BenguetCorp

SEC Reg. No. 11341

November 19, 2012

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA
Greenhills, Mandaluyong City

Attention: ATTY. JUSTINA F. CALLANGAN
Director, Corporation Finance Department

PHILIPPINE STOCK EXCHANGE
3rd Floor Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

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

Gentlemen:

In compliance with the reportorial requirements of the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE), attached hereto is Benguet Corporation's 2012 Third Quarter Report ended September 30, 2012.

Please note that on November 12, 2012, we requested for extension of deadline to submit the said report under SEC Form 17-L for SEC and written request for PSE.

We hope that you will find everything in order.

Very truly yours,

BENGUET CORPORATION
By:

REYNALDO P. MENDOZA
Asst. Corporate Secretary

Universal Re-Building, 106 Paseo de Roxas, 1226 Makati City Philippines
MCPO Box 3488 • Phone: +632.812.1380 • Fax: +632.752.0717

COVER SHEET

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SEC Registration Number

B E N G U E T   C O R P O R A T I O N

(Group's Full Name)

7 t h   F l o o r ,   U n I v e r s a l   R e   B u i l d i n g ,

1 0 6   P a s e o   d e   R o x a s ,   M a k a t i   C i t y

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

Mr. Reynaldo P. Mendoza
(Contact Person)

812-1380
(Group Telephone Number)

1 2 *Month* **3 1** *Day*
(Calendar Year)

1 7 - Q
(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

17,017
Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended: **SEPTEMBER 30, 2012**

2. Commission identification number: **11341** 3. BIR Tax Identification No.: **000-051-037**

BENGUET CORPORATION
4. Exact name of issuer as specified in its charter

PHILIPPINES
5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: [ ] (SEC Use Only)

7F UNIVERSAL RE-BUILDING, 106 PASEO DE ROXAS, MAKATI CITY **1226**
7. Address of issuer's principal office Postal Code

(**632) 812-1380 / 751-9137**
8. Issuer's telephone number, including area code

....
9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA.

	Number of shares of common stock outstanding and amount of debt outstanding
Convertible Preferred Class A	217,061 shares
Common Class A Stock	102,394,665 shares
Common Class B Stock	61,497,352 shares
Total consolidated outstanding principal debt as of September 30, 2012 -	₱2.4 Billion

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

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

The Issuer’s Convertible Preferred Class A share, Common Class A share and Common Class B share are listed in the Philippine Stock Exchange (PSE).

Indicate by check mark whether the registrant:

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

Yes [X] No [ ]

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

Yes [ ] No [X]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

Financial Statements and, if applicable, Pro Forma Financial Statements meeting the requirements of SRC Rule 68, Form and Content of Financial Statements, shall be furnished as specified therein.

PLEASE REFER TO ANNEX "B" on pages 13 to 40 which is incorporated herein as part of this report (SEC Form 17-Q) which contained the following reports:

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

A. RESULTS OF OPERATIONS

2012 Third Quarter Vs. 2011 Third Quarter

Despite the heavy rainfall and frequent typhoons which affected the Sta. Cruz nickel operation in the third quarter under review, the Company still reported a consolidated modest net earnings of ₱0.57 million compared to the net earnings of ₱595.9 million for the same period of 2011. For the nine months period this year earnings amounted to ₱185.4 million compared to the net earnings of ₱1.18 billion for the same period last year. Last year earnings include substantial gain from debt settlement and Kingking Project transaction.

Consolidated operating revenues for the quarter declined to ₱240.81 million from ₱283.52 million while operating revenues for the nine months period increased to ₱934.79 million from ₱657.52 for the same respective periods last year. During the nine months period, the mining operations contributed ₱836.41 million in revenues mainly from SCNP (₱449.56 million) and AGP (₱386.85 million).

Operating costs and expenses for the third quarter increased by ₱111 million to ₱351 million from ₱240 million for the same quarter last year mainly due to higher cost of mine products sold and services. For the same reasons, the operating costs and expenses for nine months period this year also increased by ₱340 million to ₱893 million from ₱553 million for the same period in 2011.

The other net income for the quarter and the nine months period this year amounted to ₱127 million and ₱219 million, respectively, lower compared with the other income of ₱511 million and ₱1,064 million for the same periods last year. The extraordinary gain of ₱211 million from BMC debt settlement and the recovery of impairment on the Group's exploration activities contributed to the other income this nine months period. The income, however, is lower compared to the ₱972 million extraordinary gain from debt settlement and gain from the Kingking transaction in 2011.

The provision for income tax for the third quarter and nine months period this year, amounted to ₱964 thousand and ₱39 million, respectively, compared with the benefit from income tax of ₱53 million and ₱46 million for the same periods last year.

For more detailed discussion on the Company's results of operations and plan of operation, please refer to the Company's President Report for Third Quarter 2012 which form as integral part of this report and marked as Annex "A" on pages 9 to 12.

