009 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Current service cost | ₱11,902 | ₱5,891 | ₱3,147 | ₱1,575 | ₱22,515 |
| Interest cost | 24,207 | 7,620 | 2,210 | 808 | 34,845 |
| Past service cost | – | 960 | – | – | 960 |
| Expected return on plan assets | (17,652) | (4,179) | – | – | (21,831) |
| Actuarial losses | – | 14 | – | – | 14 |
| Expense recognized during the year | ₱18,457 | ₱10,306 | ₱5,357 | ₱2,383 | ₱36,503 |

Pension Asset (included in Other noncurrent assets)

| | **2011** | 2010 |
|---|---|---|
| Fair value of plan assets | **₱320,181** | ₱302,904 |
| Present value of defined benefit obligation | **349,890** | (332,105) |
| Unfunded obligation | **(29,709)** | (29,201) |
| Unrecognized past service costs | **2,452** | – |
| Unrecognized actuarial gains | **31,130** | 48,951 |
| Net pension asset | **₱3,873** | ₱19,750 |

Pension Liability

| **2011** | **TMC** | **CMC** | **HMC** | **Total** |
|---|---|---|---|---|
| **Present value of obligation** | **₱153,775** | **₱20,615** | **₱10,847** | **₱185,235** |
| **Fair value of plan assets** | **57,879** | **–** | **–** | **57,879** |
| **Unfunded obligation** | **95,896** | **20,615** | **10,847** | **127,356** |
| **Unrecognized actuarial losses (gains)** | **54,111** | **(2,022)** | **335** | **52,424** |
| **Net pension liability** | **₱41,785** | **₱22,637** | **₱10,512** | **₱74,932** |

| 2010 | TMC | CMC | HMC | Total |
|---|---|---|---|---|
| Present value of obligation | ₱126,444 | ₱19,726 | ₱10,481 | ₱156,651 |
| Fair value of plan assets | (66,172) | – | – | (66,172) |
| Unfunded obligation | 60,272 | 19,726 | 10,481 | 90,479 |
| Unrecognized actuarial gains | (36,909) | (1,595) | (3,008) | (41,512) |
| Net pension liability | ₱23,363 | ₱18,131 | ₱7,473 | ₱48,967 |

Changes in the Present Value of Defined Benefit Obligation

| **2011** | **RTN** | **TMC** | **CMC** | **HMC** | **Total** |
|---|---|---|---|---|---|
| **Balances at January 1** | **₱332,105** | **₱126,444** | **₱19,726** | **₱10,481** | **₱488,757** |
| **Current service cost** | **23,577** | **9,572** | **2,960** | **2,107** | **38,216** |
| **Interest cost** | **26,535** | **11,702** | **1,545** | **843** | **40,625** |
| **Actuarial losses (gains)** | **(10,364)** | **18,395** | **–** | **(2,585)** | **5,446** |
| **Past service cost** | **18,241** | **–** | **–** | **–** | **18,241** |
| **Benefits paid** | **(40,204)** | **(12,338)** | **(3,616)** | **–** | **(56,158)** |
| **Balances at December 31** | **₱349,890** | **₱153,775** | **₱20,615** | **₱10,847** | **₱535,127** |

| 2010 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Balances at January 1 | ₱288,866 | ₱79,014 | ₱19,210 | ₱9,595 | ₱396,685 |
| Current service cost | 15,696 | 6,461 | 2,769 | 1,855 | 26,781 |
| Interest cost | 29,638 | 8,107 | 1,990 | 1,039 | 40,774 |
| Actuarial losses | 36,933 | – | 3,186 | 2,644 | 42,763 |
| Experience adjustments | – | 34,904 | – | – | 34,904 |
| Settlement or curtailment losses | – | – | 122 | 102 | 224 |
| Benefits paid | (39,028) | (2,042) | (7,551) | (4,754) | (53,375) |
| Balances at December 31 | ₱332,105 | ₱126,444 | ₱19,726 | ₱10,481 | ₱488,756 |

| 2009 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Balances at January 1 | ₱215,941 | ₱76,126 | ₱21,644 | ₱7,153 | ₱320,864 |
| Current service cost | 11,902 | 5,891 | 3,147 | 1,575 | 22,515 |
| Interest cost | 24,207 | 7,620 | 2,210 | 808 | 34,845 |
| Actuarial losses (gains) | 46,391 | (1,625) | (3,499) | 348 | 41,615 |
| Benefits paid | (9,575) | (8,998) | (4,292) | (289) | (23,154) |
| Balances at December 31 | ₱288,866 | ₱79,014 | ₱19,210 | ₱9,595 | ₱396,685 |

| 2008 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Balances at January 1 | ₱256,557 | ₱68,494 | ₱23,577 | ₱5,752 | ₱354,380 |
| Current service cost | 14,828 | 6,381 | 3,471 | 1,501 | 26,181 |
| Interest cost | 17,318 | 4,411 | 1,924 | 515 | 24,168 |
| Past service cost | – | 7,021 | – | – | 7,021 |
| Actuarial gains | (45,009) | – | (4,436) | (2,191) | (51,636) |
| Experience adjustments | – | (5,934) | (2,892) | 1,576 | (7,250) |
| Benefits paid | (27,753) | (4,247) | – | – | (32,000) |
| Balances at December 31 | ₱215,941 | ₱76,126 | ₱21,644 | ₱7,153 | ₱320,864 |

| 2007 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Balances at January 1 | ₱225,268 | ₱63,723 | ₱19,256 | ₱4,593 | ₱312,840 |
| Current service cost | 13,890 | 5,995 | 3,209 | 1,378 | 24,472 |
| Interest cost | 13,967 | 4,053 | 1,548 | 378 | 19,946 |
| Actuarial losses (gains) | 2,702 | (259) | (435) | (535) | 1,473 |
| Experience adjustments | 12,561 | (2,217) | (1) | (62) | 10,281 |
| Benefits paid | (11,831) | (2,801) | – | – | (14,632) |
| Balance at December 31 | ₱256,557 | ₱68,494 | ₱23,577 | ₱5,752 | ₱354,380 |

Changes in the Fair Value of Plan Assets

| **2011** | **RTN** | **TMC** | **Total** |
|---|---|---|---|
| **Balances at January 1** | **₱302,904** | **₱66,172** | **₱369,076** |
| **Contributions** | **29,967** | **–** | **29,967** |
| **Expected return on plan assets** | **20,845** | **4,200** | **25,045** |
| **Actuarial gains (losses)** | **6,669** | **(155)** | **6,514** |
| **Benefits paid** | **(40,204)** | **(12,338)** | **(52,542)** |
| **Balances at December 31** | **₱320,181** | **₱57,879** | **₱378,060** |
| **Actual return on plan assets** | **₱27,514** | **₱4,045** | **₱31,559** |

| 2010 | RTN | TMC | Total |
|---|---|---|---|
| Balances at January 1 | ₱268,520 | ₱55,071 | ₱323,591 |
| Contributions | 35,577 | 8,000 | 43,578 |
| Expected return on plan assets | 13,339 | 4,063 | 17,403 |
| Actuarial gains | 24,496 | 1,080 | 25,576 |
| Benefits paid | (39,028) | (2,042) | (41,070) |
| Balances at December 31 | ₱302,904 | ₱66,172 | ₱369,078 |
| Actual return on plan assets | ₱37,836 | ₱5,143 | ₱42,979 |

| 2009 | RTN | TMC | Total |
|---|---|---|---|
| Balances at January 1 | ₱211,702 | ₱56,735 | ₱268,437 |
| Contributions | 27,459 | – | 27,459 |
| Expected return on plan assets | 17,652 | 4,179 | 21,831 |
| Actuarial gains | 21,282 | 3,155 | 24,437 |
| Benefits paid | (9,575) | (8,998) | (18,573) |
| Balances at December 31 | ₱268,520 | ₱55,071 | ₱323,591 |
| Actual return on plan assets | ₱38,933 | ₱7,334 | ₱46,267 |

| 2008 | RTN | TMC | Total |
|---|---|---|---|
| Balances at January 1 | ₱250,823 | ₱59,883 | ₱310,706 |
| Expected return on plan assets | 24,287 | 4,043 | 28,330 |
| Actuarial losses | (35,655) | (2,944) | (38,599) |
| Benefits paid | (27,753) | (4,247) | (32,000) |
| Balances at December 31 | ₱211,702 | ₱56,735 | ₱268,437 |
| Actual return on plan assets | (₱11,369) | ₱1,099 | (₱10,270) |

| 2007 | RTN | TMC | Total |
|---|---|---|---|
| Balances at January 1 | ₱238,898 | ₱59,462 | ₱298,360 |
| Expected return on plan assets | 19,112 | 5,946 | 25,058 |
| Actuarial gains (losses) | 4,644 | (2,724) | 1,920 |
| Benefits paid | (11,831) | (2,801) | (14,632) |
| Balances at December 31 | ₱250,823 | ₱59,883 | ₱310,706 |
| Actual return on plan assets | ₱23,756 | ₱3,222 | ₱26,978 |

The main categories of plan assets as a percentage of the fair value of total plan assets follow:

| **2011** | **RTN** | **TMC** |
|---|---|---|
| **Fixed income securities** | **80.3%** | **52.90%** |
| **Investments in shares of stock** | **19.7%** | **29.30%** |
| **Others** | **–** | **17.80%** |
| | **100.00%** | **100.00%** |

| 2010 | RTN | TMC |
|---|---|---|
| Fixed income securities | 83.2% | 86.7% |
| Investments in shares of stock | 16.8% | 7.9% |
| Others | – | 5.4% |
| | 100.0% | 100.0% |

The overall expected rate of return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining the pension asset (liability) for the Group's plans are shown below:

| **2011** | **RTN** | **TMC** | **HMC** | **CMC** |
|---|---|---|---|---|
| **Discount rate** | **6.92%** | **7.57%** | **8.04%** | **6.00%** |
| **Expected rate of return** | **7.00%** | **7.00%** | **–** | **–** |
| **Salary increase rate** | **8.00%** | **10.00%** | **5.00%** | **5.00%** |

| 2010 | RTN | TMC | HMC | CMC |
|---|---|---|---|---|
| Discount rate | 8.0% | 10.3% | 10.8% | 7.8% |
| Expected rate of return | 7.0% | 7.0% | – | – |
| Salary increase rate | 10.0% | 10.0% | 10.0% | 8.0% |

| 2009 | RTN | TMC | HMC | CMC |
|---|---|---|---|---|
| Discount rate | 10.3% | 10.0% | 10.8% | 10.4% |
| Expected rate of return | 5.0% | 7.0% | – | – |
| Salary increase rate | 10.0% | 10.0% | 10.0% | 10.0% |

Amounts for the current annual and previous annual four periods are as follows:

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| **Plan assets** | **₱378,060** | ₱369,078 | ₱323,591 | ₱268,437 | ₱310,166 |
| **Defined benefit obligation** | **(535,127)** | (535,127) | (396,685) | (320,864) | (325,051) |
| **Net pension liability** | **(₱157,067)** | (₱166,049) | (₱73,094) | (₱52,427) | (₱14,885) |

