NAC

NICKEL ASIA CORPORATION

2011 ANNUAL REPORT

CONTENTS

Cover Photo: Rehabilitated Mine Area, Cagdianao Mine Site

WHO WE ARE

Seedling Propagation, Taganito Mine Site Nursery

Nickel Asia Corporation is the Philippines' largest producer of lateritic nickel ore and one of the largest in the world. We have a long operating history, starting with the sale of ore in 1977 from our first mine, Rio Tuba. Since then, we have expanded to four operating mines and have sold a total of about 70 million tonnes of ore up to 2011.

We export both saprolite and limonite ore to customers in Japan and China. Our customers use our ore for the production of ferronickel and nickel pig iron, both used to produce stainless steel, and for the production of pig iron used for carbon steel. We are also the exclusive supplier of limonite ore from our Rio Tuba mine to the country's first hydrometallurgical nickel processing plant, Coral Bay, where we have a 6% effective equity interest. Coral Bay became operational in 2005 and currently operates at a capacity of 24,000 tonnes of contained nickel and 1,500 tonnes of contained cobalt per year in the form of a mixed nickel-cobalt sulfide. It has proven to be the world's most efficient facility using the high-pressure acid leach (HPAL) process.

In 2010, we made an investment of P4.4 billion for a 22.5% equity interest in the country's second hydrometallurgical nickel processing plant under Taganito HPAL Nickel Corporation. Using the same technology as in Coral Bay, the plant is currently under construction beside our Taganito mine and is scheduled to come on stream in the latter part of 2013 at a capacity of 30,000 tonnes of contained nickel and 2,600 tonnes of contained cobalt per year. Our Taganito mine will supply all of the limonite ore for the plant. At a total project cost of $1.4 billion, the plant will represent the single largest investment in the Philippine minerals sector to date.

Apart from our four operating mines, we have seven properties in various stages of exploration for nickel. In November 2010, we concluded the purchase of Cordillera Exploration Co., Inc. from Anglo American, with four properties in the Central Cordillera of northern Luzon that are prospective for gold and copper. The purchase marks our first step in our vision to become a diversified mineral resource company. In November 2011, Sumitomo Metal Mining Co., Ltd. acquired 25% equity in the company with an option to purchase additional shares to increase its total equity to 40%.

We are focused on growth. At the same time, we take our responsibilities toward safety, environmental protection and community relations and development seriously. Our efforts in these fields have resulted in numerous awards received over the years during the annual Presidential Mineral Industry Environmental Awards. We believe that sustainable development is the only way forward for any mining operation and we exert great effort to achieve its principles. We are committed to responsible mining and to running every facet of our operations in a world-class manner.

VISION

To be a world-class diversified mineral resource company that has exemplary relationships with all stakeholders.

MISSION STATEMENT

Using best global industry practices, we are committed to:

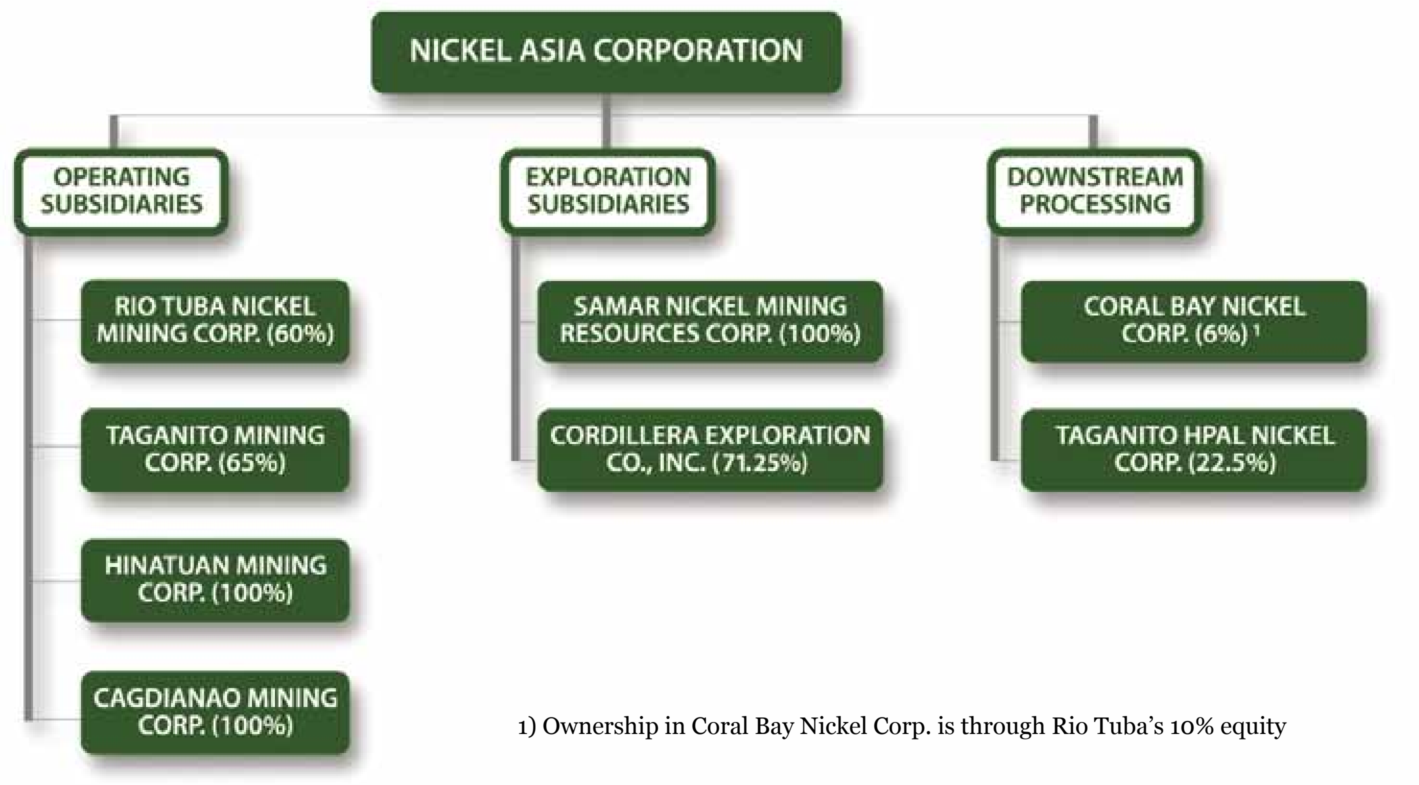
- Optimizing our current operations.
- Exploring and developing additional deposits for nickel and other minerals to sustain our growth.
- Delivering to our customers quality mineral products in a timely manner.
- Nurturing our employees and providing a safe and healthy workplace for them to achieve their full potential.
- Uplifting the quality of life of our host communities.
- Protecting the environment in all our operations.
- Adopting the highest standards of corporate governance.