2011 Third Quarter versus 2010 Third Quarter

Consolidated net income for the third quarter and nine months period this year amounted to ₱595.9 million and ₱1,176.0 million, respectively, substantially higher than the net income of ₱30.0 million in the third quarter and a turnaround from the net losses of ₱58.3 million for the nine months period last year. The net operating income of ₱44 million from the Sta. Cruz Nickel Project (SCNP) and Acupan Contract Mining Project (ACMP) and the extraordinary gain of ₱423 million from the Kingking transaction contributed to the turnaround this quarter.

Consolidated operating revenues this quarter and nine months period significantly increased to ₱283.5 million and ₱657.5 million, respectively from ₱140.6 million and ₱274.9 million for the same periods last year. The mining operations contributed ₱255 million in revenues mainly from SCNP (₱166 million) and ACMP (₱89 million).

Operating costs and expenses this quarter of ₱239.6 million is higher than the ₱142.1 million for the same quarter last year mainly due to higher selling and general expenses and cost of mine products sold this quarter. For the same reasons, the operating costs and expenses for nine months period this year is also higher by ₱261.6 million to ₱552.7 million from ₱291.1 million for the same period in 2010.

Other net income this quarter amounted ₱498.5 million, higher than ₱62.5 million for the same quarter of 2010. The ₱423 million gain from the Kingking transaction contributed to the positive variance this quarter. For the nine months period this year, other net income amounted to ₱1,024.8 million, a turnaround from the other net expenses of ₱14.6 million for the same period last year. The turnaround is mainly from the reversal of interest and discount on debt settlement and gain from the Kingking transaction.

The provision for income tax for the third quarter and nine months period this year, amounted to ₱53 million and ₱46 million, respectively, compared with the benefit from income tax of ₱31 million and ₱27 million for the same periods last year.

B. FINANCIAL POSITION

2012 Third Quarter Vs. 2011 Third Quarter

The Company ended the third quarter of 2012 with consolidated assets of ₱6.55 billion, higher than end-December 2011 level of ₱5.30 billion. Cash and cash equivalents decreased to ₱1.1 billion from ₱1.2 billion in 2011, mainly from cash used by operating activities, equipment purchases for the expansion of Acupan mining project and debt settlement.

Receivables increased to ₱414 million from ₱82 million, attributed mainly from nickel shipment not yet collected. Loans receivable slightly decreased to ₱49 million from ₱59 million in 2011 mainly due to partial collection this nine months.

Inventories increased to ₱165.1 million from ₱37.3 million, partly due to nickel inventories booked for the nine months period this year. Increased in prepaid expenses and other current assets to ₱184 million from ₱117 million in 2011 pertains to input taxes on various purchases of materials and supplies and services and advanced office rental of BC and subsidiaries.
Property, plant and equipment increased to ₱3,337 million from ₱3,127 million last year, mainly due to equipment purchases for the expansion of AGP and Nickel Project in Sta. Cruz, Zambales.

Available for sale investments went up to ₱291 million from ₱14 million, mainly from the ₱275 million contribution to the Investment Management Account with Maybank ATR Kim Eng Capital Partners, Inc.- Trust Department.

Mining exploration and project development costs increased to ₱546 million from ₱311 million last year, mainly due to expenses incurred in the nickel expansion project and Balatoc and Antamok Tailings Project. Deferred charges and other assets increased to ₱192 million from ₱133 million in 2011, mainly due to expenses incurred in the AGP's expansion program to increase its milling capacity to 300 tons per day and environmental fund for gold and nickel projects.

Accounts payable and accrued expenses increased to ₱356 million from ₱244 million last year, mainly attributable to the unpaid billings of sub-haulers of Arrow Freight Corporation doing ore extraction and hauling in the Sta. Cruz Nickel Project.

The outstanding bank loans (inclusive of interest and penalties) as of September 30, 2012 increased by ₱802 million to ₱2,370 million from ₱1,568 million in 2011, mainly from the US$20 million Pre-Export Financing Facility obtained from Amsterdam Trade Bank N.V. to fund the Company's capital expenditure and working capital requirements. Deferred income tax liabilities reduced to P946 million from P980 million in 2011.

Income tax payable this quarter pertains mainly to the income tax payable of BNMI- Sta. Cruz Nickel Project. Other non-current liabilities increased to ₱67.6 million from ₱25.6 million, mainly from cash advance made by DMCI chargeable against future royalty.

Deposit for future subscription pertains to the RYM Business Management Corporation additional subscriptions of ₱180 million pursuant to the Memorandum of Agreement (MOA) on Private Placement dated April 7, 2010, and Addendum to the MOA dated September 17, 2010.

Retained earnings improved to ₱1,160 million from ₱975 million in 2011,mainly due to the net income for the nine months period of 2012. The net income for the nine months period this year and the additional subscription from RYM Business Management Corporation increased the Stockholders equity to ₱2.671 billion from ₱2.311 billion in 2011.

2011 Third Quarter Vs. 2010 Third Quarter

The Company ended the third quarter of 2011 with consolidated assets of ₱4.89 billion, higher than end December 2010 level of ₱4.07 billion. Cash and cash equivalents increased to ₱1.106 billion from ₱0.292 billion in 2010. The increased is mainly from the sale of Kingking project and advances from Bright Mining & Resource Company Ltd. chargeable against the delivery of 1.8 million tons of nickel ore from SCNP.