The details of the plan per subsidiary level are as follows:

| **2011** | **RTN** | **TMC** | **CMC** | **HMC** | **Total** |
|---|---|---|---|---|---|
| **Plan assets** | **₱320,181** | **₱57,879** | **₱–** | **₱–** | **₱378,060** |
| **Defined benefit obligation** | **(349,890)** | **(153,775)** | **(20,615)** | **(10,847)** | **(535,127)** |
| **Net pension liability** | **(₱29,709)** | **(₱95,896)** | **(₱20,615)** | **(₱10,847)** | **(₱157,067)** |
| **Experience adjustments** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** |

| 2010 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Plan assets | ₱302,906 | ₱66,172 | ₱– | ₱– | ₱369,078 |
| Defined benefit obligation | (332,105) | (126,444) | (19,726) | (10,481) | (488,756) |
| Net pension liability | (₱29,199) | (₱60,272) | (₱19,726) | (₱10,481) | (₱119,678) |
| Experience adjustments | ₱– | ₱34,904 | ₱– | ₱– | ₱34,904 |

| 2009 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Plan assets | ₱268,520 | ₱55,071 | ₱– | ₱– | ₱323,591 |
| Defined benefit obligation | (288,866) | (79,014) | (19,210) | (9,595) | (396,685) |
| Net pension liability | (₱20,346) | (₱23,943) | (₱19,210) | (₱9,595) | (₱73,094) |

| 2008 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Plan assets | ₱211,702 | ₱56,735 | ₱– | ₱– | ₱268,437 |
| Defined benefit obligation | (215,941) | (76,126) | (21,644) | (7,153) | (320,864) |
| Net pension liability | (₱4,239) | (₱19,391) | (₱21,644) | (₱7,153) | (₱52,427) |
| Experience adjustments | ₱– | (₱5,934) | (₱2,892) | ₱1,576 | (₱7,250) |

| 2007 | RTN | TMC | CMC | HMC | Total |
|---|---|---|---|---|---|
| Plan assets | ₱250,823 | ₱59,883 | ₱– | ₱– | ₱310,706 |
| Defined benefit obligation | (256,557) | (68,494) | (23,577) | (5,752) | (354,380) |
| Net pension liability | (₱5,734) | (₱8,611) | (₱23,577) | (₱5,752) | (₱43,674) |
| Experience adjustments | ₱12,561 | (₱2,217) | (₱1) | (₱62) | ₱10,281 |

The Group does not expect additional contributions to its defined retirement benefit plans in 2012.

## 33. Income Taxes

The provision for current income tax shown in the consolidated statements of income include the Regular Corporate Income Tax (RCIT) of the companies as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| RTN | **₱852,466** | ₱632,640 | ₱215,868 |
| TMC | **408,179** | 309,676 | 111,045 |
| CMC | **185,053** | 111,830 | 28,585 |
| HMC | **170,455** | 90,965 | 31,848 |
| LCSLC | **3,258** | 3,441 | – |
| FEI | **368** | 12 | 6 |
| Parent Company | **–** | – | 4,242 |
| | **₱1,619,779** | ₱1,148,564 | ₱391,594 |

The reconciliation between the provisions for income tax computed at the statutory income tax rates and the provision for income tax as shown at the effective rates in the consolidated statements of income follow:

| | **2011** | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Income tax at statutory rates | **₱2,145,204** | ₱980,729 | ₱188,932 |
| Add (deduct) tax effects of: | | | |
| Benefit from availment of optional standard deduction (OSD) | **(376,534)** | – | – |
| Dividend income exempted from tax | **(130,911)** | (34,439) | – |
| Interest income subjected to final tax | **(50,651)** | (33,881) | (35,232) |
| Equity in net losses of an associate | **58,856** | 1,924 | – |
| Non-deductible expenses | **39,159** | 20,911 | 19,140 |
| Movements in deductible (taxable) temporary differences for which deferred income taxes were recognized | **–** | 11,535 | (35,592) |
| Pre-merger loss | **–** | – | 32,006 |
| Income tax at effective rates | **₱1,685,123** | ₱946,779 | ₱169,254 |

The components of the Group's net deferred income tax assets and liabilities follow:

| | 2011 | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Deferred income tax assets: | | | |
| Net operating loss carryover (NOLCO) | **₱214,882** | ₱188,184 | ₱– |
| Allowance for: | | | |
| Inventory losses | **118,528** | 112,777 | 129,675 |
| Impairment losses on trade and other receivables | **67,862** | 64,250 | 64,658 |
| Impairment losses on property and equipment and deferred mine exploration costs | **32,426** | 3,090 | 3,201 |
| Impairment of advances to claimowners | **6,420** | – | – |
| Costs of share-based payment plan | **27,561** | – | – |
| Unrealized foreign exchange losses (gains) -net | **(26,436)** | 14,058 | 56,305 |
| Pension liability | **22,480** | 13,788 | 15,098 |
| Provision for mine rehabilitation and decommissioning | **17,168** | 14,964 | 12,390 |
| Accrued SDMP costs | **13,385** | – | – |
| Deferred rent income | **4,208** | 4,190 | – |
| Valuation gain on AFS financial assets | **(1,327)** | (3,571) | (1,781) |
| Undepleted asset retirement obligation | **(10)** | (10) | (595) |
| Others | **(15,654)** | 2,294 | (5,901) |
| Total | **₱481,493** | ₱414,014 | ₱273,050 |

| | 2011 | 2010 (As restated, see Note 30) | 2009 |
|---|---|---|---|
| Deferred income tax liabilities: | | | |
| Long-term stockpile inventory | **₱461,479** | ₱332,507 | ₱381,123 |
| Asset revaluation surplus | **111,366** | 114,743 | 75,282 |
| Share in cumulative translation adjustments | **13,139** | 13,379 | – |
| Unrealized foreign exchange gains | **11,177** | 9,444 | 14,620 |
| Pension asset | **1,162** | 5,925 | 4,984 |
| Allowance for inventory losses | **(2,518)** | (2,518) | (2,518) |
| Unamortized past service costs | **(3,589)** | (3,035) | (569) |
| Provision for mine rehabilitation and decommissioning | **(742)** | (563) | (324) |
| Deferred income on sale of aircraft | **–** | – | 4,549 |
| Others | **135** | (44) | (44) |
| Total | **₱591,609** | ₱469,838 | ₱477,103 |

Republic Act No. 9337 was enacted into law effective November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code (NIRC) indicating the decrease in the corporate income tax rate from thirty five percent (35%) to thirty percent (30%), consequently, decreasing the non-deductible interest expense rate against interest income from forty two percent (42%) to thirty three percent (33%) effective January 1, 2009.

The Parent Company will not be subject to MCIT until 2012. The Parent Company, HMC and CMC did not avail of OSD in 2011 and 2010.

As at December 31, 2011 and 2010, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable as follows:

| Year Incurred | Year of Expiration | NOLCO |
|---|---|---|
| 2010 | 2013 | ₱627,281 |
| 2011 | 2014 | 88,993 |
| | | ₱716,274 |

Movement of NOLCO for the years ended December 31 follow:

| NOLCO | **2011** | 2010 |
|---|---|---|
| Balances at January 1 | **₱831,325** | ₱204,044 |
| Additions | **88,993** | 627,281 |
| Expirations | **(204,044)** | – |
| Balances at December 31 | **₱716,274** | ₱831,325 |

34. **Financial Risk Management Objectives and Policies**

The Group's main financial instruments are cash and cash equivalents, AFS financial assets and long-term debt. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has various other financial assets and liabilities such as trade and other receivables, cash held in escrow, MRF and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Except for those impaired trade and other receivables, the Group assessed the loans and receivables as collectible and in good standing.

Since the Group trades only with recognized third parties, there is no requirement for collateral.

*Credit Risk Exposure*
With respect to credit risk arising from cash and cash equivalents, trade and other receivables, AFS financial assets, cash held in escrow and MRF, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

*Aging Analysis of Financial Assets*
The aging analysis of the Group's financial assets as at December 31, 2011 and 2010 are summarized in the following tables:

| **2011** | **Neither Past Due Nor Impaired (High)** | **Past Due But Not Impaired (30-180 days)** | **Past Due and Individually Impaired** | **Total** |
|---|---|---|---|---|
| **Cash and cash equivalents:** | **₱10,347,778** | **₱–** | **₱–** | **₱10,347,778** |
| Cash with banks | 1,133,024 | – | – | 1,133,024 |
| Short-term cash investments | 9,214,754 | – | – | 9,214,754 |
| **Trade and other receivables:** | **738,167** | **418,126** | **226,207** | **1,382,500** |
| Trade | 253,469 | 259,257 | 223,125 | 735,851 |
| Receivable from CBNC | 204,117 | 156,771 | – | 360,888 |
| Amounts owed by related parties | 5,435 | – | – | 5,435 |
| Others | 275,146 | 2,098 | 3,082 | 280,326 |
| **AFS financial assets:** | **1,567,820** | **–** | **–** | **1,567,820** |
| Quoted equity securities | 381,458 | – | – | 381,458 |
| Quoted debt security | 331,977 | – | – | 331,977 |
| Unquoted equity securities | 854,385 | – | – | 854,385 |
| **Other noncurrent assets:** | **158,359** | **–** | **–** | **158,359** |
| Cash held in escrow | 125,598 | – | – | 125,598 |
| MRF | 32,761 | – | – | 32,761 |
| **Total** | **₱12,812,124** | **₱418,126** | **₱226,207** | **₱13,456,457** |

| 2010 | Neither Past Due Nor Impaired (High) | Past Due But Not Impaired (30-180 days) | Past Due and Individually Impaired | Total |
|---|---|---|---|---|
| Cash and cash equivalents: | ₱6,804,576 | ₱– | ₱– | ₱6,804,576 |
| Cash with banks | 1,846,096 | – | – | 1,846,096 |
| Short-term cash investments | 4,958,480 | – | – | 4,958,480 |
| Trade and other receivables: | 683,313 | 429,942 | 214,313 | 1,327,568 |
| Trade | 182,363 | 39,200 | 212,247 | 433,810 |
| Receivable from CBNC | 277,235 | 385,326 | – | 662,561 |
| Amounts owed by related parties | 2,871 | – | – | 2,871 |
| Others | 220,844 | 5,416 | 2,066 | 228,326 |
| AFS financial assets: | 1,377,137 | – | – | 1,377,137 |
| Quoted equity securities | 227,271 | – | – | 227,271 |
| Quoted debt security | 295,481 | – | – | 295,481 |
| Unquoted equity securities | 854,385 | – | – | 854,385 |
| Other noncurrent assets: | 329,765 | – | – | 329,765 |
| Cash held in escrow | 297,010 | – | – | 297,010 |
| MRF | 32,755 | – | – | 32,755 |
| Total | ₱9,194,791 | ₱429,942 | ₱214,313 | ₱9,839,046 |

*Credit Quality of Financial Assets*
The credit quality of financial assets is managed by the Group using credit ratings and is classified into three: High grade, which has no history of default; Standard grade, which pertains to accounts with history of one or two defaults; and Substandard grade, which pertains to accounts with history of at least three (3) payment defaults.

Accordingly, the Group has assessed the credit quality of the following financial assets classified as neither past due nor impaired:

- Cash and cash equivalents, cash held in escrow and MRF are placed in various foreign and local banks.  Material amounts are held by various foreign banks having a Standard and Poor's (S&P) credit rating of at least A.  The rest are held by local banks, as approved by the BOD, that have good reputation and low probability of insolvency.  Management assesses the quality of these assets as high grade.
- Trade receivables and receivable from CBNC pertain to receivables from customers which have good financial capacity and with which the Group has already established a long standing relationship.  Management assesses the quality of these assets as high grade.  Trade and other receivables not foreseen to be collected are classified as sub-standard grade.
- Amounts owed by related parties are advances that are due and demandable.  The related parties are operating firms capable of repaying the amount due.  Management assesses the quality of these assets as high grade.
- Management assesses the quality of other receivables as high grade since amounts pertain to receivables from customers which have good financial capacity and with whom the Group has already established a long outstanding relationship.  The other receivables also include amounts owed by officers and employees that are operational advances in nature.  These operational advances are collected subsequently.
- AFS financial assets in debt securities and equity securities are investments that can be traded and from companies with good financial capacity, making the investment secured and realizable.  Management assesses the quality of these assets as high grade.