CORE VALUES

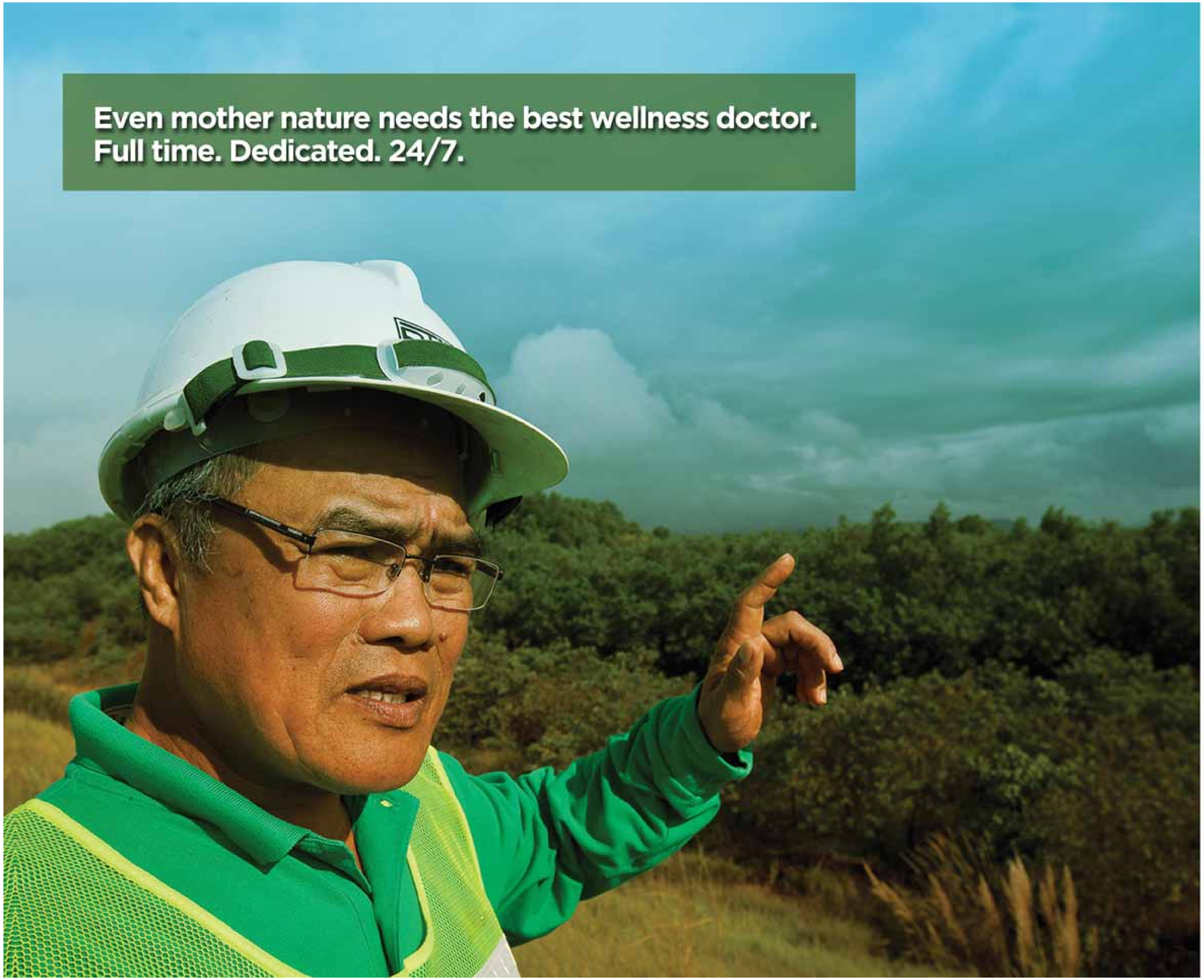
Competence
Efficiency
Responsibility to all stakeholders
Teamwork
Integrity and honesty
Financial growth
Dedication

Rio Tuba and Coral Bay Town Site, Barangay Rio Tuba, Bataraza, Palawan

CORPORATE STRUCTURE



1) Ownership in Coral Bay Nickel Corp. is through Rio Tuba's 10% equity



DR. BIBIANO RAÑES

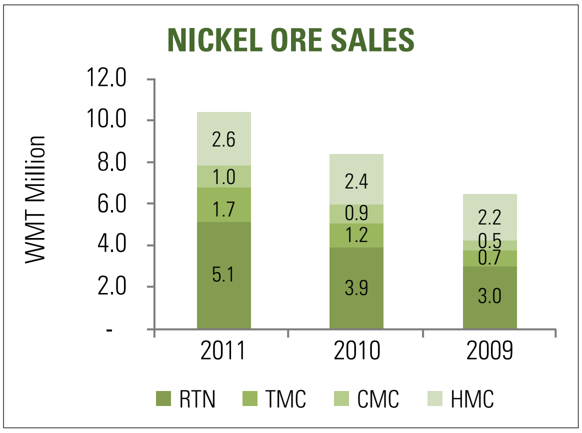
PhD in Forestry from the University of the Philippines and the resident expert of Rio Tuba on forest and farmland ecosystems

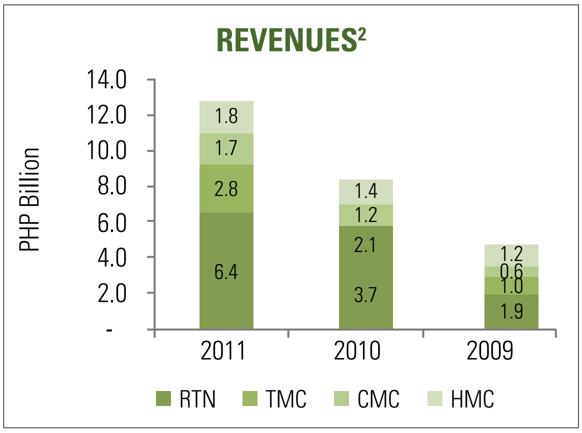
Professional goal: to continuously reforest areas in order to improve the natural habitat and upgrade water quality of streams,absorb carbon dioxide from the atmosphere and lay the foundation for an agricultural-based local economy post mining.
Last accomplishment: He has designed a protocol where significant vegetative cover can be established within a 12 to 18-month period using species native to the area with high survival rates.This has dramatically reduced the lag time for mine rehabilitation, improving even the government mandate.
Profile: Dedicated. Foresighted. Passionate on improving the conditions for all living things through his efforts to improve the environment.
Home: Rio Tuba since 2004

Caring For Nature Is Responsible Mining

SALES AND FINANCIAL HIGHLIGHTS

	2011	2010	2009
SALES HIGHLIGHTS			
Total Sales (WMT '000)	10,387	8,339	6,459
LME-based Sales (WMT '000)	4,380	3,835	3,401
Payable Nickel (lbs.'000)	12,606	9,837	7,562
Realized LME Price ($/lb.)	10.5	9.6	6.5
Tonnage-based Sales (WMT '000)	6,007	4,504	3058
Ave. Price ($/WMT)	24.5	18.2	12.7
FINANCIAL HIGHLIGHTS (PHP '000)			
Revenues			
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
Cost and Expenses			
Cost of Sales and Services	4,884,198	4,061,514	3,309,151
General and Administrative	667,039	475,732	456,195
Excise Tax and Royalties	736,262	523,208	288,897
	6,287,499	5,060,454	4,054,243
Finance and Other Income / (Expenses) - net	743,473	(43,123)	(2,710)
Provision for (Benefit from) Income Tax	1,685,123	946,779	169,254
Net Income			
Attributable to Equity Holders of the Parent	3,536,474	1,546,889	302,887
Attributable to Non Controlling Interests	1,929,083	825,039	157,632
	5,465,557	2,371,928	460,519
Earnings Per Share (PHP)[1]	2.64	1.49	0.31
Financial Condition			
Cash and Cash Equivalents	10,350,592	6,805,968	6,779,215
Other Current Assets	3,884,007	3,052,655	4,490,637
Non Current Assets	12,151,814	11,744,525	5,087,106
Current Liabilities	1,637,815	1,335,731	1,168,996
Non Current Liabilities	2,455,789	2,123,849	911,107
Total Stockholders' Equity	22,292,809	18,143,568	14,276,855
Book Value Per Share (PHP)	13.4	11.2	11.8





[1] Earnings Per Share is computed based on average number of common shares for the year.
[2] Revenues from RTN include sales of limestone, cobalt and services; revenues from TMC include services.

JOINT STATEMENT TO SHAREHOLDERS

Left: Manuel B. Zamora, Jr., Chairman
Right: Gerard H. Brimo, President and CEO

We are pleased to report on the results of another record-breaking year in 2011.

Operating Results

Sales of nickel ore from our four operating subsidiaries reached 10.4 million wet metric tons (WMT) in 2011, 25% higher than the prior year and the highest level ever achieved. The increase was the result of two factors related to the China market. First, the continuing strong demand for both our limonite and saprolite ore for the production of nickel pig iron, a ferronickel product used in stainless steel. Second, the emerging demand for our low-nickel, high-iron limonite ore which is blended with iron ore in the production of pig iron, a raw material used in carbon steel.

As a result, shipments to China increased from 4.5 million WMT in the prior year to 6.6 million WMT in 2011. Shipments of limonite ore from our Rio Tuba subsidiary to the adjacent Coral Bay processing plant, which operated at close to full capacity, also increased from 2.7 million WMT to 3.0 million WMT. On the other hand, shipments of saprolite ore to Japan dropped from 1.1 million WMT to 0.84 million WMT due to the tsunami in March 2011, affecting for several months the ferronickel plant of our principal Japanese buyer and partner, Pacific Metals Co., Ltd.

We also experienced an increase in prices of our various ore products. For those sold on the basis of LME nickel prices, which include saprolite ore to Japan and a portion to China, as well as limonite ore to the Coral Bay plant, we averaged US$10.53 per pound of payable nickel in 2011 as against US$9.61 per pound in the prior year. With respect to those sold on the basis of negotiated prices per WMT of ore, the average weighted price amounted to US$24.47 per WMT as against

US$18.15 per WMT. It should be noted that changes in nickel grades and in the mix of our limonite and saprolite ore sales in any year affect average realized prices.