Inventories slightly increased to ₱27.7 million from ₱25.5 million in 2010 mainly due to increase in development cost of subdivision of a subsidiary.

Receivables increased to ₱312 million from ₱270 million in 2010, mainly attributed from nickel shipment which is not yet collected. Loans receivable decreased to ₱46.2 million from ₱54.7 million in 2010 mainly due to partial collection this nine months.

Prepaid expenses and other current assets increased to ₱100.6 million from ₱36.4 million in 2010 mainly due to input taxes from purchases of goods and services and purchases of goods which are still in transit and recorded as other assets. The materials in transit account will be reclassified to proper account upon receipt of the materials receiving report.

Deferred charges and other assets increased to ₱118.4 million from ₱105.0 million in 2010 mainly due to the 16.0 million down payment for the construction of barge of Kingking Copper-Gold Operation, a wholly owned subsidiary.

Property, plant and equipment increased to ₱2,782 million from ₱2,750 million in 2010 mainly due to acquisition of equipment needed for the AGP expansion project.

Mining exploration and project development costs decreased to ₱219 million from ₱354 million in 2010 mainly from the write-off of Kingking exploration costs.

Accounts payable and accrued expenses increased to ₱881 million, partly from the advances from Bright Mining & Resource Company Ltd. chargeable against the delivery of 1.8 million tons of nickel ore.

The outstanding bank loans (inclusive of interest and penalties as of September 30, 2011 decreased to ₱1.081 billion from ₱1.491 billion in 2010, mainly due to settlement of some debt this nine months period.

Income tax payable decreased to ₱25.0 million from ₱75.3 million last year mainly from the payment of the Company's minimum corporate income tax and Benguetcorp Nickel Mines, Inc., a wholly owned subsidiary income tax payable for 2010.

Deferred income tax liabilities decreased to ₱835.8 million from ₱944.5 million in 2010 mainly from the write-off of reserve for materials and inventories, accounts receivable and mine development costs.

Other non-current liabilities decreased to ₱26.7 million from ₱32.8 million in 2010 mainly due to account re-classification of deferred tax liability of a subsidiary.

Cost of share-based payment decreased to ₱31.4 million from ₱41.8 million in 2010 mainly due to exercise of stock options.

Deficit as of September 30, 2011 decreased to ₱1.399 billion from ₱2.575 billion in 2010 mainly due to the net income for the nine months of 2011. For the same reason, stockholders equity increased to ₱1.942 billion from ₱0.755 billion in 2010.

The Company's current liability still exceeded its current assets by ₱0.4 billion as of September 30, 2011 and ₱1.6 billion as of December 31, 2010.

KNOWN TRENDS, EVENTS OR UNCERTAINTIES

The Company foresees improvement in its cash flow as the Company's AGP continues to improve its gold production, steady market of quicklime from ILP and assured market for nickel ores of Sta. Cruz Nickel Project due to the signing of off-take agreements. The agreements assured the Company of a market for high and low grade nickel ores for the next three (3) years.

On July 12, 2012, the Company signed a US$20 million Pre-Export Financing Facility Agreement with Amsterdam Trade Bank N.V. and Maybank Philippines Inc., to be used for working capital and capital expenditure requirements.

On October 2, 2012, the Company's Board of Directors approved in principle the additional capital investment of BC in Benguet Management Corporation (BMC), its wholly-owned subsidiary. The cash infusion in the amount of ₱205 million is for the purpose of subscribing to the proposed capital increase of BMC pursuant to the quasi-reorganization and capital restructuring plan that BMC will implement as soon as approval from the Securities and Exchange Commission is obtained.

Except for the Company's outstanding bank loans, there are no material events that will trigger direct or contingent financial obligations to the Company. As of September 30, 2012, the Parent Company's principal loans subject to the repayment plan amounted to ₱971 million.

There are no material off-balance sheet transactions, arrangement, obligations, and other relationship of the Company with unconsolidated entities or other persons that the Company is aware of during the quarter.

For the quarter in review, the Company continues to fund the capital requirements of its Acupan mine expansion program, nickel and gold tailings projects in Zambales and Benguet Provinces, respectively. The anticipated increase production of gold at AGP, higher quicklime sales from ILP and shipment of nickel ores from its Sta. Cruz Nickel Project coupled with favorable metal prices will also have a favorable impact on the Company's net sales and income.

As of September 30, 2012, except for what has been noted in the preceding, there are no material events or uncertainties known to management that had material impact on past performance, or that would have a material impact on the future operations, in respect of the following:

- Known trends, demands, commitments, events or uncertainties that would have a material impact on the Company;
- Material commitments for capital expenditures that are reasonably expected to have a material impact on the Company's short-term or long-term liquidity;
- Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations;
- Significant elements of income or loss that did not arise from the Company's continuing operations;
- Seasonal aspects that had a material impact on the Company's results of operations; and
- Material changes in the financial statements of the Company.