*Credit Concentration Risk*
The Group has concentration of credit risk on structured notes, managed funds and investment in bonds since these are being managed by one foreign bank.  However, the risk is mitigated since the BOD selects foreign banks having an S&P credit rating of at least A to manage the Group's funds.

Liquidity Risk
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

The Group's objective is to maintain sufficient funding to finance its exploration and mining activities through internally generated funds and advances from related parties.  The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2011 and 2010 based on contractual undiscounted payments.

| **2011** | **On Demand** | **Less Than Three (3) Months** | **Three (3) to Twelve (12) Months** | **More Than One (1) Year** | **Total** |
|---|---|---|---|---|---|
| **Trade and other payables** | | | | | |
| **Trade** | **₱173,064** | **₱156,838** | **₱–** | **₱459** | **₱330,361** |
| **Accrued expenses** | **242,738** | **109,892** | **292,177** | **–** | **644,807** |
| **Others** | **27,671** | **30,259** | **–** | **153** | **58,083** |
| **Long-term debt** | **–** | **24,919** | **764,376** | **979,158** | **1,768,453** |
| | **₱443,473** | **₱321,908** | **₱1,056,553** | **₱979,770** | **₱2,801,704** |

| 2010 | On Demand | Less Than Three (3) Months | Three (3) to Twelve (12) Months | More Than One (1) Year | Total |
|---|---|---|---|---|---|
| Trade and other payables | | | | | |
| Trade | ₱37,654 | ₱185,763 | ₱459 | ₱– | ₱223,876 |
| Accrued expenses | 253,583 | 33,385 | 286,121 | – | 573,089 |
| Others | 1,907 | 16,665 | 3,389 | – | 21,961 |
| Long-term debt | – | 23,913 | 62,273 | 1,458,065 | 1,544,251 |
| | ₱293,144 | ₱259,726 | ₱352,242 | ₱1,458,065 | ₱2,363,177 |

The table below summarizes the maturity profile of the Group's financial assets used to manage liquidity risk of the Group as at December 31, 2011 and 2010.

| **2011** | **On Demand** | **Less Than Three (3) Months** | **Three (3) to Twelve (12) Months** | **More Than One (1) Year** | **Total** |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | | | | | |
| **Cash with banks** | **₱1,133,024** | **₱–** | **₱–** | **₱–** | **₱1,133,024** |
| **Short-term cash investments** | **9,235,821** | **–** | **–** | **–** | **9,235,821** |
| **Trade and other receivables** | | | | | |
| **Trade** | **273,795** | **152,330** | **86,601** | **223,125** | **735,851** |
| **Receivable from CBNC** | **204,117** | **85,063** | **71,708** | **–** | **360,888** |
| **Amounts owed by related parties** | **5,435** | **–** | **–** | **–** | **5,435** |
| **Others** | **275,817** | **968** | **459** | **3,082** | **280,326** |
| **AFS financial assets** | | | | | |
| **Quoted equity securities** | **381,458** | **–** | **–** | **–** | **381,458** |
| **Quoted debt security** | **331,977** | **–** | **–** | **–** | **331,977** |
| | **₱11,841,444** | **₱238,361** | **₱158,768** | **₱226,207** | **₱12,464,780** |

| 2010 | On Demand | Less Than Three (3) Months | Three (3) to Twelve (12) Months | More Than One (1) Year | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | | | | | |
| Cash with banks | ₱1,846,096 | ₱– | ₱– | ₱– | ₱1,846,096 |
| Short-term cash investments | 4,958,480 | – | – | – | 4,958,480 |
| Trade and other receivables | | | | | |
| Trade | 182,363 | 39,200 | – | 212,247 | 433,810 |
| Receivable from CBNC | 277,235 | 93,604 | 291,722 | – | 662,561 |
| Amounts owed by related parties | 2,871 | – | – | – | 2,871 |
| Others | 195,917 | 28,460 | 1,883 | 2,066 | 228,326 |
| AFS financial assets | | | | | |
| Quoted equity securities | 227,271 | – | – | – | 227,271 |
| Quoted debt security | 295,481 | – | – | – | 295,481 |
| Unquoted equity securities | 854,385 | – | – | – | 854,385 |
| | ₱8,840,099 | ₱161,264 | ₱293,605 | ₱214,313 | ₱9,509,281 |

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchanges rates, commodity prices, interest rates, equity prices and other market changes.

*Foreign Currency Risk*

The Group has transactional currency exposures. Such exposure arises from cash and cash equivalents, AFS financial assets and sales of beneficiated nickel ore in US$. For its foreign currency-denominated trade receivables, the Group ensures timely follow-up and collection to mitigate the impact of foreign exchange fluctuations.

To mitigate the effects of foreign currency risk, the Group will seek to accelerate the collection of foreign currency-denominated receivables and the settlement of foreign currency-denominated payables, whenever practicable. Also, foreign exchange movements are monitored on a daily basis.

The Group's foreign currency-denominated financial assets and liabilities and their Philippine peso equivalents as at December 31, 2011 and 2010 are as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **US$ Amount** | **Peso Equivalent** | US$ Amount | Peso Equivalent |
| Financial assets: | | | | |
| Cash and cash equivalents | **$81,209** | **₱3,573,620** | $91,378 | ₱4,006,012 |
| Trade and other receivables | **20,780** | **910,987** | 16,609 | 728,139 |
| AFS financial assets - quoted debt security | **18,032** | **790,523** | 21,993 | 964,173 |
| | **$120,021** | **₱5,275,130** | $129,980 | ₱5,698,324 |
| Financial liabilities: | | | | |
| Trade and other payables | **$906** | **₱39,743** | $1,239 | ₱54,318 |
| Long-term debt | **40,339** | **1,768,453** | 35,225 | 1,544,264 |
| | **$41,245** | **₱1,808,196** | $36,464 | ₱1,598,582 |

The exchange rate used for conversion of US$1.00 to peso equivalent was ₱43.84 as at December 31, 2011 and 2010.

The sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Group's income (loss) before income tax as at December 31, 2011 and 2010 follow:

| Effect on income before income tax: | Change in exchange rates (in ₱) | Sensitivity of income (loss) before income tax |
|---|---|---|
| 2011 | **Appreciates by 0.75** | **(₱59,082)** |
| | **Depreciates by 0.70** | **55,143** |
| 2010 | Appreciates by 0.80 | (₱74,813) |
| | Depreciates by 0.95 | 88,840 |

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

*Interest Rate Risk*
The Group's exposure to the risk for changes in market interest rate relates to AFS quoted debt and floating-rate long-term debt.

Floating rate instruments expose the Group to cash flow interest rate risk, whereas, fixed interest rate instruments expose the Group to fair value risk. The Group regularly monitors the market interest rate movements and manages its interest rate risks by using a mix of fixed and variable rates.

The following tables set out the carrying amount, by maturity, of the Group's financial instrument that is exposed to cash flow interest rate risk:

| **2011** | **<1 year** | **1-5 years** | **>5 years** | **Total** |
|---|---|---|---|---|
| **Floating rate (LIBOR plus 2% spread) - long-term debt** | **₱124,545** | **₱588,548** | **₱1,055,360** | **₱1,768,453** |

| 2010 | <1 year | 1-5 years | >5 years | Total |
|---|---|---|---|---|
| Floating rate (LIBOR plus 2% spread) - long-term debt | ₱86,185 | ₱597,092 | ₱860,974 | ₱1,544,251 |

Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due. As at December 31, 2011 and 2010, the interest on the Group's long-term debt is repriced on a 180-day basis.

The sensitivity to a reasonably possible change in the interest rate (in basis points), with all other variables held constant, of the Group's income before income tax and equity as at December 31, 2011 and 2010 are as follows:

| | Change in interest rate (in basis points) | Sensitivity to income before income tax | Sensitivity to equity |
|---|---|---|---|
| **December 31, 2011** | | | |
| **Long-term debt** | **+100** | **(₱17,685)** | **₱–** |
| | **-100** | **17,685** | **–** |
| **AFS financial assets** | **+100** | **–** | **(17,892)** |
| | **-100** | **–** | **14,013** |
| December 31, 2010 | | | |
| Long-term debt | +100 | (₱14,716) | ₱– |
| | -100 | 14,716 | – |
| AFS financial assets | +100 | – | (14,431) |
| | -100 | – | 15,927 |

The impact on the Group's income before income tax is caused by changes in the interest of the floating-rate long-term debt, while the impact on the Group's equity is caused by the changes in the market value of AFS quoted debt due to interest rate movements. The impact on the Group's equity excludes the impact on transactions affecting the consolidated statements of income.

*Equity Price Risk*

Equity price risk is the risk to earnings or capital arising from changes in stock prices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS financial assets on various stocks of listed companies.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

The table below shows the sensitivity to a reasonably possible change in equity prices on AFS equity instruments as at December 31, 2011 and 2010, except equity-linked investments. The equity impact is arrived using the reasonably possible change of the relevant market indices and the specific adjusted beta of each stock the Group holds. Adjusted beta is the forecasted measure of the volatility of a security or a portfolio in comparison to the market as a whole.

| | Average change in market indices (in percentage) | Sensitivity to equity |
|---|---|---|
| **2011** | **19.65%** | **₱19,376** |
| | **-19.65%** | **(19,376)** |
| 2010 | 22.88% | ₱17,118 |
| | -22.88% | (17,118) |

The stocks of the AFS financial assets are traded in the following markets: HSI, LUXX, PSE and SPX.

Capital Management

The Group considers its equity as capital. Its primary objective in capital management is to maintain a strong credit rating in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2011 and 2010.

The Group monitors capital using the debt-to-equity ratio, which is total liabilities divided by equity. The Group's policy is to keep the debt-to-equity ratio to not more than 1:1. Total liabilities include trade and other payables, income tax payable, long-term debt, provision for mine rehabilitation and decommissioning, deferred tax liabilities - net and pension liability. Equity includes capital stock, additional paid-in capital, cost of share-based payment plan, share in cumulative translation adjustments, net valuation gains (losses) on AFS financial assets, asset revaluation surplus, retained earnings and non-controlling interests.