The combination of a higher level of sales and prices resulted in a 52% increase in our revenues to PhP12.7 billion, and a more than doubling of our attributable net income from PhP1.5 billion in the prior year to PhP3.5 billion. Affecting an otherwise banner year was an insurgency attack on our 65%-owned Taganito mine on October 3, 2011. This incident resulted in a write-off of PhP239 million related to damages primarily to mine equipment. Our share of the losses amounting to PhP196 million of our 22.5% associate, Taganito HPAL Nickel Corp. (Taganito HPAL), which is constructing the country's second hydrometallurgical nickel processing plant adjacent to the Taganito mine, also included damages related to such incident. Offsetting these, however, were an upward adjustment in the value of the long-term ore stockpiles of our 60%-owned Rio Tuba subsidiary amounting to PhP573 million and a PhP436 million dividend income from our affiliate, Coral Bay Nickel Corp. (CBNC), where we have a 6% effective interest.

Total taxes paid during the year in review, by us, our subsidiaries, and affiliated companies, amounted to PhP3.6 billion as compared to PhP2.4 billion in the prior year. Total expenditures related to social development programs, including expenditures to Indigenous Peoples within the general vicinity of two of our operations, amounted to PhP279 million. Finally, total environmental expenses of our four operating mines amounted to PhP181 million during the year. In this report you will find a write-up of our environmental and social development programs (see Sustainability Report) and a number of examples of how our oldest operation, the Rio Tuba mine in southern Palawan, has significantly uplifted the lives of our employees and members of our host communities.

Dividends

On the basis of the operating results for the year, the Board of Directors on March 28, 2012 approved a cash dividend of PhP0.80 per share. This was paid on May 11, 2012 to shareholders of record as of April 16, 2012, and is consistent with our policy to declare approximately 30% of earnings as dividends. In 2011, a regular cash dividend of PhP0.35 per share was paid on May 9, 2011 and a special cash dividend of PhP0.15 per share was paid on December 8, 2011.

The Board of Directors in the same meeting also approved an increase in authorized capital from 2.3 billion shares, of which 2.06 billion shares is outstanding, to 4.98 billion shares. A 50% stock dividend for common shares was likewise approved. The stock dividend, once issued, will increase total outstanding shares from the current 2.06 billion shares, composed of 1.34 billion common shares and 720 million preferred shares, to 2.73 billion shares, composed of 2.01 billion common shares and 720 million preferred shares. The increase in the authorized capital and the concomitant stock dividend is subject to approval by the shareholders at the annual meeting in June 2012, and by the Securities and Exchange Commission (SEC), following which a record date will be set in accordance with SEC rules.

Downstream Processing - Taganito HPAL Plant Project

It will be recalled that the Taganito HPAL plant project was conceived following the successful operation of the Coral Bay facility, majority owned and operated by our shareholder, Sumitomo Metal Mining Co., Ltd. (SMM). The Coral Bay plant processes limonite ore using the high-pressure acid leach (HPAL) process to produce nickel-cobalt sulfide for final treatment in Japan, and has proven to be the most efficient plant of its kind in the world. The plant became operational in 2005 at an annual capacity of 10,000 tonnes of contained nickel and has since

Morning Mine Briefing, Cagdianao Mine Site

Taganito HPAL Plant Project Construction

been expanded to about 24,000 tonnes at a total cost of US$500 million.

In contrast, the Taganito HPAL project, which will use the same process under license from SMM, will have a capacity of 30,000 tonnes of contained nickel per year and is expected to cost a total of US$1.4 billion. Similar to the situation in the Coral Bay plant, where all the required limonite ore is being supplied by our Rio Tuba subsidiary, the Taganito HPAL project will source its limonite from our Taganito mine, estimated at over four million WMT per year, over a period of 30 years. The plant will therefore significantly boost our ore sales and additionally, given our level of equity in Taganito HPAL, will allow us to book our share of the earnings on an equity accounting basis.

Construction of the Taganito HPAL plant, which had been proceeding well, was interrupted by the insurgency incident in October 2011. Although some damages on structures and construction equipment were incurred, construction resumed towards the end of 2011. The stoppage will, however, set back the timetable for completion of the project and the start of commercial operations, which is expected towards the latter part of 2013. With the full support of government, for which we are grateful, a revamp of security measures has been undertaken to ensure that a similar incident will not recur.

Our company has been at the forefront of downstream processing in the Philippines, with an equity interest in the country's first hydrometallurgical nickel processing plant, Coral Bay, and a higher equity interest in the country's second plant under construction, the Taganito HPAL project. We have been fortunate to have as a partner SMM, with proven expertise in HPAL technology and in ferronickel production. It is our objective to continue to evaluate further opportunities for downstream processing to achieve value added for our ore products. It should, however, be recognized that these projects are capital intensive and can only be undertaken during periods of favorable economic conditions and strong demand for commodities.

Outlook

We look forward to another year of robust ore sales. Our ability to sell low- and medium-grade saprolite ore and various types of limonite ore coupled with in-fill drilling and further analysis of our deposits have resulted in an increase in our overall ore reserves (see Summary of Ore Reserves and Resources).

We also look forward to the commencement of drilling for gold targets and possibly porphyry copper-gold, at our Manmanok project in the province of Apayao under our 71.25%-owned subsidiary, Cordillera Exploration Company, Inc. The commencement of drilling will mark an important step in our objective to diversify to other metals.

Although commodity prices, including nickel, have softened, we have successfully negotiated higher nickel payable levels on our saprolite ore shipments to Japan, which will mitigate expected lower LME nickel prices in 2012. In addition, prices of our low-nickel, high-iron limonite ore to China remain strong and could exceed the average 2011 level.

Acknowledgement

Once again our managerial, technical teams and workforce at our mine sites have responded to the increasing demand for our products by efficiently expanding production, and we commend them for their fine performance. We also commend the technical team at our Rio Tuba mine for garnering a special award for the Best Rehabilitation Strategy during the annual National Mine Safety and Environment Conference held last November 2011.

Finally, we express our appreciation to our Directors for their continued guidance throughout the year, and to our shareholders for their encouragement and support.

Manuel B. Zamora, Jr.
Chairman

Gerard H. Brimo
President & CEO

THE GRASPELA FAMILY.
Three generations of priority employment.

HOME: Rio Tuba since 1981.
HAPPINESS: Making the right decision to join Rio Tuba 30 years ago when it was just starting. That move made it possible for me not only to secure good education for my children but to pave the way to get them employed.
OUTLOOK: Our family's future is intertwined with Rio Tuba Mining and it looks secure. The only threat to our family's stability is the unfair attack on mining by cruel people who have not been even to our town.

Job Security Is
Responsible Mining

MAP OF MINERAL PROPERTIES

Mine Workers, Hinatuan Mine Site

REVIEW OF OPERATIONS

Rio Tuba Nickel Mining Corporation (RTN - 60% Owned)

Mining Volume

The volume of ore mined for the year amounted to 2,699,331 WMT, consisting of 1,172,375 WMT of saprolite ore and 1,526,956 WMT of limonite ore. Stripping volume for the year amounted to 166,086 WMT.

RTN also retrieved 986,524 WMT of saprolite ore and 3,015,238 WMT of limonite ore from stockpiles to meet the budgeted annual saprolite shipment volume and to provide limonite ore feed to the Coral Bay HPAL facility, respectively. Furthermore, 932,933 WMT of oversized materials were recovered from ore delivered to the plant, consisting of 528,154 WMT of reclassified saprolite ore and 404,779 WMT of limonite ore.

RTN's mining plan for 2011 was negatively impacted by the mild La Niña phenomenon that struck the country during the year. As a result of this, there was a slight backlog in saprolite ore and limonite ore production from the mine pits. However, the decrease in the production volume sourced from the mine pits was augmented by the increase in production volume sourced from stockpiles.

Shipments

RTN sold a total of 5,099,120 WMT of nickel ore in 2011. High-grade saprolite ore (1.80% nickel grade and above) totaling 337,843 WMT and medium-grade saprolite ore (1.50% nickel grade) totaling 94,988 WMT were sold to Pacific Metals Co., Ltd. (PAMCO) and Sumitomo Metal Mining Co., Ltd. (SMM). The realized LME nickel price for these shipments averaged US$10.85 per pound.

In addition, high-grade saprolite ore totaling 603,414 WMT were sold to Chinese customers at an average price of US$68.29 per WMT. Medium-grade saprolite ore totaling 1,086,011 WMT were likewise sold to Chinese customers at an average price of US$21.47 per WMT.

Finally, HPAL-grade limonite ore (approximately 1.30% nickel grade) totaling 2,976,864 WMT was delivered to the Coral Bay HPAL facility. The realized LME nickel price for this tonnage averaged US$10.53 per pound. In addition, 145,991 WMT of limestone was sold to, and a variety of services such as handling and hauling of materials and supplies for the Coral Bay HPAL facility were rendered to, CBNC.