KEY PERFORMANCE INDICATORS

1.) *Working Capital* - Working capital (current assets less current liabilities) and current ratio (current assets over current liabilities) measures the liquidity or debt paying ability of the Company. As of September 30, 2012, the Company current ratio is 1.49:1, a significant improvement as compared in the same period last year which the Company's current liabilities exceeded its current assets by ₱394 million. The Company is moving forward in the development of its pioneering gold tailings reprocessing project, and in the expansion of its gold and nickel operations. It remains optimistic that the coming year will show robust net income performance, which will ultimately benefit all stakeholders.

2.) *Metal Price* - The market price of gold in the Banko Sentral ng Pilipinas which is based from the world spot market prices provided by the London Metal Exchange for gold is the key indicator in determining the Company's revenue level. This quarter, the average market prices for gold sold were at US$1,659 per ounce compared to US$1,673 per ounce for the same quarter in 2011. The favorable gold and nickel price will also have a favorable impact on the Company's revenue.

3.) *Tonnes Mill and Ore Grade* - Tons milled and ore grade determine gold production and sales volume. The higher the tonnage and ore grade, the more gold are produced and sold. This quarter, tons milled were 13,994 tons of shared ore with average grade of 6.83 grams per ton gold. Gold sold were 1,206 ounces. For the same quarter in 2011, tons milled were 5,185 tons of shared ore with average grade of 8.17 grams per ton gold. Gold sold were 1,206 ounces.

4.) *Foreign Exchange Rate* – The volatility in the foreign currency exchange rates will continue to affect the operations in the foreseeable future. As the Company's sales proceeds are mainly in U.S. dollars, a higher Philippine peso to U.S. dollar exchange rate means higher peso sales but would also reflect a foreign exchange loss on the restatement of the Company's dollar obligations. Conversely, a lower exchange rate reduces the Company's revenue in pesos but brings foreign exchange income on the loans. As of September 30, 2012, the peso to dollar exchange rate was at ₱41.88, lower than the ₱43.636 for the same period in 2011.

5.) *Earnings Per Share* - The earnings per share reflect the Company's bottom line operating results expressed in amount per share of the Company's outstanding capital stock. Assuming a constant outstanding number of shares, as a Company's earnings increase, the earnings per share correspondingly increase. This quarter, the Company's earnings per share is ₱0.004 versus ₱3.64 per share for the same period of 2011. With the projected higher gold production of AGP and assured market of nickel ores of SCNP coupled with the prevailing favorable metal prices, the Company anticipates improvement in the earnings per share.

The Company's key performance indicator used for its subsidiaries is Net Income.

Benguet Management Corporation (BMC) and its subsidiaries reported a consolidated net income of ₱33.02 million for the third quarter and ₱110.15 million for the nine-month period this year, a turnaround from the loss of ₱0.43 million and ₱2.58 million posted for the same respective periods in 2011.

PART II--OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

There are no other information for this interim period not previously reported in a report on SEC Form 17-C.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer........................**BENGUET CORPORATION**..
By:

Signature and Title: **REYNALDO P. MENDOZA** – SVP, Legal/Asst. Corporate Secretary

Principal Financial/Accounting Officer/Controller:

Renato C. Claravall

Signature and Title: **RENATO A. CLARAVALL** – SVP, Chief Finance Officer

Annex "A"

2012
THIRD QUARTER REPORT
BENGUET CORPORATION
AND SUBSIDIARIES

During the third quarter of 2012, Benguet Corporation still registered modest gains despite the expected seasonal slowdown of shipments of its Sta. Cruz Nickel Project (SCNP) due to heavy rainfall. SCNP and Acupan Gold Project (AGP) continue to invest in their operations as they program a higher level of production for the rest of the year and 2013.

Your Company continues to benefit from its strategic decision to shift logistical requirements internally. Subsidiary Arrow Freight Corporation's (AFC) net profit continuous to improve as it consolidates its logistical capacity and capability.

CONSOLIDATED RESULTS

Despite adverse climatic conditions, your Company reported operating revenues for this quarter of ₱240.81 million (US$5.77 million) while operating revenues for the nine month period increased by 42.17% to ₱934.79 million (US$22.39 million) from ₱657.5 million (US$15.1 million) for the same period of 2011. During the nine months period, mining operations contributed ₱836.41 million or 89.48% of operating revenues. The Sta. Cruz Nickel Project (SCNP) accounted for ₱449.56 million, while the Acupan Gold Project (AGP) contributed ₱386.85 million.

Your Company's consolidated net earnings for the nine months ending this quarter amounted to ₱185.44 million (US$4.44 million) or ₱1.13 (US$0.03 per share. Last year, due to substantial debt settlement gains, the net earnings for the same period stood at ₱1.18 billion (US$26.91 million) or ₱7.18 (US$0.165) per share. The net earnings contribution for the quarter stood at ₱0.57 million (US$0.014 million) or ₱0.004 (US$0.0001) per share.