The table below shows the Group's debt-to-equity ratio as at December 31, 2011 and December 31, 2010.

| | **2011** | 2010 |
|---|---|---|
| Total liabilities (a) | **₱4,093,604** | ₱3,417,132 |
| Equity (b) | **22,292,809** | 18,143,568 |
| Debt-to-equity ratio (a/b) | **0.18:1** | 0.19:1 |

## 35. Financial Instruments

Fair Value Information and Categories of Financial Instruments

Set out below is a comparison by class of carrying amounts and fair values of all the Group's financial instruments that are carried in the consolidated financial statements.

| | Carrying Values | | Fair Values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| **FINANCIAL ASSETS** | | | | |
| ***Loans and Receivables*** | | | | |
| **Cash and cash equivalents:** | **₱10,350,592** | ₱6,805,968 | **₱10,350,592** | ₱6,805,968 |
| Cash on hand and with banks | 1,135,838 | 1,847,488 | 1,135,838 | 1,847,488 |
| Short-term cash investments | 9,214,754 | 4,958,480 | 9,214,754 | 4,958,480 |
| **Trade and other receivables:** | **1,156,293** | 1,113,255 | **1,156,293** | 1,113,255 |
| Trade | 512,726 | 221,563 | 512,726 | 221,563 |
| Receivable from CBNC | 360,888 | 662,561 | 360,888 | 662,561 |
| Amounts owed by related parties | 51,637 | 2,871 | 51,637 | 2,871 |
| Others | 231,042 | 226,260 | 231,042 | 226,260 |
| **Other noncurrent assets:** | **158,359** | 329,765 | **158,359** | 329,765 |
| Cash held in escrow | 125,598 | 297,010 | 125,598 | 297,010 |
| MRF | 32,761 | 32,755 | 32,761 | 32,755 |
| | **11,665,244** | 8,248,988 | **11,665,244** | 8,248,988 |

(Forward)

| | Carrying Values | | Fair Values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| ***AFS financial assets*** | | | | |
| Quoted equity securities | 381,458 | 227,271 | 381,458 | 227,271 |
| Quoted debt security | 331,977 | 295,481 | 331,977 | 295,481 |
| Unquoted equity securities | 854,385 | 854,385 | 854,385 | 854,385 |
| | **1,567,820** | 1,377,137 | **1,567,820** | 1,377,137 |
| | **₱13,233,064** | 9,626,125 | **₱13,233,064** | 9,626,125 |
| **FINANCIAL LIABILITIES** | | | | |
| ***Other Financial Liabilities*** | | | | |
| **Trade and other payables:** | **₱1,117,170** | ₱818,927 | **₱1,117,170** | ₱818,927 |
| Trade | 408,272 | 223,876 | 408,272 | 223,876 |
| Accrued expenses | 492,147 | 573,089 | 492,147 | 573,089 |
| Others | 216,751 | 21,962 | 216,751 | 21,962 |
| **Long-term debt** | **1,768,453** | 1,544,251 | **1,647,550** | 1,381,275 |
| | **₱2,885,623** | ₱2,363,178 | **₱2,764,720** | ₱2,200,202 |

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

*Cash and Cash Equivalents*
The carrying amount of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

*Trade and Other Receivables and Trade and Other Payables*
Similarly, the carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to the short-term nature of these accounts.

*Cash held in Escrow and MRF*
The carrying amount of cash held in escrow and MRF approximate their fair values since they are restricted cash with banks, which earns interest based on prevailing market rates repriced monthly.

*AFS Financial Assets*
The fair values were determined by reference to market bid quotes as at end of reporting period. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less impairment losses.

*Long-term Debt*
The fair values of long-term debt is based on the present value of future cash flows discounted using the current rates available for debt with the same maturity profile as at the end of reporting period ranging from two and 23/100 percent (2.23%) to two and 75/100 percent (2.75%) and two and 17/100 percent (2.17%) to two and 49/100 percent (2.49%) as at December 31, 2011 and 2010, respectively.

Fair Value Hierarchy of Financial Instruments
As at December 31, 2011 and 2010, the following table presents the level of hierarchy of the Company's AFS debt and equity instruments:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | Level 1 | Level 2 |
| **Financial Assets** | | | | |
| **AFS financial assets:** | | | | |
| Equity securities | **₱381,458** | **₱–** | ₱227,271 | ₱– |
| Debt security | **331,977** | **–** | 295,481 | – |
| | **₱713,435** | **₱–** | ₱522,752 | ₱– |

As at December 31, 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

36. **Significant Agreements**

a. Throughput Agreement with THNC
On October 4, 2010, TMC and THNC, a Philippine corporation, executed a Throughput Agreement wherein TMC will construct the pier facilities within the Taganito Special Economic Zone (TSEZ) pursuant to its role as Developer. The TSEZ is located within the Surigao Mineral Reservation, an area declared for mineral development pursuant to Proclamation 391, under the supervision of the Department of Environment and Natural Resources (DENR) that issued an "Order to Use Offshore Area" dated September 20, 2010 to TMC for the use of such portion of the Surigao Mineral Reservation for the construction of the pier facilities. In relation to this, THNC entered into a Registration Agreement with the Philippine Export Zone Authority (PEZA) to construct and operate a mineral processing plant within the TSEZ as an Ecozone Export Enterprise.

Under the agreement, TMC will make available the pier facilities and provide certain services to THNC in consideration for usage fees and service fees to be paid by the latter starting April 2011 until 2031, unless terminated earlier. The usage fee amounted to $1,360,000 for each semi-annual period to be paid on or before October 10 and April 10.

THNC also agrees to pay service fee that will be agreed upon by both parties which shall be billed on a monthly basis.

Prior to the commencement date, THNC may also request TMC to use any part of the constructed Pier Facilities, which is ready for use, upon payment of reasonable compensation which shall be mutually agreed by TMC and THNC.

b. Memorandum of Understanding (MOU)
On September 14, 2009, the Parent Company and TMC entered into a Memorandum of Understanding (MOU) with SMM. Pursuant to the terms thereof, the Parent Company and SMM will move ahead on a joint venture basis to build a nickel-cobalt processing plant using the HPAL technology to be located within the TMC's mine in Surigao del Norte, while TMC will supply low-grade nickel ore to the plant over the life of the project. The estimated project cost is $1.4 billion over a three-year construction period, which started in the last quarter of 2010. The plant will have an annual capacity of 51,000 dry metric tons of mixed nickel-cobalt

sulfide over an estimated 30-year project life. The MOU provides that the equity share of the Parent Company and SMM shall be 20%-25% and 75%-80%, respectively.

Following this agreement is the Taganito HPAL Stockholders Agreement entered into by the Parent Company, SMM and Mitsui and Co., Ltd. (Mitsui) on September 15, 2010 stating that the project will be undertaken by Taganito HPAL Nickel, a company that will be jointly owned by the Parent Company, SMM and Mitsui with equity interest of 22.5%, 62.5% and 15.0%, respectively. The said agreement contains the principal terms of an ore supply agreement to be entered into between THNC and TMC for the supply of limonite ore.

c. Participation and Shareholder's Agreement
In May 2011, NAC and SMM signed a Participation and Shareholders' Agreement containing terms of SMM's expected equity participation in CEXCI. Under the terms of the Agreement, SMM will invest $1.5 million in CEXCI for 25% equity. Once such funds have been exhausted, SMM has the option to invest $2.8 million for an additional 15% equity which would bring its total equity in CEXCI to 40%.

d. Sales Agreements

*Nickel Ore Sale Agreement with PAMCO and Sojitz* (see Note 31a)

*Nickel Ore Supply Agreement with CBNC* (see Note 31a)

*Nickel Ore Supply Agreements with Chinese customers*
HMC, CMC, RTN and TMC have ore supply agreements with a number of Chinese customers, each for a fixed tonnage at specific nickel grades and iron content. The fixed tonnage of ore is generally the volume of expected delivery within a few months. Sale of ore to Chinese customers amounted to ₱7.8 billion, ₱3.6 billion and ₱1.9 billion for the years ended December 31, 2011, 2010 and 2009, respectively.

e. Mining Agreements

*MPSA*

RTN
On June 4, 1998, the Philippine Government (the Government) approved the conversion of RTN's Mining Lease Contracts under the old mining regime into an MPSA with the Government pursuant to the Philippine Mining Act of 1995. The MPSA allows RTN to explore, develop and continue mining operations for nickel ore within the Contract Area covering 990 hectares in the Municipality of Bataraza, southern Palawan Island. Under RTN's Environmental Compliance Certificate (ECC), however, 144 hectares of the Contract Area are excluded from mining operations, being located within an area classified as "core zone" where mining is prohibited under current regulations of the Palawan Council for Sustainable Development (PCSD).

On April 28, 2005, RTN and the Government entered into a second MPSA covering 85 hectares in the Municipality of Bataraza, which allows RTN to mine limestone in Sitio Gotok. Limestone being mined by RTN pursuant to this second MPSA is being sold to CBNC and used at the Coral Bay HPAL plant.

Under both MPSAs, RTN pays a two percent (2%) excise tax on gross revenues as provided in the Philippine NIRC as the Government's share in its output. Both MPSAs are valid for twenty five (25) years from issuance and renewable for another term of not more than twenty-five (25) years at the option of RTN, with approval from the Government.

On June 20, 2003, RTN submitted an Application for MPSA covering previously approved Mining Lease Contracts over an area of 4,274 hectares within the Municipalities of Bataraza and Rizal. Most of the Contract Area is within the core zone and the Application is pending. On May 30, 2008, the PCSD issued a Resolution interposing no objections to the revision by the Municipality of Bataraza of its Environmentally Critical Areas Network map that, among others, seeks to reclassify the core zone within the Contract Area into a mineral development area. The reclassification was approved by the Municipal Development Council of the Municipality of Bataraza on November 18, 2009, and subsequently approved by the Provincial Board on January 5, 2010. The processing of the Application for MPSA by the Mines and Geosciences Bureau (MGB) is consequently under way.

<u>HMC</u>

*Tagana-an Nickel Project*

On July 25, 2007, the Government approved the conversion of HMC's Mining Lease Contract into an MPSA, which allows HMC to explore, develop and continue mining operations for nickel ore within the Contract Area covering 773.77 hectares in the Municipality of Tagana-an, Surigao del Norte. Under the MPSA, HMC pays the Government a two percent (2%) excise tax and a five percent (5%) royalty on gross revenues, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of HMC, with approval from the Government.

*Manicani Nickel Project*

On August 13, 1992, HMC and the Government entered into an MPSA, which allows HMC to explore, develop and mine nickel ore within the Contract Area covering 1,165 hectares in Manicani Island, Municipality of Guian, Eastern Samar. Under the MPSA, HMC shall pay the Government a two percent (2%) excise tax, a one percent (1%) royalty and ten percent (10%) of its net revenues, defined as gross revenues less all cost items that are deductible for income tax purposes. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of HMC, with approval from the Government.

On August 2, 2004, the Regional Panel of Arbitrators of the MGB recommended the cancellation of the MPSA as a result of allegations by third parties against the operations of HMC. On September 4, 2009, the Mines and Adjudication Board of the Department of Environment and Natural Resources issued a decision setting aside the decision of the Panel of Arbitrators. Hence, the MPSA remains in effect. HMC is currently not conducting mining operations in Manicani.

<u>TMC</u>

On July 28, 2008, the Government approved the conversion of TMC's Operating Lease Contract into an MPSA, which allows TMC to explore, develop and continue mining operations for nickel ore within the Contract Area covering 4,584.51 hectares in the Municipality of Claver, Surigao del Norte. On June 18, 2009, the MPSA was amended, increasing the Contract Area to 4,862.71 hectares.

Under the MPSA, TMC pays the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of TMC, with approval from the Government.

*Operating Agreements*

East Coast
On November 19, 2007, CMC entered into an Operating Agreement with East Coast, the holder of an MPSA with the Government issued on November 19, 1997 covering a Contract Area of 697.05 hectares in the Municipality of Cagdianao, Dinagat Islands. The Operating Agreement allows CMC to explore, develop and mine nickel ore and obliges it to comply with the terms of the MPSA.

Under the MPSA, CMC pays the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. Under the Operating Agreement, CMC also pays East Coast a royalty of seven percent (7%), net of withholding taxes.