	2011	2010	2009
Tonnage Mined (In WMT)			
Saprolite	1,172,375	959,862	455,294
Limonite	1,526,956	1,750,716	951,983
Sales Data			
Saprolite – Japan (WMT)	432,831	224,672	190,345
Average nickel grade	1.88%	2.03%	2.07%
Average payable nickel	20.57%	20.36%	17.52%
Average realized LME price (per pound)	US$ 10.85	US$ 9.69	US$ 6.71
Saprolite – China (WMT)	1,689,425	1,030,690	272,140
Average nickel grade	1.63%	1.75%	1.68%
Average price (per WMT)	US$ 38.20	US$ 23.30	US$ 13.14
Limonite – CBNC (WMT)	2,976,864	2,620,989	2,520,231
Average nickel grade	1.31%	1.33%	1.12%
Average payable nickel	7.03%	6.96%	6.43%
Average realized LME price (per pound)	US$ 10.53	US$ 10.06	US$ 6.53

Taganito Mining Corporation
(TMC - 65% Owned)

Mining Volume

The volume of ore mined for the year amounted to 2,660,501 WMT consisting of 608,500 WMT of saprolite ore and 2,052,001 WMT of limonite ore. Stripping volume for the year amounted to 5,215 WMT. TMC continued to accumulate ore in preparation for the startup of the Taganito HPAL facility. At the end of 2011, the total volume of stockpiled, in-process limonite ore amounted to 20,486,388 WMT.

	2011	2010	2009
Tonnage Mined (in WMT)			
Saprolite ore	608,500	813,949	860,506
Limonite ore	2,052,001	1,938,146	1,566,550
Sales Data			
Saprolite – Japan (WMT)	268,564	676,914	494,121
Average nickel grade	1.94%	1.90%	2.09%
Average payable nickel	22.42%	18.38%	18.10%
Average realized LME price (per pound)	US$ 10.87	US$ 9.01	US$ 6.29
Saprolite – China (WMT)	744,699	454,788	249,411
Average nickel grade	1.73%	1.82%	1.84%
Average price (per WMT)	US$ 44.90	US$ 27.96	US$ 17.68
Limonite – CBNC (WMT)	-	68,345	-
Average nickel grade	-	1.23%	-
Average payable nickel	-	6.00%	-
Average realized LME price	-	US$ 10.19	-
Limonite – China (WMT)	651,490	-	-
Average nickel grade	1.02%	-	-
Average price (per WMT)	US$ 16.55	-	-

Shipments

TMC sold a total of 1,664,753 WMT of nickel ore in 2011. High-grade saprolite ore amounting to 268,564 WMT were sold to PAMCO. The realized LME nickel price for these shipments averaged US$10.87 per pound.

In addition, high-grade saprolite ore totaling 429,096 WMT were sold to Chinese customers at an average price of US$55.79 per WMT. Medium-grade saprolite ore totaling 315,603 WMT were likewise sold to Chinese customers at an average price of US$30.10 per WMT. Finally, low-grade limonite ore (less than 1.00% nickel grade) amounting to 651,490 WMT were sold to Chinese customers at an average price of US$16.55 per WMT.

Hinatuan Mining Corporation
(HMC – 100% owned)

Mining Volume

The volume of ore mined for the year amounted to 2,699,079 WMT, consisting of 95,894 WMT of saprolite ore and 2,603,185 of limonite ore. Stripping volume for the year amounted to 462,271 WMT.

HMC's mining plan for 2011 was negatively impacted by the unusually heavy rainfall, which prevailed from March to June 2011. As a result of this, coupled with the strong demand for low-grade limonite ore catering to the Chinese pig iron market, HMC realigned its mining effort towards maximizing the production of this type of limonite ore which is simpler to mine as it is found on the upper portions of the mine pits.

	2011	2010	2009
Tonnage Mined (in WMT)			
Saprolite	95,894	347,905	88,084
Limonite	2,603,185	2,085,927	319,967
Sales Data			
Saprolite – China (WMT)	115,571	265,043	247,021
Average nickel grade	1.68%	1.76%	1.86%
Average price (per WMT)	US$ 30.52	US$ 25.82	US$ 17.19
Limonite – China (WMT)	2,462,303	2,101,807	1,939,626
Average nickel grade	0.80%	0.90%	1.00%
Average price (per WMT)	US$ 15.35	US$ 11.44	US$ 10.86
Limonite – Japan (WMT)	11,000	-	-
Average nickel grade	0.76%	-	-
Average price (per WMT)	US$ 21.50	-	-

Shipments

HMC sold a total of 2,588,874 WMT of nickel ore in 2011, mostly to Chinese customers. High-grade saprolite ore totaling 63,321 WMT was sold at an average price of US$34.25 per WMT. Medium-grade ore (composed of 52,250 WMT of saprolite ore and 33,779 WMT of limonite ore) was sold at an average price of US$25.21 per WMT. Low-grade limonite ore totaling 2,439,524 WMT was sold at an average price of US$15.26 per WMT. This is inclusive of 11,000 WMT of low-grade ore that was sold as a test shipment to a leading Japanese steel maker.

Taganito HPAL Plant Project Construction

Cagdianao Mining Corporation (CMC - 100% Owned)

Mining Volume

The volume of ore mined for the year amounted to 1,003,416 WMT, consisting of 637,125 WMT of saprolite ore and 366,291 WMT of limonite ore. Stripping volume for the year amounted to 963,319 WMT.

CMC's mining plan for 2011 was ramped up mid-year in order to replace tonnage that had been anticipated from our South Dinagat operation. HMC, which has an operating agreement with Pacific Nickel Philippines, Inc. (PNPI), was unable to ship from this property due to the suspension of PNPI's permits for transporting and exporting mineral ores. Given these circumstances, we terminated our operating agreement.

	2011	2010	2009
Tonnage Mined (in WMT)			
Saprolite	637,125	261,838	119,455
Limonite	366,291	369,590	275,220
Sales Data			
Saprolite – Japan (WMT)	130,910	244,064	195,861
Average nickel grade	1.96%	2.01%	2.05%
Average payable nickel	25.27%	18.33%	16.77%
Average realized LME price (per pound)	US$ 10.03	US$ 10.01	US$ 6.44
Saprolite – China (WMT)	572,871	321,249	248,272
Average nickel grade	1.68%	1.86%	1.86%
Average price (per WMT)	US$ 39.36	US$ 30.97	US$ 17.18
Limonite – China (WMT)	330,262	330,640	101,742
Average nickel grade	1.49%	1.51%	1.47%
Average price (per WMT)	US$ 25.65	US$ 12.59	US$ 13.00

Shipments

CMC sold a total of 1,034,043 WMT of nickel ore in 2011. High-grade saprolite ore totaling 130,910 WMT was sold to PAMCO and SMM. The realized LME nickel price for these shipments averaged US$10.03 per pound.

In addition, high-grade saprolite ore totaling 227,212 WMT was sold to Chinese customers at an average price of US$58.80 per WMT. Medium-grade ore (composed of 345,659 WMT of saprolite ore and 330,262 WMT of limonite ore) was likewise sold to Chinese customers at an average price of US$26.13 per WMT.

REVIEW OF EXPLORATION

Mine Pit Development at Cagdianao Mine Site

NICKEL

RTN

Exploration and development drilling were focused at Guintalunan and Mangingidong. For exploration drilling, a total of 930 holes equivalent to 5,812 meters, and for development drilling, a total of 1,495 holes equivalent to 11,107 meters, were completed.

Exploration drilling resulted in the blocking of an additional 1.5 million WMT of limonite ore with average grades of 1.17% nickel and 29.84% iron and 0.70 million WMT of saprolite ore with an average grade of 1.29% nickel, both in measured and indicated mineral resource category. Development drilling resulted in upgrading of 3.3 million WMT of ore (composed of 0.2 million WMT of saprolite ore and 3.1 million WMT of limonite ore) previously classified as indicated and inferred mineral resource to measured resource category.

The renewal and conversion of the expired Mining Lease Contract on the Bulanjao property into a Mineral Production Sharing Agreement (MPSA) has not been completed pending the issuance of a clearance by the Palawan Council for Sustainable Development. Partial drilling conducted in the past has resulted in measured and indicated mineral resources of 19.2 million WMT of limonite ore with average grades of 1.26% nickel and 35.5% iron and 7.5 million WMT of saprolite ore with an average grade of 1.88% nickel. Further drilling will be undertaken upon the issuance of the MPSA.

TMC

Exploration and development drilling were focused at Taga-3, Hayanggabon, and Kinalablaban. For exploration drilling, a total of 90 holes equivalent to 720 meters, and for development drilling, a total of 601 holes equivalent to 5,411 meters, were completed.