MINING OPERATIONS

AGP generated net earnings of ₱47.11 million (US$1.13 million) and ₱121.66 million (US$2.91 million) for this quarter and nine-month period of 2012, higher by 74.35% compared to the net earnings of ₱27.02 million (US$0.62 million) and by 49% compared to net earnings of ₱72.77 million (US$1.67 million) posted for the same respective periods last year. This is primarily due to higher gold production by 30.76% or 1,577 ounces with favorable gold price averaging US$1,659 per ounce this quarter, and by 48.49% or 4,623 ounces with higher average realized gold price of US$1,656 per ounce for the nine-month period of 2012, compared to the same periods of last year's gold production of 1,206 ounces and 3,257 ounces with gold price per ounce averaging US$1,673 and US$1,546, respectively. AGP milled 13,994 tons of ore with an average grade of 6.83 grams per ton this quarter, and 40,536 tons of ore with an average grade of 6.88 grams per ton for the nine-month period, 169.89% and 41.94% higher compared to total tons milled of 5,185 and 14,043 with an average grade of 8.17 and 8.35 grams per ton for the same respective periods last year. Your Company is currently working on its exploration and drilling programs to upgrade AGP's capacity. AGP's is targeting to increase milling rate to 300-tpd by year-end 2012.

Early onset of heavy rains and frequent typhoons made it difficult for the nickel operation to ship its nickel ore, hence, your Company's Benguetcorp Nickel Mines, Inc. (BNMI), a wholly owned subsidiary, suffered a net loss of ₱42.0 million (US$1.0 million) for the quarter under review as compared to the net earnings of ₱54.90 million (US$1.26 million) for the same period last year. For the same reason, the net earnings for the nine months period of ₱48.58 million (US$1.16 million) is lower as compared to ₱83.10 million (US$1.90 million) posted for the same period in 2011.

BNMI is ramping up its operations by expanding its drilling program and mine development. A drilling contractor was engaged to hasten blocking of the direct ore shippable areas and to update the total nickel resource of whole nickel property. It has also contracted the conduct of pre-feasibility study on a processing technology using its low and medium grade ore to produce higher value material for export.

On September 17, 2012, BNMI's Board of Directors approved the declaration of cash dividend amounting to ₱150 million or P0.12 per share. This is the second round that it declared cash dividend since it commenced operations in 2009.

Your Company's Irisan Lime Project (ILP) generated net earnings of ₱6.02 million (US$0.14 million) and ₱10.15 million (US$0.24 million) for this quarter and nine-month period of 2012, higher by 114.23% or ₱2.81 million (US$0.06 million) and by 28.48% or ₱7.90 million (US$0.19 million) posted for the same respective periods last year.

EXPLORATION, RESEARCH AND DEVELOPMENT

The Exploration and Geology completed the design of the diamond drill program for the Phase I of the Greater Acupan Project. This is intended to test and validate the ore potential of the GW vein mineralization. The major component of the project is the drilling to be conducted both on the surface and underground. Under this revised Phase I Program, some 49 drill holes aggregating 9,913-meters will be drilled on the surface, while 35 drill holes aggregating 9,465-meters will be drilled underground.

Balatoc Gold Resources Corporation (BGRC), a wholly-owned subsidiary, continues the activities on expansion and rehabilitation of its penstocks at Tailings Pond Nos. 2 and 3 and earthmoving works, the silt dam at the Gold Creek, the Ambalanga River pumping station, the ridge enhancement works on Tailings Ponds Nos. 2 and 3. The excavated materials from its expansion and rehabilitation activities will be used for the raising of the embankment of Tailings Ponds Nos. 2 and 3 to the level in which BTP will be able to operate its processing plant in Balatoc. BGRC is also currently reviewing and checking the initial engineering drawings done by Peoples' Asia, the outsourced engineering service provider. After this review, the evaluated drawings will be forwarded to 360*Global, an Australian engineering design service providers specializing on mining industry, to do the detailed engineering drawings suited for the bidding in the construction of the plant and installation works for the process equipment. In the meantime, BTP's application for duty free importation of its process equipment is under evaluation by the Incentive Department of the Board of Investments.

For the Surigao Coal Project, your Company is still awaiting the results of the bidding which it participated in the Philippine Energy Contracting Round 4 (PECR 4) for coal of the Department of Energy. Meanwhile, a preliminary hydrology study was done at the nearby Hubo River's water source to assess if the volume capacity of the river system can support a Hydro Plant which will complement the Coal Power Plant study. Your Company is also in the process of completing the requirements to secure permits for mine development of the project.

HEALTH CARE SERVICES

Your Company's Benguet Laboratories (BL) generated net earnings of ₱3.66 million (US$0.09 million) and ₱6.48 million (US$0.16 million) for this quarter and nine-month period of 2012, higher than the ₱1.19 million (US$0.03 million) and ₱3.27 million (US$0.08 million) posted for the same respective periods last year. The increase in earnings is due to higher sales to corporate accounts.

Your Company has recently spun off the business and created a wholly owned subsidiary Benguetcorp Laboratories, Inc. (BLI) to undertake the expansion of BL into a distinct operating unit that can raise the necessary development funds and create value for BC and its shareholders. BLI will soon open Med Central, its first branch outside of Baguio City, in San Fernando City at SM Pampanga. Med Central is equipped with state of the art facilities which offer various laboratory diagnostic services, primary and specialty clinics. It is proposed that BLI branches will be established in Cebu City, Cagayan de Oro and

Davao City in 2013. On September 19, 2012, your Company obtained approval of the Securities and Exchange Commission (SEC) on the incorporation of BLI.