The Operating Agreement expired on November 19, 2007 and was renewed for a period of ten (10) years. In consideration, East Coast was paid ₱100.0 million upon signing of the extension, and ₱100.0 million as advances against future royalties, repayable over a ten-year period at a rate of ₱10.0 million per year. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of East Coast, with approval from the Government.

A Mutual Rescission of the above Memorandum of Agreement was executed on March 12, 2012, wherein East Coast and CMC mutually agreed to terminate the MOA and to release each other from any and all responsibilities and liabilities thereunder. Accordingly, the Group provided allowance for impairment losses on the deferred exploration cost incurred in the project amounting to ₱61.4 million and advances to claimowners to East Coast of ₱21.4 million (see Note 13).

La Salle
On December 18, 2006, TMC entered into an Operating Agreement with La Salle, the holder of an Application for MPSA covering 6,824 hectares in the Municipality of Gigaquit, Surigao del Norte. The Operating Agreement allows TMC to explore, develop and mine nickel ore and limestone once the MPSA is approved, and obliges it to assist La Salle in obtaining the MPSA and to comply with the terms thereof once issued.

The Operating Agreement specifies a royalty to La Salle of five percent (5%) for nickel ore and ₱10.00 per metric ton for limestone. Upon signing of the Agreement, TMC made an advance of ₱1.0 million and ₱0.8 million on the second and third year, each repayable by deductions from future royalties at a rate of twenty five percent (25%) per year over a period of four (4) years. As at December 31, 2011, the MPSA remains pending.

Kepha
On February 14, 2007, TMC entered into an Operating Agreement with Kepha, the holder of an Application for MPSA covering 6,980.75 hectares in the Municipality of Claver, Surigao del Norte. The Operating Agreement allows TMC to explore, develop and mine nickel ore and limestone once the MPSA is approved, and obliges it to comply with the terms of the MPSA.

The Operating Agreement specifies a royalty to Kepha of five percent (5%) for nickel ore and ₱10.00 per metric ton for limestone. Upon signing of the Agreement, TMC made an advance of $1.0 million and ₱6.3 million, repayable by deductions from future royalties at a rate of ten percent (10%) per year over a period of ten (10) years.

On June 19, 2009, the MPSA was issued to Kepha. Under the terms thereof, upon the start of mining operations, TMC shall pay the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Kepha, with approval from the Government.

Ludgoron

On August 28, 2007, TMC entered into an Operating Agreement with Ludgoron, the holder of an MPSA with Government issued on July 27, 2007 covering a Contract Area of 3,248 hectares in the Municipality of Carrascal, Surigao del Sur. The Operating Agreement allows TMC to explore, develop and mine nickel ore and obliges it to comply with the terms of the MPSA.

Under the MPSA, upon the start of mining operations TMC shall pay the Government a two percent (2%) excise tax and a five percent (5%) royalty, as the Contract Area is within the Surigao Mineral Reservation. The MPSA is valid for twenty-five (25) years from issuance and renewable at the option of Ludgoron, with approval from the Government.

Under the Operating Agreement, TMC shall pay Ludgoron a royalty of five percent (5%). Upon signing of the Agreement, TMC made an advance of $1.0 million, repayable by deductions from future royalties at a rate of ten percent (10%) per year over a period of ten (10) years. In 2009, an additional advance against royalties amounting to ₱10.0 million was made in order to allow Ludgoron to settle a claims conflict.

BOA

CMC holds MPSA 241-2007-XIII-SMR - Norweah Metals and Minerals Company Inc. of the BOA exploration which was granted an MPSA on July 12, 2007 for a period of 25 years and renewable upon such terms and conditions as may be mutually agreed upon. The MPSA covers an area of 226.0235 hectares situated in Boa, Municipality of Cagdianao, Province of Dinagat Islands, Surigao del Norte.

A Memorandum of Agreement was executed on October 12, 2004 between Norweah and CMC for a term of ten (10) years from the approval of the MPSA, whereby Norweah granted CMC exclusive rights to explore, develop, exploit and operate the mineral property subject of the MPSA.

f. Loan Guarantee Service Fee

RTN

Under a loan guarantee service agreement dated October 22, 2002 between RTN and SMM, the latter agreed to satisfy RTN's CBNC loan obligations in consideration of the payment by RTN to SMM of an annual fee equal to one percent (1%) of the relevant outstanding amount.

The fee is payable every February 21 and August 20 of each year. In case of default, such loan guarantee service agreement will be terminated and RTN shall provide loans to CBNC or guarantee the repayment of CBNC's loans payable. Failure to provide such loans or guarantee shall be considered a default under the CBNC Stockholder Agreement.

The loan guarantee service fee amounted to ₱1.7 million, ₱2.2 million and ₱3.1 million in 2011, 2010 and 2009, respectively (see Note 24).

NAC
Under a loan guarantee service agreement dated December 9, 2011 between NAC and SMM, the latter agreed to satisfy TMC's THNC loan obligations in consideration of the payment by NAC to SMM of an annual fee equal to one percent (1%) of the relevant outstanding amount.

The fee is payable every February 21 and August 20 of each year. In case of default, such loan guarantee service agreement will be terminated and NAC shall provide loans to THNC or guarantee the repayment of THNC's loans payable. Failure to provide such loans or guarantee shall be considered a default under the Stockholder Agreement.

The loan guarantee service fee amounted to ₱24.9 million in 2011 (see Note 24).

g. Other Agreements

*Registration with PEZA*
On December 21, 2009, Presidential Proclamation No. 1966 was issued creating and establishing the 680-hectare area situated in Taganito, Municipality of Claver, Province of Surigao Del Norte to be known as TSEZ. TMC is a PEZA-registered operator/developer of the economic zone as per Certificate of Registration No. EZ 10-01. The certificate of registration was signed on January 7, 2010.

Pursuant to TMC's registration with PEZA as an economic zone developer/operator, TMC is entitled to certain incentives in accordance with the provisions of RA No. 7916, otherwise known as "the Special Economic Zone Act of 1995", as amended. The proposed nickel-cobalt processing plant using the HPAL technology will be located within the TMC's mine site in Surigao del Norte.

*BOI Certification*
In January 2011, TMC, RTN, HMC and CMC received BOI certifications pursuant to Revenue Memorandum Order No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with 100% Export Sales". The certifications are valid from January 1 to December 31, 2011 and renewable annually, unless sooner revoked by the BOI Governing Board.

*Lease Agreements*
HMC and CMC entered into operating lease contracts, generally with a one-year period, with tenants of its condominium properties owned by them.

On May 1, 2011, the Parent Company entered into an operating lease agreement, for the lease of its transportation equipment, for a period of one year renewable upon mutual agreement between the Parent Company and the lessee. Rent income amounted to ₱1.5 million in 2011.

*Lease Contract with the DENR*
TMC is a party to a lease contract dated April 10, 2003 with the DENR over a tract of foreshore land located at the Taganito mine comprising an area of approximately 12,000 square meters. The foreshore lease has a term of twenty five (25) years from the date of issue, unless terminated earlier. The DENR may renew the foreshore lease for another twenty five (25) years, at its option. In accordance with the foreshore lease, TMC constructed permanent improvements appropriate for the wharf to facilitate the barging of mine ore to customers'

vessels. Under the terms of the lease, if TMC uses or attempts to use the premises for other purposes, all rights and interests, including the improvements, will be forfeited in favor of the Government. Upon the termination of the lease or any extension, all improvements made by TMC will become the property of the Government.

*Joint Undertaking with National Commission on Indigenous Peoples (NCIP)*
On December 8, 2009, TMC and NCIP entered into a Joint Undertaking, which confirmed that a one percent (1%) royalty on annual gross revenues of TMC is payable to the Mamanwa Tribe pursuant to a Memorandum of Agreement dated July 18, 2006 between TMC, the NCIP and the Tribe and a Certificate of Ancestral Domain Title issued to the Tribe, within which area TMC's mining operation is located.

*Coral Bay HPAL Facility Expansion*
In January 2008, SMM announced that it was proceeding with an expansion of the Coral Bay HPAL facility from the current production capacity of 10,000 to 20,000 tons of contained nickel per year at an estimated total cost of US$308.0 million.

RTN participated in the expansion and its share of the cost of the expansion is US$30.8 million (based on RTN's current ownership of CBNC). On February 26, 2008, RTN paid US$9.2 million as partial consideration for its share in the Coral Bay HPAL facility expansion.

## 37. Events after the Reporting Period

*BOI Certification*
In January 2012, TMC, HMC and CMC received BOI certification pursuant to RMO No. 9-2000 entitled "Tax Treatment of Sales of Goods, Properties and Services made by VAT-registered Suppliers to BOI registered Manufacturers-Exporters with one hundred percent (100%) Export Sales". The certification is valid from January 1 to December 31, 2012 and renewable annually, unless sooner revoked by the BOI Governing Board.

*Executive Stock Option Plan*
In March 2012, several executive officers have exercised their option under the ESOP totaling 798,157 shares at an exercise price of ₱13.50.

*Dividends*
On March 28, 2012, the Parent Company's BOD declared cash dividends equivalent to ₱0.80 per share to stockholders of record as at April 16, 2012 payable on May 11, 2012.

On the same date, the Parent Company's BOD authorized and approved the declaration of fifty percent (50%) stock dividends to stockholders of record to be set by the SEC after the approval of the increase in authorized capital stock of the Parent Company by the SEC.

The Parent Company is currently in the process of obtaining approval from the SEC.

## 38. Supplemental Disclosure to Statement of Cash Flows

Noncash investing activities in 2010 pertain to the following:

| | |
|---|---|
| Disposal of property and equipment | ₱94,141 |
| Increase in trade and other receivables | (94,141) |

## 39. Business Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The mining segment is engaged in the mining and exploration of nickel saprolite and limonite ore.

The services segment is engaged in the chartering out of Landing Craft Transportation, construction and rendering of services to CBNC.

There are no inter-segment revenues and expenses for the year ended December 31, 2011, 2010 and 2009.