Exploration drilling resulted in the blocking of an additional 0.42 million WMT of limonite ore with average grades of 1.00% nickel and 40.91% iron and 0.03 million WMT of saprolite ore with an average grade of 1.69% nickel, both in measured and indicated mineral resource category. Development drilling resulted in upgrading of 0.65 million WMT of ore (composed of 0.08 million WMT of saprolite ore and 0.57 million WMT of limonite ore) previously classified as indicated and inferred mineral resource to measured resource category.

HMC

Exploration and development drilling were conducted just outside the previously defined pit limits. These include drilling on the far north portion of the island and Parcel 2. For exploration drilling, a total of 215 holes equivalent to 2,609 meters, and for development drilling, a total of 573 holes equivalent to 8,503 meters, were completed.

Exploration drilling resulted in the blocking of an additional 3.7 million WMT of limonite ore with average grades of 1.32% nickel and 32.86% iron and 3.8 million WMT of saprolite ore with an average grade of 1.46% nickel, both in measured and indicated mineral resource category. Development drilling, in combination with the lowering of cutoff grades to reflect current market conditions resulted in upgrading of 16.5 million WMT of ore (composed of 0.2 million WMT of saprolite ore and 16.3 million WMT of limonite ore) previously classified as indicated and inferred mineral resource to measured resource category.

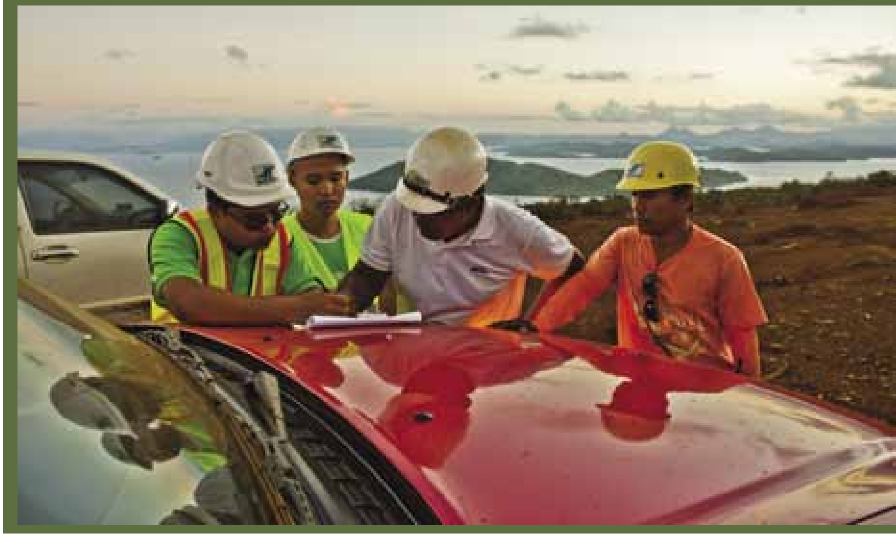
CMC

Exploration and development drilling activities were conducted within the immediate vicinity of the presently defined pit limits. A review of prior exploration data suggested that CMC should focus exploration activities to the area south of the pit (Southwest Valencia and Boa). For exploration drilling, a total of 116 holes equivalent to 1,872 meters, and for development drilling, a total of 284 holes equivalent to 5,676 meters, were completed.

Exploration drilling resulted in the blocking of an additional 8.2 million WMT of limonite ore with average grades of 1.36% nickel and 34.44% iron and 6.4 million WMT of saprolite ore with an average grade of 1.44% nickel, both in measured and indicated mineral resource category. Development drilling, in combination with the lowering of cutoff grades resulted in upgrading of 43.7 million WMT of ore (composed of 18.3 million WMT of saprolite ore and 25.5 million WMT of limonite ore) previously classified as indicated and inferred mineral resource to measured and indicated resource category.

Southwest Valencia
Initial drilling followed a grid spacing of 200 meters by 200 meters in July 2011 at Southwest Valencia, southwest of CMC's active mining area. After the completion of three holes, a grid spacing of 100 meters by 100 meters was undertaken to increase the level of confidence. Based on intercept data from 14 holes, equivalent to 212 meters, the mean nickel grade was 1.22% while the mean iron grade was 40.27%. The maximum grade values were 2.38% nickel and 55.28% iron. Further exploration drilling will be carried out in 2012.

Boa
The Boa area is covered by a separate MPSA and is contiguous to the Valencia mining tenement. Reconnaissance mapping was undertaken to identify target areas of mineralization. Eight holes, comprising 78 meters of intercepts yielded an average saprolite thickness ranging from one to three meters, and an average limonite thickness from two to four meters. The mean grade for saprolite was 0.77% nickel while the grades for limonite were 0.72% nickel and 34.7% iron. Exploration activities to identify commercial quantities of lateritic nickel ore will continue in 2012. Likewise, initial exploration activities, in the form of geologic mapping, to find chromite in commercial quantities will commence.



Mine Planning, Hinatuan Mine Site

Libjo
A total of 13 exploration holes were drilled to validate prior exploration data gathered in 2006 to 2007. After consolidating all data, mineral resource estimates indicate a low tonnage and low-grade deposit. The marginal resource numbers, coupled with the distance of the area from the nearest causeway point and the topographical challenges in developing the area into a mine, necessitated the termination of the operating agreement with the claim owner.

Samar Nickel Mining Resources Corporation (SNM – 100% Owned)

The MPSA relating to the Manicani property in Eastern Samar was previously held by HMC and assigned in 2010 to SNM, a newly incorporated company. The property was partially drilled and mined in the late 1990s. Shipments of stockpiled ore were made in 2004 and 2005 by contractors, which resulted in social problems. In 2004 a regional Panel of Arbitrators recommended the cancellation of the MPSA on environmental grounds. HMC disputed the allegations and the Mines Adjudication Board of the DENR upheld the MPSA in September 2009. Since then, substantial social development work has been accomplished. Towards the later part of 2010, favorable endorsements were received from the host communities and local government units approving the resumption of operations. Upon receipt of final approval by the DENR, SNM will commence drilling work to delineate the deposit prior to mine development. Previous drilling work shows 2.5 million WMT of saprolite ore with an average grade of 1.80% nickel and 35.6 million WMT of limonite ore with an average grade of 1.20% nickel in the inferred mineral resource category.

GOLD AND COPPER

Cordillera Exploration Co., Inc. (CEXCI – 71.25% Owned)

In November 2010, we concluded the purchase of CEXCI from a Philippine subsidiary of Anglo American plc, who have decided to exit the country. In May 2011, we entered into a Participation and Shareholders' Agreement with Sumitomo Metal Mining Co., Ltd. (SMM) containing terms of SMM's equity participation in CEXCI. In November 2011, based on the terms of the Agreement, SMM invested US$1.8 million in CEXCI in return for 25% equity. The amount will be used to cover overhead and exploration work, mainly at the Manmanok property. Once this amount is exhausted, SMM has the option to invest US$2.8 million for an additional 15% equity, which would bring its total equity in CEXCI to 40%.

CEXCI has four properties in the central Cordillera of northern Luzon that are prospective for gold and copper. Two of the four properties are located at Mankayan and straddle the provinces of Benguet, Ilocos Sur and Mountain Province. The Kutop property straddles the provinces of Abra and Kalinga, while the Manmanok property is located in the province of Apayao.

Substantial geochemical and geophysical work has already been accomplished in portions of the 7,802-hectare Manmanok property by the previous owners, Newmont Philippines, and by Anglo American as well. Anglo American believes that the property could contain shallower sedimentary-hosted epithermal gold with the possibility of deeper copper-gold porphyry style deposits, and had identified four drilling targets. CEXCI's rights to the property are governed by an Exploration Permit (EP-004-2006-CAR), first granted in October 2006 and subsequently renewed in March 2009. Conditional to the approval of the second renewal, CEXCI was required to relinquish some 40% of the ground. The second renewal for the exploration application was finally granted in November 2011.

During the year, CEXCI's technical staff continued their review of geological, geochemical and geophysical data obtained from Anglo American, and conducted minor ground verification as part of the environmental baseline study done by GAIA South Inc., environmental consultants. Additional geological mapping, geochemical bedrock sampling, and further field verification commenced in late November, following the approval of the second renewal.

A Stage I Exploration Program with three primary objectives will be conducted in 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 (IP) surveys within one of the main prospect areas known as the Central Argillic zone. Eight inclined holes coincident with relatively high chargeability and high resistivity zones identified by the IP surveys and also coincident with geochemical soil and rock anomalies have been approved and will commence within the first half of 2012.