SUBSIDIARIES

Benguet Management Corporation (BMC), a 100% owned subsidiary, and its subsidiaries, reported a consolidated net earnings of ₱33.02 million (US$0.79 million) this quarter and ₱110.15 million (US$2.63 million) for the nine-month period this year, a reversal from the losses of ₱0.43 million (US$0.01 million) and ₱2.58 million (US$0.06 million) posted for the same respective periods last year. The income arose from logistics services provided by BMC's subsidiaries to BNMI.

Arrow Freight Corporation (AFC), the logistics subsidiary of BMC, reported net earnings of ₱2.2 million (US$.05 million) this quarter and ₱18.01 million (US$0.43 million) for the nine-month period of this year, a considerable improvement from the net earnings of ₱0.050 million (US$0.001 million) and a loss of ₱1.39 million (US$0.03 million) posted for the same respective periods last year. The income was largely sourced from its contracted mining activities in SCNP, particularly the provision and operation of earth-moving and hauling equipment.

BMC Forestry Corporation (BFC) reported net earnings of ₱0.25 million (US$0.01 million) this quarter and ₱1.30 million (US$0.03 million) for the nine-month period of this year, higher compared to the net earnings of ₱0.11 million (US$0.002 million) and ₱0.85 million (US$0.02 million) posted for the same periods last year. BFC continues to develop the Woodspark Rosario Subdivision Project in La Union. Total lot sales and reservations to-date stand at 213 lots with an aggregate area of 29,323 square meters.

Benguetrade, Inc. (BTI), incurred net loss of ₱0.26 million (US$0.01 million) this quarter, and ₱0.91 million (US$0.02 million) for the nine-month period of this year, parallel to the loss incurred of ₱0.25 million (US$0.01 million) and ₱0.63 million (US$0.014 million) posted for the same periods last year.

ENVIRONMENT, COMMUNITY RELATIONS /SOCIAL DEVELOPMENT AND MANAGEMENT PROGRAMS

Your Company remains committed to its advocacy of responsible mining. It is coordinating with the proper government agencies to conduct activities that promote participatory and integrated biodiversity enhancement and proper land resource management.

During the quarter, most activities focused on the implementation of various structural enhancements to ensure continuous compliance with government standards and regulations. With the heavy rainfall in Sta. Cruz, Zambales during the quarter, there was close monitoring of mitigating and contingency measures in place, such as drainage canal, concrete culverts, silt ponds, sabo dams and other flood control measures to adequately receive and channel the run-off of silt-laden rain water to the nearby receiving body of water in your Company's SCNP.

Nursery maintenance and rehabilitation were carried-out in AGP and BNMI to expand seedling production and propagation in preparation for massive reforestation projects to be undertaken. In support of the National Greening Program of the government, total seedlings of 100,000 will be planted in the Company's mining areas by end of 2012, thus exceeding by 98% in the first year the 3-year target of the Mines and Geosciences Bureau of 50,000 trees. This program demonstrates your Company's commitment to environmental protection, management and sustainable development.

COMMUNITY RELATIONS/SOCIAL DEVELOPMENT AND MANAGEMENT PROGRAMS

Your Company continues its corporate social responsibility by providing host and neighboring communities with sustainable livelihood projects and Social Development and Management Programs (SDMP) in its Benguet and Zambales sites. AGP and BNMI continue to provide local employment to residents, as well as other services such as scholarship grants, nutrition programs, medical missions and various health services, training programs, livelihood projects and enhancement of sports facilities. Financial and technical assistance is also extended for various sports activities and celebrations, construction materials for schools, power and water works, road repair and maintenance in various barangays.

Your Company spearheaded rescue operations of a small-scale miner, who was trapped inside a mining tunnel located in Bokod, Benguet Province which caved in due to incessant rains. Your Company's help was sought by the Philippine National Police and the trapped miner was rescued after one week.

OTHER CORPORATE DEVELOPMENTS

Your Company signed a US$20 million Pre-Export Financing Facility Agreement with Amsterdam Trade Bank N.V. and Maybank Philippines Inc., to be used for working capital and capital expenditure requirements.

Your Company's Board of Directors approved in principle the additional capital investment of BC in Benguet Management Corporation (BMC), its wholly-owned subsidiary. The cash infusion in the amount of Php205 million is for the purpose of subscribing to the proposed capital increase of BMC pursuant to the quasi-reorganization and capital restructuring plan that BMC will implement as soon as approval from the SEC is obtained.

On September 1, 2012, your Company engaged Stock Transfer Service, Inc. (STSI) as replacement stock transfer agent/registrar services to manage the stock transfer and registrar activities of BC. Your Company's former stock transfer agent/registrar, the Bank of the Philippine Islands (BPI) has discontinued its stock transfer/registrar services to external clients because it will be limiting its services to affiliates.

Pursuant to the mandate of the Securities and Exchange Commission (SEC) under SEC Memorandum Circular No. 4, Series of 2012 (Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange), the Board approved the Audit Committee Charter of your Company. The Charter set out Audit Committee membership and qualifications, duties and responsibilities, reporting process and evaluation. The annual performance review of the Audit Committee will be based on its Charter.