Financial information on the operation of the various business segments are as follows:

| | December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mining | | | | Services | | |
| | HMC | CMC | TMC | RTN | RTN/LCSLC | Others | Total |
| **Revenues (see Note 31)** | ₱1,790,727 | ₱1,723,666 | ₱2,751,941 | ₱5,963,944 | ₱344,593 | ₱119,835 | ₱12,694,706 |
| **Cost of sales** | 572,781 | 451,668 | 612,878 | 1,712,363 | – | – | 3,349,690 |
| **Cost of services** | – | – | – | – | 189,774 | – | 189,774 |
| **Shipping and loading costs** | 473,081 | 361,982 | 235,206 | 343,698 | – | (69,233) | 1,344,734 |
| **Excise taxes and royalties** | 125,351 | 271,477 | 220,155 | 119,279 | – | – | 736,262 |
| **Segment operating earnings** | ₱619,514 | ₱638,539 | ₱1,683,702 | ₱3,788,604 | ₱154,819 | ₱189,068 | ₱7,074,246 |
| **General and administrative** | ₱81,741 | ₱ 60,009 | ₱195,507 | ₱97,007 | ₱10,499 | ₱222,276 | ₱667,039 |
| **Provision for income tax** | ₱167,250 | ₱146,845 | ₱430,930 | ₱848,701 | ₱3,596 | ₱87,801 | ₱1,685,123 |
| **Net income (loss) attributable to equity holders of the parent** | ₱396,401 | ₱346,029 | ₱607,088 | ₱2,225,277 | ₱4,038 | (₱42,359) | ₱3,536,474 |
| **Segment assets** | ₱1,575,261 | ₱1,471,363 | ₱4,942,039 | ₱6,986,586 | ₱135,747 | ₱10,793,924 | ₱25,904,920 |
| **Deferred income tax assets - net** | 155,312 | 89,325 | 5,541 | – | 4,445 | 226,870 | 481,493 |
| **Total assets** | ₱1,730,573 | ₱1,560,688 | ₱4,947,580 | ₱6,986,586 | ₱140,192 | ₱11,020,794 | ₱26,386,413 |
| **Segment liabilities** | ₱320,667 | ₱353,637 | ₱1,915,730 | ₱925,650 | ₱112,471 | (₱125,620) | ₱3,502,535 |
| **Deferred income tax liabilities - net** | – | – | – | 5,444 | – | 585,625 | 591,069 |
| **Total liabilities** | ₱320,667 | ₱353,637 | ₱1,915,730 | ₱931,094 | ₱112,471 | ₱460,005 | ₱4,093,604 |
| **Capital expenditures** | ₱117,134 | ₱74,750 | ₱805,329 | ₱223,437 | ₱50,359 | ₱20,263 | ₱1,291,272 |
| **Depreciation and depletion** | ₱37,470 | ₱86,505 | ₱231,138 | ₱263,550 | ₱15,319 | ₱99,839 | ₱733,821 |

| | December 31, 2010 (As restated, see Note 30) | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mining | | | | Services | | |
| | HMC | CMC | TMC | RTN | RTN/LCSLC | Others | Total |
| Revenues (see Note 31) | ₱1,356,697 | ₱1,225,803 | ₱2,088,982 | ₱3,402,816 | ₱249,310 | ₱12,430 | ₱8,336,038 |
| Cost of sales | 442,783 | 529,749 | 630,246 | 1,459,250 | – | – | 3,062,028 |
| Cost of services | – | – | – | – | 144,036 | – | 144,036 |
| Shipping and loading costs | 470,730 | 119,096 | 140,007 | 125,617 | – | – | 855,450 |
| Excise taxes and royalties | 94,969 | 193,064 | 167,119 | 68,056 | – | – | 523,208 |
| Segment operating earnings | ₱348,215 | ₱383,894 | ₱1,151,610 | ₱1,749,893 | ₱105,274 | ₱12,430 | ₱3,751,316 |
| General and administrative | ₱17,274 | ₱41,668 | ₱102,779 | ₱91,221 | ₱4,601 | ₱218,189 | ₱475,732 |
| Provision for (benefit from) income tax | ₱103,060 | ₱115,319 | ₱298,715 | ₱570,468 | – | (₱140,783) | ₱946,779 |
| Net income (loss) attributable to equity holders of the parent | ₱278,299 | ₱284,953 | ₱462,192 | ₱797,547 | – | (₱276,102) | ₱1,546,889 |
| Segment assets | ₱249,426 | ₱1,112,504 | ₱4,088,682 | ₱5,816,936 | ₱– | ₱9,921,586 | ₱21,189,134 |
| Deferred income tax assets - net | 145,804 | 51,118 | 28,363 | – | – | 188,729 | 414,014 |
| Total assets | ₱395,230 | ₱1,163,622 | ₱4,117,045 | ₱5,816,936 | ₱– | ₱10,110,315 | ₱21,603,148 |
| Segment liabilities | ₱153,266 | ₱256,887 | ₱1,575,291 | ₱438,674 | ₱– | ₱565,624 | ₱2,989,742 |
| Deferred income tax liabilities - net | – | – | – | 427,391 | – | 42,447 | 469,838 |
| Total liabilities | ₱153,266 | ₱256,887 | ₱1,575,291 | ₱866,065 | ₱– | ₱608,071 | ₱3,459,580 |
| Capital expenditures | ₱67,158 | ₱26,144 | ₱1,351,777 | ₱333,714 | ₱12,327 | ₱367,433 | ₱2,158,553 |
| Depreciation and depletion | ₱24,778 | ₱108,748 | ₱135,502 | ₱268,526 | ₱6,432 | ₱19,153 | ₱563,139 |

| | December 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Mining | | | | Services and Others | | |
| | HMC | CMC | TMC | RTN | RTN | Others | Total |
| Revenues (see Note 31) | ₱1,212,494 | ₱575,436 | ₱1,041,437 | ₱1,503,840 | ₱343,435 | ₱10,084 | ₱4,686,726 |
| Cost of sales | 470,032 | 351,124 | 594,337 | 1,100,796 | – | – | 2,516,289 |
| Cost of services | – | – | – | – | 240,899 | – | 240,899 |
| Excise taxes and royalties | 84,874 | 90,631 | 83,315 | 30,077 | – | – | 288,897 |
| Shipping and loading costs | 324,758 | 79,634 | 85,802 | 61,769 | – | – | 551,963 |
| Segment operating earnings | ₱332,830 | ₱54,047 | ₱277,983 | ₱311,198 | ₱102,536 | ₱10,084 | ₱1,088,678 |
| General and administrative | ₱20,596 | ₱39,502 | ₱136,672 | ₱90,036 | ₱– | ₱169,389 | ₱456,195 |
| Provision for (benefit from) income tax | ₱63,620 | (₱13,508) | ₱40,746 | ₱123,286 | ₱– | (₱44,890) | ₱169,254 |
| Net income (loss) attributable to equity holders of the parent | ₱325,909 | (₱3,622) | ₱82,068 | ₱185,841 | ₱– | (₱287,309) | ₱302,887 |
| Segment assets | ₱312,233 | ₱1,392,021 | ₱2,962,765 | ₱4,021,149 | ₱– | ₱7,395,740 | ₱16,083,908 |
| Deferred income tax assets - net | 158,897 | 54,606 | 18,151 | – | – | 41,396 | 273,050 |
| Total assets | ₱471,130 | ₱1,446,627 | ₱2,980,916 | ₱4,021,149 | ₱– | ₱7,437,136 | ₱16,356,958 |
| Segment liabilities | ₱86,150 | ₱338,022 | ₱251,566 | ₱817,995 | ₱– | ₱109,267 | ₱1,603,000 |
| Deferred income tax liabilities - net | – | – | – | 477,057 | – | 46 | 477,103 |
| Total liabilities | ₱86,150 | ₱338,022 | ₱251,566 | ₱1,295,052 | ₱– | ₱109,313 | ₱2,080,103 |
| Capital expenditures | ₱10,117 | ₱19,142 | ₱71,762 | ₱135,888 | ₱– | ₱3,139 | ₱240,048 |
| Depreciation and depletion | ₱12,412 | ₱119,310 | ₱136,544 | ₱189,163 | ₱– | ₱12,955 | ₱470,384 |

The Group has revenues from external customers as follows:

| Country of Domicile | **2011** | 2010 | 2009 |
|---|---|---|---|
| China | **₱7,815,248** | ₱3,633,670 | ₱1,862,307 |
| Japan | **2,405,951** | 2,678,550 | 1,455,947 |
| Local | **2,473,507** | 2,023,818 | 1,368,472 |
| | **₱12,694,706** | ₱8,336,038 | ₱4,686,726 |

The revenue information above is based on the location of the customer.

Revenue from two customers amounted to ₱5,882.7 million, ₱4,766.9 million and ₱2,470.1 million in 2011, 2010 and 2009, respectively, arising from sale of ores.

The Group has non-current assets consisting of property and equipment and investment property located in the Parent Company's country of domicile amounting to ₱4,270.5 million and ₱3,910.5 million as at December 31, 2011 and 2010, respectively.

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

**INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Nickel Asia Corporation and Subsidiaries
6th Floor, NAC Centre
143 Dela Rosa Street, Legaspi Village
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Nickel Asia Corporation and Subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated March 28, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-2 (Group A),
March 18, 2010, valid until March 17, 2013
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 3174591, January 2, 2012, Makati City

March 28, 2012

# NICKEL ASIA CORPORATION
# RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
# PURSUANT TO SEC MEMORANDUM CIRCULAR NO.11
## DECEMBER 31, 2011

| | | | |
|---|---|---|---|
| **Retained earnings as at December 31, 2010,** ***as adjusted to available for dividend distribution*** | | | **₱4,422,158,156** |
| **Add: Net income actually earned/realized during the period** | | | |
| **Net income during the period closed to retained earnings** | | **1,325,744,778** | |
| Less: | Non-actual/unrealized income net of tax | | |
| | Equity in net income of associate/joint venture | – | |
| | Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents) | 10,123,574 | |
| | Unrealized actuarial gain | – | |
| | Fair value adjustment (mark-to-market gains) | – | |
| | Fair value adjustment of investment property resulting to gain | – | |
| | Recognized deferred tax asset that increased the net income | 37,259,617 | |
| | Adjustment due to deviation from PFRS/GAAP - gain | – | |
| | Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS | – | |
| Subtotal | | **47,383,191** | |
| Add: | Non-actual losses | | |
| | Depreciation on revaluation increment (after tax) | – | |
| | Unrealized actuarial loss | – | |
| | Adjustment due to deviation from PFRS/GAAP - loss | – | |
| | Loss on fair value adjustment of investment property (after tax) | – | |
| Subtotal | | | |
| **Net income actually earned during the period** | | | **1,278,361,587** |
| Add (less): | | | |
| | Dividend declarations during the period | (670,923,914) | |
| | Appropriations of retained earnings during the period | – | |
| | Reversals of appropriations | – | |
| | Effects of prior period adjustments | – | |
| | Treasury shares | – | |
| **Subtotal** | | | **(670,923,914)** |
| **Retained earnings as at December 31, 2011 available for dividend** | | | **₱5,029,595,829** |

**Schedule II**

# Nickel Asia Corporation and Subsidiaries
**Schedule of Effective Standards and Interpretations under the PFRS**
**Pursuant to SRC Rule 68, As Amended**
**December 31, 2011**

| Standards and interpretations under the PFRS | Adopted/ Not adopted/ Not applicable |
|---|---|
| PAS 1 Presentation of Financial Statements | Adopted |
| PAS 2 Inventories | Adopted |
| PAS 10 Events After the Reporting Period | Adopted |
| PAS 11 Construction Contracts | Not Applicable |
| PAS 12 Income Taxes | Adopted |
| PAS 16 Property, Plant and Equipment | Adopted |
| PAS 17 Leases | Adopted |
| PAS 18 Revenue | Adopted |
| PAS 19 Employee Benefits | Adopted |
| PAS 20 Accounting for Government Grants and Disclosure of Government Assistance | Not Applicable |
| PAS 21 The Effects of Changes in Foreign Exchange Rates | Adopted |
| PAS 23 Borrowing Costs | Adopted |
| PAS 24 Related Party Disclosures | Adopted |
| PAS 26 Accounting and Reporting by Retirement Benefit Plans | Not Applicable |
| PAS 27 Consolidated and Separate Financial Statements | Adopted |
| PAS 28 Investments in Associates | Adopted |
| PAS 29 Financial Reporting in Hyperinflationary Economies | Not Applicable |
| PAS 31 Interests In Joint Ventures | Not Applicable |
| PAS 32 Financial Instruments: Presentation | Adopted |
| PAS 33 Earnings Per Share | Adopted |
| PAS 34 Interim Financial Reporting | Adopted |
| PAS 36 Impairment of Assets | Adopted |
| PAS 37 Provisions, Contingent Liabilities and Contingent Assets | Adopted |
| PAS 38 Intangible Assets | Adopted |
| PAS 39 Financial Instruments: Recognition and Measurement | Adopted |
| PAS 40 Investment Property | Adopted |
| PAS 41 Agriculture | Not Applicable |
| PAS 7 Statement of Cash Flows | Adopted |
| PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors | Adopted |
| PFRS 1 First-time Adoption of International Financial Reporting Standards | Not Applicable |
| PFRS 2 Share-based Payment | Adopted |
| PFRS 3 Business Combinations | Adopted |
| PFRS 4 Insurance Contracts | Not Applicable |
| PFRS 5 Non-current Assets Held for Sale and Discontinued Operations | Not Applicable |
| PFRS 6 Exploration for and Evaluation of Mineral Assets | Adopted |