Heavy Equipment Operator, Taganito Mine Site

SUMMARY OF ORE RESERVES AND RESOURCES

TOTAL ORE RESERVES (1)
As of December 31, 2011

Operation	Mineral Type	Classification	Tonnes (kwmt)	Tonnes (kdmt)	%Ni	%Fe	Contained Ni (kt)
Rio Tuba	Saprolite	Proved and Probable	20,558	12,615	1.45	12.44	183
	Limonite	Proved and Probable	57,667	39,828	1.23	36.43	490
Taganito	Saprolite	Proved and Probable	73,098	51,006	1.45	9.58	739
	Limonite	Proved and Probable	122,993	82,429	1.16	45.71	956
Cagdianao	Saprolite	Proved	21,800	16,610	1.45	11.57	241
	Limonite	Proved	32,630	24,170	1.10	36.08	266
Hinatuan	Saprolite	Proved and Probable	3,162	2,342	1.45	11.66	34
	Limonite	Proved and Probable	19,974	14,795	0.92	38.52	136
Total 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**

This summary was prepared by Engr. Jose S. Saret, who is the current 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 has given his consent to the Public Reporting of this statement concerning Ore Reserve Estimation.

TOTAL MINERAL RESOURCES (1) (2)
As of December 31, 2011

Operation	Mineral Type	Classification	Tonnes (kwmt)	Tonnes (kdmt)	%Ni	%Fe	Contained Ni (kt)
Rio Tuba	Saprolite	Measured and Indicated	26,404	15,992	1.60	12.32	256
	Limonite	Measured and Indicated	64,232	44,132	1.25	36.42	552
	Saprolite	Inferred	21,801	13,643	1.43	11.65	195
	Limonite	Inferred	6,725	4,677	1.26	36.28	59
Taganito	Saprolite	Measured and Indicated	73,098	51,006	1.62	9.58	826
	Limonite	Measured and Indicated	122,993	82,428	1.17	45.71	964
	Saprolite	Inferred	4,007	2,771	1.41	11.09	39
	Limonite	Inferred	376	252	0.96	44.19	2
Cagdianao	Saprolite	Measured and Indicated	24,695	18,294	1.49	11.45	272
	Limonite	Measured and Indicated	33,648	24,923	1.10	36.08	274
	Saprolite	Inferred	348	257	1.33	11.44	2
	Limonite	Inferred	323	239	1.10	33.04	3
Hinatuan	Saprolite	Measured and Indicated	3,952	2,927	1.42	11.66	42
	Limonite	Measured and Indicated	19,974	14,795	0.92	38.52	136
	Saprolite	Inferred	517	383	1.33	11.28	5
	Limonite	Inferred	1,747	1,294	0.88	36.68	11
Total Resources	**Saprolite**	**Measured and Indicated**	**128,149**	**88,219**	**1.58**	**10.53**	**1,396**
	Limonite	**Measured and 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 summary was prepared by Radegundo S. de Luna, who is a Consultant Geologist for Nickel Asia Corporation. Mr. de Luna is a Competent Person for Exploration and Mineral Resource Estimation under the PMRC. He has sufficient experience which is relevant to the type of deposit and mineralization.

(1) Ore Reserves and Mineral Resource tonnages are shown in full. Nickel Asia Corporation owns 60% of Rio Tuba, 65% of Taganito, and 100% of the Cagdianao and Taganaan operations.
(2) Inclusive of Mineral Resources converted to Ore Reserves

Note: Cut-off grades used to estimate Ore Reserves are as follows:

Rio Tuba	Saprolite: Ni >= 0.85%, Fe < 20%	Limonite: Ni >=0.8%, Fe >=20%
Taganito	Saprolite: Ni >= 1.1%, Fe < 20%	Limonite: Ni >= 0.8%, Fe >=20%
Cagdianao	Saprolite: Ni >= 1.2%, Fe < 20%	Limonite: Ni>=1.0% Fe >=20%
Taganaan	Saprolite: Ni >= 1.0%, Fe < 20%	Limonite: regardless %Ni, Fe >= 20%

Note: Cut-off grades used to estimate Mineral Resources are as follows:

Rio Tuba	Saprolite: Ni >= 0.85%, Fe < 20%	Limonite: Ni >=0.8%, Fe >=20%
Taganito	Saprolite: Ni >= 1.1%, Fe < 20%	Limonite: Ni >= 0.8%, Fe >=20%
Cagdianao	Saprolite: Ni >= 1.0%, Fe < 20%	Limonite: regardless %Ni, Fe >=20%
Taganaan	Saprolite: Ni >= 1.0%, Fe < 20%	Limonite: regardless %Ni, Fe >= 20%

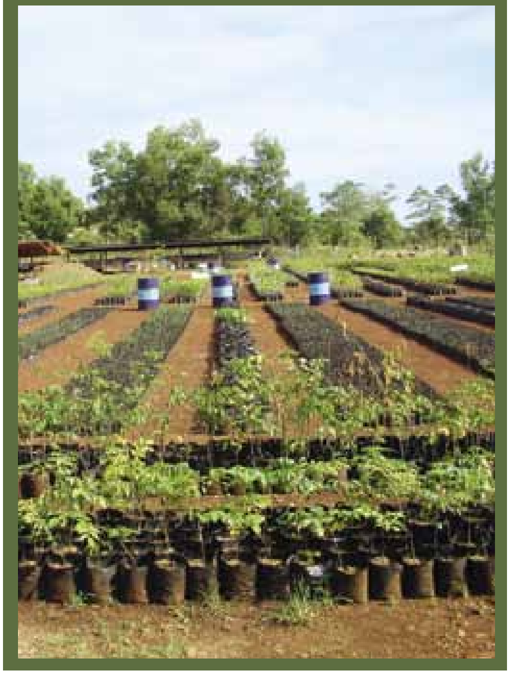
FLORDELIZA RIA MANUAL

Exemplary awardee of the Gawad Geny Lopez Bayaning Kabataang Pilipino National Award

HOME: Rio Tuba since birth.
EDUCATIONAL MILESTONE: One of the many Rio Tuba academic scholars at Pines City College. Finished Bachelor of Science in Physical Therapy
NOTABLE ACCOMPLISHMENT: Shared her talent with Bahatala as physical therapist to help the less fortunate people with disabilities in Southern Palawan. Then worked for free as community volunteer to share her expertise in physical therapy.
THE AWARD: The Gawad Geny Lopez Bayaning Pilipino Award gives recognition to ordinary folks who have done heroic acts and extraordinary deeds in the field of public service.

Uplifting Education Is Responsible Mining

SUSTAINABILITY REPORT



Tree Nursery, Rio Tuba Mine Site

We are committed to the principles of sustainable development and recognize our responsibilities toward the environment, the communities where we operate, and the health and safety of our workforce.

Our operations manage their environmental projects through Annual Environmental Protection and Enhancement Programs (AEPEPs). These are prepared and submitted yearly for review to their respective Multi-Partite Mine Monitoring Teams (MMT) and Mine Rehabilitation Fund Committees, and finally for approval to the Mines and Geosciences Bureau (MGB). The 1995 Mining Act requires minimum annual expenditures of 3 to 5% of direct mining and (where applicable) milling costs for environmental protection and remediation. This requirement is complied with, if not occasionally exceeded, by our operations. Dedicated and qualified environmental teams in each of our operations are responsible for preparing and implementing their respective AEPEPs. Their work is subject to quarterly audits by the MMTs composed of representatives of the MGB, the Environmental Management Bureau, local government officials, and civil society organizations.

Lateritic nickel deposits are shallow and their extraction does not require the use of explosives. The environmental impact of our mining operations is therefore limited to ground disturbance that can result in erosion and sedimentation, and dust. The AEPEPs of our operations provide for erosion and sedimentation control primarily through the use of sediment settling ponds, which are regularly maintained. Removal of the sediment material is a periodic activity and where appropriate, the material is used as backfill in the rehabilitation of mined out areas. Supplementary measures for rainfall erosion include soil covers, drainage structures to keep surface run off away from disturbed areas, and water velocity reducers. For dust control, windbreaks and water sprays along road networks are being used.

Our AEPEPs also provide for progressive rehabilitation of mined-out areas. This involves re-contouring of the ground, provision of backfill material where required and adequate topsoil, and re-vegetation using native species that are grown in nurseries at each of our operations. With proper care and maintenance, survival rates have averaged over 85%. The nurseries at our four mine sites have the capacity to grow about 200,000 seedlings per year of native species that are suitable for mine rehabilitation. In 2011, the combined environmental expenditures of our four operating mines amounted to PhP180.8 million.