BENJAMIN PHILIP G. ROMUALDEZ
President & Chief Executive Officer

Annex "B"

BENGUET CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2012 AND DECEMBER 31, 2011
(Amounts in Thousands)

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	**₱1,118,247**	₱1,257,364
Trade and other receivables	**414,434**	81,939
Loans receivable	**48,961**	58,632
Inventories	**165,075**	37,266
Other current assets	**274,347**	116,861
Total Current Assets	**2,021,064**	**1,552,062**
Noncurrent Assets		
Property, plant and equipment	**3,337,397**	3,126,741
Available-for-sale (AFS) investments	**291,152**	14,462
Deferred exploration costs	**546,363**	311,112
Investment property	**166,693**	166,693
Othernoncurrentassets	**191,705**	133,356
Total Noncurrent Assets	**4,533,310**	**3,752,364**
TOTAL ASSETS	**₱6,554,374**	**₱5,304,426**
LIABILITIES AND EQUITY		
Current Liabilities		
Current portion of loans payable	**₱972,629**	₱1,004,193
Trade and other payables	**355,653**	243,977
Income tax payable	**30,395**	62,928
Total Current Liabilities	**1,358,677**	**1,311,**098
Noncurrent Liabilities		
Loans payable - net of current portion	**1,396,894**	563,310
Deferred income tax liabilities – net	**946,228**	980,260
Liability for mine rehabilitation	**34,060**	34,060
Pension liability	**29,895**	29,700
Equity of claimowner in contract operations	**49,136**	49,136
Other noncurrent liabilities	**67,635**	25,563
Total Noncurrent Liabilities	**2,523,848**	**1,682,029**
Total Liabilities	**3,881,795**	**2,993,127**

(Forward)

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Equity		
Capital stock		
Convertible preferred Class A - ₱3.44 par value		
Authorized - 19,652,912 shares		
Issued and outstanding - 217,061shares in 2012 and 2011	**₱745**	₱745
Common Class A - ₱3.00 par value		
Authorized - 120,000,000 shares		
Issued and outstanding - 102,394,665 shares in 2012 and 102,351,465 in 2011	**307,184**	307,055
Common Class B - ₱3.00 par value		
Authorized - 80,000,000 shares		
Issued and outstanding - 61,497,352 shares in 2012 and 61,473,467 in 2011	**184,492**	184,420
Capital surplus	**20,746**	18,895
Deposit for future stock subscription	**180,000**	–
Other components of equity:		
Revaluation increment in land - net of deferred income tax liability	**750,779**	750,779
Cumulative translation adjustments of foreign subsidiaries	**34,334**	40,394
Cost of share-based payment	**40,394**	41,372
Unrealized gain on AFS investments	**1,019**	920
Retained earnings	**1,160,172**	974,735
	2,679,865	2,319,315
Cost of 116,023 shares held in treasury, ₱69 per share	**(8,016)**	(8,016)
Total Equity	**2,671,849**	2,311,299
TOTAL LIABILITIES AND EQUITY	**₱6,554,374**	₱5,304,426

BENGUET CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012
(With Comparative Figures for the nine months ended September 30, 2011)
(Amounts in Thousands)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	**2012**	2011
REVENUES				
Sale of mine products	**₱215,565**	₱254,647	**₱836,410**	₱564,030
Sale of merchandise and services	**25,239**	28,870	**98,376**	93,486
	240,804	283,517	**934,786**	657,516
COSTS AND OPERATING EXPENSES				
Costs of mine products sold	**156,921**	49,812	**362,486**	116,850
Costs of merchandise sold and services	**44,765**	14,845	**91,035**	49,964
Selling and general	**146,660**	169,879	**423,449**	374,792
Taxes on revenue	**3,066**	5,034	**15,552**	11,106
	351,412	239,570	**892,522**	552,712
INCOME (LOSS) FROM OPERATIONS	**(110,608)**	43,947	**42,264**	104,804
INTEREST EXPENSE	**14,749**	12,756	**36,617**	39,790
OTHER INCOME				
Interest income	**761**	6,632	**3,734**	19,739
Foreign exchange gain (loss)	**(16,084)**	(3,243)	**(14,212)**	740
Miscellaneous- net	**142,213**	507,831	**228,988**	1,044,118
	126,890	511,220	**218,510**	1,064,597
INCOME BEFORE INCOME TAX	**1,533**	542,411	**224,157**	1,129,611
PROVISION FOR (BENEFIT FROM) INCOME TAX	**964**	(53,457)	**38,719**	(46,367)
NET INCOME	**₱569**	₱595,868	**₱185,438**	₱1,175,978
BASIC EARNINGS PER SHARE	**₱0.00**	₱3.64	**₱1.13**	₱7.18
DILUTED EARNINGS PER SHARE	**₱0.00**	₱3.64	**₱1.12**	₱7.18

BENGUET CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(With Comparative Figures for the nine months ended September 30, 2011)

(Amounts in Thousands)