| Standards and interpretations under the PFRS | Adopted/ Not adopted/ Not applicable |
|---|---|
| PFRS 7 Financial Instruments: Disclosures | Adopted |
| PFRS 8 Operating Segments | Adopted |
| IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities | Adopted |
| IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments | Not applicable |
| IFRIC 4 Determining Whether an Arrangement Contains a Lease | Adopted |
| IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | Not Applicable |
| IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical | Not Applicable |
| IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies | Not applicable |
| IFRIC 9 Reassessment of Embedded Derivatives | Not Applicable |
| IFRIC 10 Interim Financial Reporting and Impairment | Adopted |
| IFRIC 12 Service Concession Arrangements | Not Applicable |
| IFRIC 13 Customer Loyalty Programmes | Not Applicable |
| IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | Not applicable |
| IFRIC 15 Agreements for the Construction of Real Estate | Not applicable |
| IFRIC 16 Hedges of a Net Investment in a Foreign Operation | Not applicable |
| IFRIC 17 Distributions of Non-cash Assets to Owners | Not applicable |
| IFRIC 18 Transfers of Assets from Customers | Not applicable |
| IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments | Not applicable |
| SIC 7 Introduction of the Euro | Not Applicable |
| SIC 10 Government Assistance | Not applicable |
| SIC 12 Consolidation – Special Purpose Entities | Not applicable |
| SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers | Not applicable |
| SIC 15 Operating Leases – Incentives | Not applicable |
| SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets | Not applicable |
| SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders | Not Applicable |
| SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease | Not Applicable |
| SIC 29 Disclosure – Service Concession Arrangements | Not Applicable |
| SIC 31 Revenue – Barter Transactions Involving Advertising Services | Not Applicable |
| SIC 32 Intangible Assets – Web Site Costs | Not applicable |
| PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts | Not applicable |
| PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements | Not applicable |
| PIC Q&A No. 2007-03: PAS 40.27 – Valuation of bank real and other properties acquired (ROPA) | Not applicable |
| PIC Q&A No. 2008-01 (Revised): PAS 19.78 – Rate used in discounting post-employment benefit obligations | Adopted |
| PIC Q&A No. 2008-02: PAS 20.43 – Accounting for government loans with low interest rates under the amendments to PAS 20 | Not applicable |
| PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 – Financial statements prepared on a basis other than going concern | Not applicable |
| PIC Q&A No. 2010-01: PAS 39.AG71-72 – Rate used in determining the fair value of government securities in the Philippines | Not applicable |
| PIC Q&A No. 2010-02: PAS 1R.16 – Basis of preparation of financial statements | Adopted |
| PIC Q&A No. 2011-01: PAS 1.10(f) – Requirements for a Third Statement of Financial Position | Not applicable |
| PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 – Revenue recognition for sales of property units under pre-completion contracts | Not applicable |
| PIC Q&A No. 2006-02: PAS 27.10(d) – Clarification of criteria for exemption from presenting consolidated financial statements | Not applicable |

**Important:** If an entity has early adopted any of the following pronouncements, please take note of the: (1) additional disclosures the entity has to make for the early adoption of the said pronouncements and (2) the existing pronouncements that the entity may have to mark as "Not applicable":

| Pronouncements issued but not yet effective | Applicable to annual period beginning on or after | Early application allowed | Remarks |
|---|---|---|---|
| Amendments to PFRS 7: Disclosures—Transfers of Financial Assets | July 1, 2011 | Yes | |
| Amendments to PFRS 7: Disclosures—Offsetting Financial Assets and Financial Liabilities | January 1, 2013 | Not mentioned | |
| PFRS 9, Financial Instruments | January 1, 2015 | Yes | PFRS 9 was first adopted by FRSC in March 2010, which introduces new requirements on the classification and measurement of financial assets [PFRS 9 (2009)]. Subsequently in November 2010, the FRSC adopted the requirements on the classification and measurement of financial liabilities, which were then added to the previously adopted PFRS 9 [PFRS 9 (2010)]. Need to mark IFRIC–9 as "Not applicable" if the entity will early adopt PFRS 9 (2010). |
| PFRS 10, Consolidated Financial Statements | January 1, 2013 | Yes | Early application allowed provided that the entity will also early adopt PFRS 11, PFRS 12, PAS 27 (Revised) and PAS 28 (Revised) at the same time. Need to mark the existing PAS 27, PAS 28, PAS 31, SIC–12 and SIC–13 as "Not applicable". |
| PFRS 11, Joint Arrangements | January 1, 2013 | Yes | Early application allowed provided that the entity will also early adopt PFRS 10, PFRS 12, PAS 27 (Revised) and PAS 28 (Revised) at the same time. Need to mark the existing PAS 27, PAS 28, PAS 31, SIC–12 and SIC–13 as "Not applicable". |
| PFRS 12, Disclosure of Interests in Other Entities | January 1, 2013 | Yes | |
| PFRS 13, Fair Value Measurement | January 1, 2013 | Yes | |

| Pronouncements issued but not yet effective | Applicable to annual period beginning on or after | Early application allowed | Remarks |
|---|---|---|---|
| Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | July 1, 2012 | Yes | |
| Amendments to PAS 12–Deferred Tax: Recovery of Underlying Assets | January 1, 2012 | Yes | Need to mark SIC–21 as "Not applicable". |
| PAS 19, Employee Benefits (Revised) | January 1, 2013 | Yes | Need to mark existing PAS 19 as "Not applicable". |
| PAS 27, Separate Financial Statements | January 1, 2013 | Yes | Early application allowed provided that the entity will also early adopt PFRS 10, PFRS 11, PFRS 12, and PAS 28 (Revised) at the same time. Need to mark the existing PAS 27, PAS 28, PAS 31, SIC–12 and SIC–13 as "Not applicable". |
| PAS 28, Investments in Associates and Joint Ventures | January 1, 2013 | Yes | Early application allowed provided that the entity will also early adopt PFRS 10, PFRS 11, PFRS 12, and PAS 27 (Revised) at the same time. Need to mark the existing PAS 27, PAS 28, PAS 31, SIC–12 and SIC–13 as "Not applicable". |
| Amendments to PAS 32, Offsetting Financial Assets and Financial Liabilities | January 1, 2014 | Yes | Early application allowed provided that the entity will also early adopt Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to PFRS 7). |
| Philippine Interpretation IFRIC–15, Agreements for the Construction of Real Estate | Deferred by SEC and FRSC | No | |
| Philippine Interpretation IFRIC–20, Stripping Costs in the Production Phase of a Surface Mine | January 1, 2013 | Yes | |
| PIC Q&A No. 2011-02: PFRS 3.2 – Common Control Business Combinations | January 1, 2012 | Yes | |
| PIC Q&A No. 2011-03: Accounting for Inter-company Loans | January 1, 2012 | Yes | |
| PIC Q&A No. 2011-04: PAS 32.37-38 – Costs of Public Offering of Shares | January 1, 2012 | Yes | |
| PIC Q&A No. 2011-05: PFRS 1.D1-D8 – Fair Value or Revaluation as Deemed Cost | January 25, 2012 | Not mentioned | |

**SCHEDULE III**
**EXHIBIT A**

**NICKEL ASIA CORPORATION**
**Schedule A.** **FINANCIAL ASSETS**
**December 31, 2011**

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Statement of Financial Position | Value Based on Market Quotations at End of Reporting Date | Income Received and Accrued |
|---|---|---|---|---|
| | | (Php - In Thousands) | | |
| ***Loans and Receivables:*** | | | | |
| Cash on hand and with banks | N/A | ₱ 1,135,838 | ₱ 1,135,838 | ₱ 7,805 |
| Short term cash investments | | | | |
| Union Bank of the Philippines | N/A | 3,806,067 | 3,806,067 | 90,415 |
| Banco de Oro | N/A | 1,530,545 | 1,530,545 | 27,786 |
| Security Bank Corporation | N/A | 1,103,330 | 1,103,330 | 15,552 |
| Bank of the Philippine Islands | N/A | 1,067,313 | 1,067,313 | 39,096 |
| BPI Family Savings Bank | N/A | 871,178 | 871,178 | 12,057 |
| RCBC Savings Bank | N/A | 518,461 | 518,461 | 876 |
| Rizal Commercial Banking Corporation | N/A | 276,212 | 276,212 | 3,069 |
| BNP Paribas | | 41,648 | 41,648 | 14 |
| **Cash and cash equivalents** | | 10,350,592 | 10,350,592 | 196,670 |
| Trade receivables | N/A | 512,726 | 512,726 | |
| Receivable from Coral Bay Nickel Corporation | N/A | 360,888 | 360,888 | |
| Amounts owed by related parties | N/A | 51,637 | 51,637 | |
| Others | N/A | 231,042 | 231,042 | |
| **Trade and other receivables** | | 1,156,293 | 1,156,293 | 0 |
| | | ₱ 11,506,885 - - | 11,506,885 - - | 196,670 |

**EXHIBIT B**

**NICKEL ASIA CORPORATION**
**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)**
**For the Year Ended December 31, 2011**

| Name and Designation of Debtor | Beginning Balance | Additions | Deductions: Amount Collected | Deductions: Amount Written-Off | Current | Non Current | Ending Balance |
|---|---|---|---|---|---|---|---|
| There are no receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders other than subject to usual terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business, and eliminated in consolidation. | | | | | | | - |
| | | | | | | | - |
| | | | | | | | - |
| | | | | | | | - |
| | | | | | | | - |
| | | | | | | | - |
| | ₱ - | ₱ - | ₱ - | ₱ - | ₱ - | ₱ - | ₱ - |

**EXHIBIT C**

**NICKEL ASIA CORPORATION**
**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidated Financial Statements**
**For the Year Ended December 31, 2011**

| Name of Subsidiary | Balance at January 1, 2011 | Additions | Amounts Collected | Reclassification | Amounts Written Off | Current | Noncurrent | Amount Eliminated |
|---|---|---|---|---|---|---|---|---|
| Taganito Mining Corporation | 4,471,156 | 23,614,299 | (22,462,838) | | | 5,622,617 | | 5,622,617 |
| Rio Tuba Nickel Mining Corporation | 1,544,523 | 14,906,037 | (10,941,186) | | | 5,509,373 | | 5,509,373 |
| Samar Nickel Mining Resources Corporation | 1,231,625 | 1,368,825 | - | | | 2,600,450 | | 2,600,450 |
| Cagdianao Mining Corporation | 313,345 | 24,286,424 | (20,354,657) | | | 4,245,112 | | 4,245,112 |
| Cordillera Exploration Co. Inc. | 392,140 | 2,696,493 | - | | | 3,088,633 | | 3,088,633 |
| La Costa Shipping Lighterage Co. | 0 | 71,394 | (51,816) | | | 19,578 | | 19,578 |
| | 7,952,789 | 66,943,472 | (53,810,498) | 0 | 0 | 21,085,763 | 0 | 21,085,763 |