In the area of social responsibility, the 1995 Mining Act requires minimum annual expenditures for community development programs of 1% of direct mining and (where applicable) milling costs. Our yearly expenditures normally exceed this minimum requirement. In late 2010, the MGB issued an Administrative Order raising the minimum requirement to 1.5% of total operating costs. In 2011, total expenditures related to the social development programs of our four operating mines and our associate company, Coral Bay Nickel Corporation (CBNC), amounted to PhP279.2 million. This includes expenditures to Indigenous Peoples (IPs) within the general vicinity of two of our operations, TMC and RTN.

Our operations manage their social expenditures through their respective Social Development Management Plans (SDMPs). These 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 SDMPs, 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.

RTN Foundation Indigenous Learning System (ILS)

In the area of safety and in accordance with the 1995 Mining Act and other pertinent laws, each operation employs a safety team under an accredited safety officer to promulgate safety measures and procedures and to ensure that these are followed. Training programs are also being conducted regularly. In 2011, our four operations recorded a total of 12.83 million man-hours worked with a frequency rate of 0.39 (fatal plus non-fatal accidents) and an incident rate (including non-lost time accidents) of 12.39 per million man-hours worked.

RTN

Environmental Management

RTN rehabilitated around nine hectares of mined-out areas, with over 13,000 seedlings planted. Cumulatively, over 250 hectares, with over 500,000 seedlings planted, have been rehabilitated. Outside the mined-out areas, activities were mostly limited to ring weeding and brushing and replacement of mortality in previously developed areas. Thus, the reforestation accomplishment outside the mined-out areas remained almost unchanged at around 210 hectares, with around 260,000 seedlings planted.

To complement its reforestation activities, a number of agro-aqua-forestry combinations were successfully implemented, such as rice planting, vegetable production, herbal and kenaf production, tilapia culture, and a two-hectare jatropha plantation. Likewise, a number of project studies were undertaken on various topics such as the recolonization of floral and faunal species, and the utilization of various reforestation species, in rehabilitated mined-out areas. With respect to coastal areas, about 10,500 mangrove propagules have been planted on four hectares to date.

For its efforts in mine rehabilitation, RTN garnered a special award for the Best Rehabilitation Strategy during the November 2011 National Mine Safety and Environment Conference.

Controls for siltation are conducted regularly with continuous desilting, repairs and maintenance of settling ponds and drainage canals, and stabilization of embankments and slopes. A series of silt traps are also installed to arrest as much silt as possible before they reach the settling ponds. During the year, around 6,000 cubic meters of silt were removed from existing settling ponds. To date, the total capacity of the settling ponds stands at over 670,000 cubic meters. Work was undertaken at the Tagpisa spillway and on the network of canals to enhance slope stabilization and channel desilting.

Social Development

RTN implemented various projects under its SDMP for the benefit of residents of its host barangays, namely: Rio Tuba, Ocayan, Taratak, Sandoval, and Iwahig. In addition, RTN implemented projects that benefitted IPs situated outside its host barangays, such as Sumbiling, Tarusan, Sarong, Igang-igang, Culangdanum, and Sapah. RTN's SDMP, in collaboration with CBNC, is being implemented through RTN Foundation, Inc. (RTNFI).

In terms of education, the LSV Memorial School, funded by RTNFI, served a total of 1,288 students (279 pre-school, 696 elementary, and 313 high school). About 40% of the students are from Barangay Rio Tuba and adjoining communities. Educational benefits were also granted to 328 college scholars. RTNFI likewise funds an Indigenous Learning System accredited by the Department of Education (DepEd) in three levels up to high-school equivalent, with about 700 Indigenous Peoples (IP) enrolled. For children of IPs that opt to attend the public school system, financial benefits

Rehabilitated Mine Area, Cagdianao Mine Site

are being provided by RTNFI to about 310 IP students, which benefits are administered by the IP Development Office.

In terms of health care, the RTNFI Hospital served a total of 53,477 patients (3,618 admissions and 49,859 out-patients). The hospital also played an important role in saving numerous lives during the diarrhea outbreak in a far-flung barangay of Bataraza. A total of 119 surgical operations were also performed in the hospital through a medical mission conducted by doctors from Southern California.

With respect to other projects specifically catering to the IPs, RTNFI, in collaboration with the Gawad Kalinga Foundation, continued to progress towards the goal of building 1,000 housing units by 2018. To date, a total of 208 units have been constructed and awarded to families in six sitios in the outlying barangays. Furthermore, various community and livelihood projects relating to farming, establishment of cooperative stores, buying and selling of merchandise, hog raising, rice trading, and seed dispersal, were implemented. Finally, infrastructure projects, such as a water supply system, school classrooms, day care centers, a solar drying/multi-purpose pavement, and health centers, were completed.

TMC

Environmental Management

TMC rehabilitated around five hectares of mined-out areas, with around 3,600 seedlings planted. Cumulatively, over 80 hectares, with almost 59,000 seedlings planted, have been rehabilitated. Outside the mined-out areas, TMC forested around 74 hectares, with over 120,000 seedlings planted. Thus, the reforestation accomplishment outside the mined-out areas is at around 335 hectares, with almost 570,000 seedlings planted.

To complement its reforestation activities, TMC allocated one hectare of land to accommodate research being undertaken by DENR-ERDS entitled “improving the germination and survival of directly seeded trees in TMC” by Aljoy Abarquez.

With respect to coastal areas, about 14,000 mangrove propagules were planted on over five hectares. As a result, over 45,000 mangrove propagules have been planted on about 18 hectares to date.

During the year, almost 220,000 cubic meters of silt were removed from existing settling ponds. Moreover, additional settling ponds with a total capacity of 180,000 cubic meters were constructed, bringing the total volume capacity of the settling ponds to 560,000 cubic meters. Work was undertaken at Daan Suba and Hubasan Creek to fortify the embankments.

Social Development

TMC implemented various projects under its SDMP for the benefit of residents of its host barangays, namely: Taganito, Urbiztondo, Hayanggabon and Cagdianao.

In terms of education, TMC implemented various initiatives such as provision of subsidies to teachers, construction of classrooms and improvement of school facilities, construction of a multi-purpose learning center, procurement of educational equipment such as audio-video facilities, computers, and digital cameras, procurement of school uniforms, and provision of financial assistance and scholarships to college students. Discussions with the regional office of the DepEd are currently underway for TMC to formally adopt the Taganito High School.

In terms of infrastructure, projects included renovation of church buildings and facilities and construction or improvement of barangay facilities such as street lighting, day care centers, pedestrian pathways, waste disposal infrastructure, and water systems.

In terms of livelihood, projects included a rice brokering project (wholesaling and retailing of rice), the Taganito Concerned People Consumers Cooperative for the purpose of installing a water refilling station, the Urbiztondo Rural Women Workers Association for the purpose of retailing general merchandise and providing catering services, assistance to vegetable demonstration farms, funding for a welding and vulcanizing shop, establishment of a family enterprise in Hayanggabon, and funding for the Cagdianao Public Market.

With respect to projects specifically catering to the IPs, TMC, in collaboration with the Gawad Kalinga Foundation, completed the construction of 120 housing units for the Mamanwa tribe of Taganito and Urbiztondo. These units were turned-over to AMPANTRIMTU, the organization jointly formed by the Mamanwas of Taganito and Urbiztondo, during the year in review.

HMC

Environmental Management

HMC rehabilitated around 11.5 hectares of mined-out areas, with almost 13,000 seedlings planted. These included over 3,000 seedlings planted on three hectares by HMC's three mining contractors. HMC engaged the services of the community in order to expedite the rehabilitation program through its Community Output-Based Reforestation Program. Cumulatively, almost 40 hectares, with over 42,000 seedlings planted, have been rehabilitated. Outside the mined-out areas, HMC forested around eight hectares, with over 9,000 seedlings planted. Thus, the reforestation accomplishment outside the mined-out areas is at around 13.3 hectares, with about 15,000 seedlings planted.

With respect to coastal areas, over 13,000 mangrove propagules were planted on around three hectares. As a result, over 17,000 mangrove propagules have been planted on about five hectares to date.

During the year, almost 21,000 cubic meters of silt were removed from existing settling ponds. To date, the total volume capacity of the settling ponds stands at over 92,000 cubic meters. Work was undertaken with respect to the construction of new settling ponds at West 5.

Social Development

HMC implemented various projects under its SDMP for the benefit of residents of its host barangay, Talavera.

In terms of education, HMC implemented various initiatives such as the construction of two high school classrooms, the provision of financial support, supplies, and educational enhancement activities for teachers and students. It launched the Hinatuan Educational Learnership Program for Students (HELPS), which

RTN Foundation/Gawad Kalinga Housing Project for Indigenous People

RTN Foundation/Gawad Kalinga Housing Project for Indigenous People

provided part-time summer jobs with stipends to 42 college students. In addition, it launched the Alternative Learning System, in coordination with the DepEd, which catered to 167 out-of-school youths and adults that were keen to pursue their elementary and high school education. HMC maintains nine full scholars who are pursuing tertiary courses in mining engineering, education and accountancy. With the help of the Technical Education and Skills Development Authority (TESDA), HMC conducted human resource skills and development training on heavy equipment operation, commercial cooking, and beauty care. Finally, over 20 barangay officials were brought on a local study mission for ecological solid waste management to Hinatuan, Surigao del Sur and Santo Tomas, Davao del Norte.

In terms of health care, projects included mid-year and year-end medical missions for host communities and a special medical mission for senior citizens of Barangay Talavera and Sitio Campandan. HMC also funded, in coordination with the local government of Barangay Talavera, the hiring of a licensed midwife. Finally, HMC supported the health and sanitation program of its host barangay by providing construction materials for around 80 toilets benefitting identified indigent families.

CMC

Environmental Management

CMC, as of the end of 2011, has not declared any areas as mined-out. Therefore, all forestation work was undertaken outside its mining area. As such, CMC forested around seven hectares, with over 10,000 seedlings planted. The forestation effort thus accomplished to date outside its mining area is at around 89 hectares, with almost 67,000 seedlings planted.

With respect to coastal areas, about 100 mangrove propagules were planted on 0.10 hectares. As a result, over 4,600 mangrove propagules have been planted on about 0.62 hectares to date.

During the year, over 48,000 cubic meters of silt were removed from existing settling ponds. Moreover, additional settling ponds with a total capacity of about 120,000 cubic meters were constructed, bringing the total volume capacity to over 390,000 cubic meters. Work was undertaken on the sea wall at Sitio Camp Poroy, on the rip rapping of the Claudia and Is-isan settling ponds, and on the graveling of hauling roads of Is-isan.

Social Development

CMC implemented various projects under its SDMP for the benefit of residents of its host barangay, Valencia. In line with its objective of aligning project plans to needs, CMC launched the Stakeholders' Convergence in 2011, which fostered better collaboration with the community.

In terms of education, CMC implemented various initiatives such as providing tertiary education scholarship to 18 students undertaking courses in mining engineering, nursing, education, environmental science, and marine transportation. CMC likewise provided assistance to the Valencia Integrated School and scholarships to its elementary and high school students. In addition, it extended assistance to schools in host and neighboring communities that enabled these schools to repair and improve their facilities.

In terms of health care, facilities and basic equipment were donated to the new Barangay Valencia Health Center, which allowed it to accommodate birthing mothers. Throughout the year, medical missions, medical check-ups, and first-aid medicines were regularly provided for host and neighboring communities.

In terms of infrastructure, water systems in Barangay Boa and Barangay Legaspi were improved.

In terms of livelihood, projects included the establishment of alternative livelihood programs for farmers and women, such as hog raising, rice retailing, and agri-vet supplies retailing. Further, the CMC Women's Cooperative, with the company's assistance, was able to build a hardware store to support the increasing demand for construction supplies brought about by the influx of people. The community fisherfolks' organization (Bantay Dagat), likewise with the company's assistance, was able to launch a poultry business to meet the food requirements of the community during the monsoon season, during which time fishing is not feasible.

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.

Manuel B. Zamora Jr.
Chairman

Gerard H. Brimo
President and Chief Executive Officer

Emmanuel L. Samson
Chief Financial Officer

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

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www.sgv.com.ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Nickel Asia Corporation and Subsidiaries
6th Floor NAC Centre
143 Dela Rosa Street, Legaspi Village
Makati City

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
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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

	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
	Equity Attributable to Equity Holders of the Parent										
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.

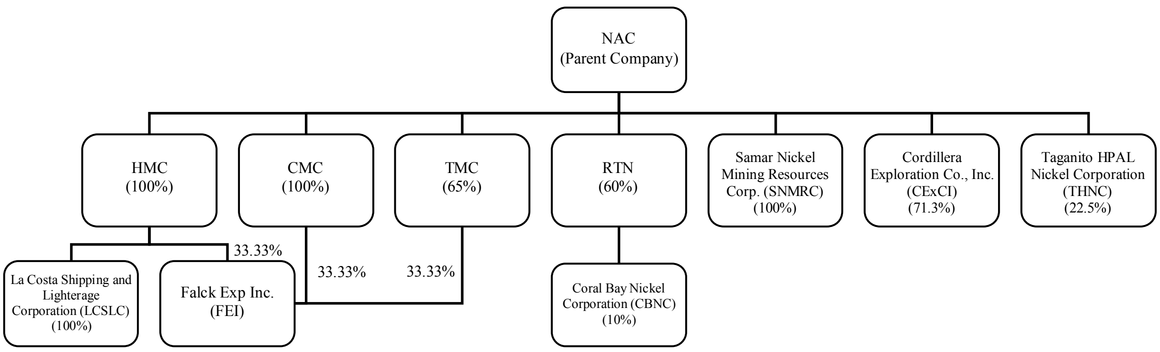
On April 15, 2009, the SEC approved the merger which was accounted for as a tax-free transaction using the pooling of interest method (see Note 30). There were no material pre-merger transactions between the Company and NAC.

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.

Basis of Consolidation Prior to January 1, 2010

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.

Reorganization of the Group

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.

Impairment of Financial Assets
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.

Other Current Assets
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.

Other Noncurrent Assets
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.

Provisions
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

TMC Loan

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).

RTN Loan

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
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.

SCHEDULE I

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**

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Manuel B. Zamora, Jr.
Chairman

Philip T. Ang
Vice Chairman

Gerard H. Brimo
Frederick Y. Dy
Fulgencio S. Factoran Jr.
Takanori Fujimura
Takeshi Kubota
Luis J.L. Virata
Ronaldo B. Zamora

OFFICERS
Nickel Asia Corporation

Manuel B. Zamora, Jr.
Chairman

Philip T. Ang
Vice Chairman

Gerard H. Brimo
President & Chief Executive Officer

Emmanuel L. Samson
Senior Vice President & Chief Financial Officer

Jose S. Saret
Senior Vice President & Chief Operations Officer

Raymundo B. Ferrer[2]
Senior Vice President
Security & Administration

Martin Antonio G. Zamora[2]
Senior Vice President
Marketing & Strategic Planning

Rolando R. Cruz
Vice President Operations

Jose Roderick F. Fernando
Vice President
Legal & Human Resources
Assistant Corporate Secretary

Koichi Ishihara[2]
Vice President
Marketing & Procurement

Ma. Angela G. Villamor
Assistant Vice President
Internal Auditor

Barbara Anne C. Migallos
Corporate Secretary

Subsidiaries
Rio Tuba Nickel Mining Corporation

Jose S. Saret
Senior Vice President

Norberto R. Reyes
Vice President
Finance

Philipp D. Ines
Resident Mine Manager

Taganito Mining Corporation

Michio Iwai
Vice President

Lennie A. Terre
Vice President
Finance & Administration

Jose B. Anievas
Resident Mine Manager

Cagdianao Mining Corporation and Hinatuan Mining Corporation

Patrick S. Garcia
Assistant Vice President
Finance

Fernando G. Agustin
Resident Mine Manager, Cagdianao Mine

Angelito V. Gomez[1]
Resident Mine Manager, Taganaan Mine

[1] Up to 30 April 2012
[2] Effective 8 May 2012

CORPORATE DIRECTORY

Address

Head Office
6F NAC Centre, 143 Dela Rosa Street
Legaspi Village, Makati City, Philippines 1229
T: +632 892 6669 / 892 4177
F: +632 892 5344

Mine Sites

Rio Tuba Mine
Barangay Rio Tuba, Bataraza, Palawan

Taganito Mine
Barangay Taganito, Claver, Surigao del Norte

Cagdianao Mine
Barangay Valencia, Cagdianao, Dinagat Islands

Hinatuan Mine
Barangay Talavera, Taganaan, Surigao del Norte

Corporate Website
http://www.nickelasia.com

Independent Public Accountants
Sycip Gorres Velayo & Co.

Bankers
Banco de Oro
Bank of the Philippine Islands
BNP Paribas
Credit Suisse
Rizal Commercial Banking Corporation
Security Bank Corporation
Union Bank of the Philippines

Transfer Agent
Stock Transfer Service, Inc.
34F, Unit D, Rufino Pacific Tower
6784 Ayala Avenue, Makati City, Philippines
T: +632 403 2410 / 403 2412
F: +632 403 2414

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Kapunan, Tamano, Javier
Migallos & Luna
Pacis & Reyes
Tan Acut Lopez & Pison

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