**EXHIBIT D**

**NICKEL ASIA CORPORATION**
**Schedule D. Intangible Assets - Other Assets**
**For the Year Ended December 31, 2011**

| Description | Beginning Balance | Additions At Cost | Deductions: Charged to Costs and Expenses | Deductions: Charged to Other Accounts | Other Changes- Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Deferred mine exploration costs - net* | ₽ 89,576 | ₽ 28,772 | ₽ - | ₽ - | ₽ - | ₽ 118,348 |
| | | | | | | - |
| | ₽ 89,576 | ₽ 28,772 | ₽ - | ₽ - | ₽ - | ₽ 118,348 |

* Disclosed in Note 14 to the Consolidated Financial Statements

**EXHIBIT E**

**NICKEL ASIA CORPORATION**
**Schedule E. Long-term Debt**
**December 31, 2011**

| Name of Issuer and Type of Obligation | Amount Authorized by Indenture | Amount Shown as Current | Amount Shown as Long-term | Remarks |
|---|---|---|---|---|
| | | In Thousands | | |
| *Long-term Debt* | | | | |
| Sumitomo Metal Mining Co. | | ₱ 47,825 | ₱ 224,588 | A |
| Taganito HPAL Nickel Corporation | | 76,720 | 1,419,320 | B |
| *Deferred Rent Income* | | | | |
| Taganito HPAL Nickel Corporation | | - | 84,154 | C |
| Total | | ₱ 124,545 | ₱ 1,728,062 | |

Remarks:

A Interest rate is based on prevailing 180-day British Banker Association London Inter-Bank Offered Rate (LIBOR) plus two percent (2%) spread; principal is payable in semi-annual installments of $875,000, payable in October and April until April 10, 2031

B Interest rate is based on prevailing 180-day LIBOR plus two percent (2%) spread; principal is payable in semi-annual installments of $875,000, payable in August and February until February 28,2018.

C The obligation is covered by an Option Agreement which shall terminate upon finalization of lease agreement. The lease agreement has yet to be finalized.

**EXHIBIT F**

**NICKEL ASIA CORPORATION**
**Schedule F. Indebtedness to Affiliates and Related Parties (Long-term Loans from Related Companies)**
**December 31, 2011**

| Name of Affiliate | | Beginning Balance | | Ending Balance |
|---|---|---|---|---|
| | | In Thousands | | |
| *Long-term Debt* | | | | |
| Sumitomo Metal Mining Co. | ₱ | 320,238 | ₱ | 272,413 |
| Taganito HPAL Nickel Corporation | | 1,224,013 | | 1,496,040 |
| *Deferred Rent Income* | | | | |
| Taganito HPAL Nickel Corporation | | 83,799 | | 84,154 |
| | ₱ | 1,628,050 | ₱ | 1,852,607 |

**EXHIBIT G**

**NICKEL ASIA CORPORATION**
**Schedule G. Guarantees of Securities of Other Issuers**
**December 31, 2011**

| Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by the Company for which Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|
| | | ₱ | ₱ | |
| | **- Not applicable -** | | | |
| | | ₱ - | - | |

**EXHIBIT H**

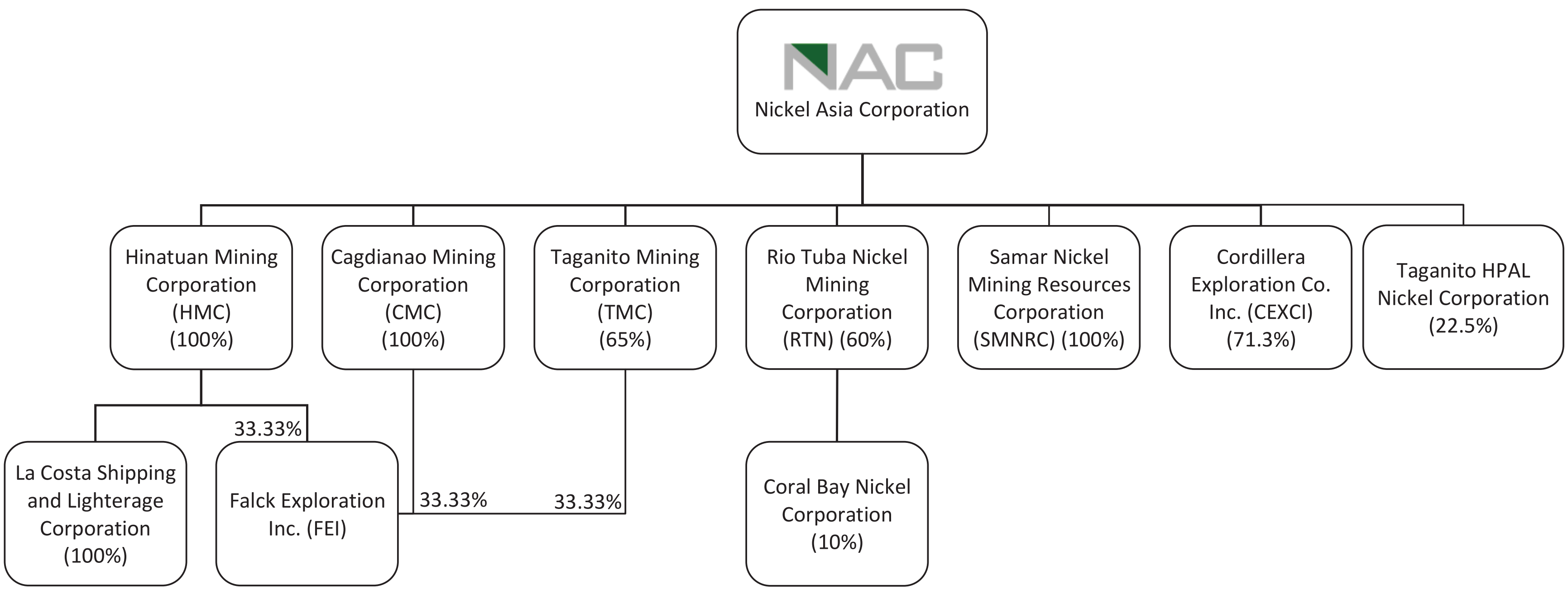
**NICKEL ASIA CORPORATION**
**Schedule H Capital Stock**
**December 31, 2011**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Affiliates | Directors, Officers and Employees | Others |
| Common Stock | 1,585,600,000 | 1,339,831,828 | 12,000,000 | 664,371,453 | 331,201,113 | 344,259,262 |
| Preferred Stock | 720,000,000 | 720,000,000 | - | 720,000,000 | - | - |

**Schedule IV**

## Nickel Asia Corporation and Subsidiaries

A Map Showing the Relationships Between and Among the Company and its
Ultimate Parent Company, Middle Parent, Subsidiaries, Co-Subsidiaries and Associates
**Pursuant to SRC Rule 68, As Amended**
**December 31, 2011**



**Schedule V**

## Nickel Asia Corporation and Subsidiaries

Schedule Showing Financial Soundness
Pursuant to SRC Rule 68, As Amended

| | 2011 | 2010 |
|---|---|---|
| A. Current/liquidity ratios | | |
| Current ratio | **8.69** | 7.38 |
| Quick ratio | **7.43** | 6.28 |
| Cash ratio | **6.72** | 5.45 |
| Cash conversion cycle | **0.02739** | 0.01489 |
| B. Solvency ratio/Debt-to-equity ratio | | |
| Solvency ratio | **1.51** | 0.85 |
| Debt-to-Equity ratio | **0.18** | 0.19 |
| C. Asset-to-Equity ratios | | |
| Asset-to-Equity ratio or Equity Multiplier | **1.18** | 1.19 |
| D. Interest Rate Coverage ratio | | |
| Interest coverage ratio | **204.60** | 305.45 |
| E. Profitability ratios | | |
| Net profit margin analysis | **43%** | 28% |
| Return on assets | **23%** | 11% |
| Return on equity | **27%** | 15% |
| Return on capital employed | **23%** | 12% |

## CERTIFICATION

The Nickel Asia Corporation (NAC) Properties are: Rio Tuba Nickel Mining Corporation (RTN) located at Brgy. Rio Tuba, Bataraza, Palawan; Taganito Mining Corporation (TMC) located at Brgy Taganito, Claver, Surigao del Norte; Cagdianao Mining Corporation (CMC) located at Brgy. Valencia, Cagdianao, Surigao del Norte and Hinatuan Mining Corporation (HMC) located at Hinatuan Island, Taganaan, Surigao del Norte.

As of December 31, 2011, the Company's Total Ore Reserves in accordance with PMRC are as follows:

| Ore | Class | Tonnes (kWMT) | Tonnes (kDMT) | % Ni | % Fe | Contained Ni (kt) |
|---|---|---|---|---|---|---|
| *Ore Reserves* | | | | | | |
| Saprolite | Proved and Probable | 118,618 | 82,573 | 1.45 | 10.48 | 1,197 |
| Limonite | Proved and Probable | 233,264 | 161,222 | 1.15 | 41.31 | 1,848 |

The undersigned is issuing this certification in his capacity as PMRC Competent Person accredited by the Philippine Society of Mining Engineers (PSEM) for the ore reserves declared by the Company for its properties. The undersigned is fully aware that, being under the employ of Nickel Asia Corporation, his certification may be subjected to review or scrutiny by other independent CPs whom the concerned government institution(s) or financing bodies might choose to employ.

**JOSE S. SARET**
Mining Engineer, License No. 887
PMRC Competent Person for Surface Mining (Ni, Au, Cu)
PTR No. 3181677 Issued:1/5/2012, Makati City

# CERTIFICATION

The Nickel Asia Corporation (NAC) Properties are: Rio Tuba Nickel Mining Corporation (RTN) located at Brgy. Rio Tuba, Bataraza, Palawan; Taganito Mining Corporation (TMC) located at Brgy Taganito, Claver, Surigao del Norte; Cagdianao Mining Corporation (CMC) located at Brgy. Valencia, Cagdianao, Surigao del Norte and Hinatuan Mining Corporation (HMC) located at Hinatuan Island, Taganaan, Surigao del Norte.

As of December 31, 2011, the Company's Total Mineral Resources in accordance with PMRC are as follows:

| Ore | Class | Tonnes (kWMT) | Tonnes (kDMT) | % Ni | % Fe | Contained Ni(kt) |
|---|---|---|---|---|---|---|
| *Mineral Resources* | | | | | | |
| Saprolite | Measured & Indicated | 128,149 | 88,219 | 1.58 | 10.53 | 1,396 |
| Limonite | Measured & Indicated | 240,847 | 166,278 | 1.16 | 41.16 | 1,926 |
| Saprolite | Inferred | 26,673 | 17,054 | 1.42 | 11.55 | 243 |
| Limonite | Inferred | 9,171 | 6,462 | 1.17 | 36.55 | 75 |

The undersigned is issuing this certification in his capacity as Competent Person accredited by the Philippine Mineral Reporting Code (PMRC) and as an active member of the Geological Society of the Philippines for the resource declared by the Company for its properties.

RDeluna

**RADEGUNDO S. DE LUNA**
Geologist, License No. 218
Competent Person for Nickel, PMRC No. 07-12-05
PTR No. 3285629 Issued: 1/9/2012, Antipolo City