	September 30, 2012 (Unaudited)	September 30, 2011 (Unaudited)	December 31, 2011 (Audited)
CAPITAL STOCK	**₱492,421**	₱491,881	₱492,220
CAPITAL SURPLUS	**20,746**	1,171,159	18,895
DEPOSIT FOR FUTURE STOCK SUBSCRIPTION	**180,000**	–	–
REVALUATION INCREMENT IN LAND			
Balance at beginning of period	**750,779**	1,612,988	1,612,988
Effect of quasi-reorganization	**–**	–	(862,209)
Balance at end of period	**750,779**	1,612,988	750,779
CUMULATIVE TRANSLATION ADJUSTMENT			
Balance at beginning of period	**40,394**	39,285	39,285
Translation adjustment	**(6,060)**	(47)	1,109
Balance at end of period	**34,334**	39,238	40,394
COST OF SHARE-BASED PAYMENT			
Balance at beginning of period	**41,372**	41,790	41,790
Employees' exercise of stock options	**(978)**	(10,414)	(418)
Balance at end of period	**40,394**	31,376	41,372
UNREALIZED GAIN ON AFS INVESTMENTS			
Balance at beginning of period	**920**	2,139	2,139
Unrealized gain (loss) on AFS investments	**99**	66	(1,219)
Balance at end of period	**1,019**	2,205	920
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of period	**974,735**	(2,575,016)	(2,575,016)
Effect of quasi-reorganization	**–**	–	2,164,427
Net income for the period	**185,437**	1,175,978	1,385,324
Balance at end of period	**1,160,172**	(1,399,038)	974,735
TREASURY SHARES	**(8,016)**	(8,016)	(8,016)
TOTAL EQUITY	**₱2,671,849**	₱1,941,795	₱2,311,299

BENGUET CORPORATION AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012
(With Comparative Figures for the nine months ended September 30, 2011)
(Amounts in Thousands)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2012	2011	**2012**	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**₱569**	₱595,868	**₱185,438**	₱1,175,978
Adjustments for:				
Depreciation, depletion and amortization	**6,443**	33,838	**89,506**	105,921
Unrealized foreign exchange gain (loss)	**16,084**	3,243	**14,212**	(740)
Gain on settlement of liabilities	**–**	–	**(93,636)**	(548,651)
Provision for income tax	**20,478**	(53,457)	**58,233**	(46,367)
Decrease (increase) in:				
Trade and other receivables	**85,513**	134,724	**(322,824)**	(42,082)
Inventories	**81**	(5,987)	**(127,809)**	(2,240)
Prepaid expenses and other current assets	**(49,648)**	(60,976)	**(116,861)**	(64,139)
Increase in trade and other payables	**149,429**	277,635	**111,676**	210,191
Net cash from (used in) operating activities	**228,949**	924,888	**(202,065)**	787,871
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in:				
Property, plant and equipment	**(78,069)**	2,900	**(210,656)**	(78,119)
Deferred exploration costs	**(199,461)**	108,083	**(264,066)**	135,347
AFS investments	**(1,690)**	–	**(276,690)**	–
Other assets	**(6,476)**	(89,291)	**(58,349)**	(29,802)
Net cash from (used in) investing activities	**(285,696)**	21,692	**(809,761)**	27,426
CASH FLOWS FROM FINANCING ACTIVITIES				
Net availment (repayment) of loans payable	**652,020**	(380)	**802,020**	(4,996)
Proceeds from issuance of common stocks	**1,030**	1,731	**2,052**	3,909
Deposit for future stock subscription	**–**	–	**180,000**	–
Decrease in equity of claimowner in contract operations and others	**(64,357)**	–	**(111,363)**	–
Net cash from (used in) financing activities	**588,693**	1,351	**872,709**	(1,087)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**531,946**	947,931	**(139,117)**	814,210
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**586,301**	158,737	**1,257,364**	292,457
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱1,118,247**	₱1,106,667	**₱1,118,247**	₱1,106,667

BENGUET CORPORATION AND SUBSIDIARIES

EARNINGS PER SHARE COMPUTATION

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Amounts in Thousands, Except for the Number of Shares)

	September 30	
	2012	2011
Net income	**₱185,438**	₱1,175,978

Number of shares for computation of:

	September 30	
	2012	2011
Basic earnings per share		
Weighted average common shares issued	**163,867,655**	163,712,132
Less treasury stock	**116,023**	116,023
Weighted average common shares outstanding	**163,751,632**	163,596,109
Diluted earnings per share		
Weighted average common shares issued	**163,867,655**	163,712,132
Less treasury stock	**116,023**	116,023
	163,751,632	163,596,109
Conversion of preferred stock	**686,455**	–
	164,438,087	163,596,109
Basic earnings per share	**₱1.13**	₱7.18
Diluted earnings per share	**₱1.12**	₱7.18

BENGUET CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

	September 30	
	2012	2011
Profitability Ratio		
Return on asset	**0.03:1**	0.24:1
Return on equity	**0.07:1**	0.61:1
Gross profit margin	**0.37:1**	0.73:1
Operating profit margin	**0.27:1**	0.16:1
Net profit margin	**0.20:1**	1.79:1
Liquidity and Solvency Ratio		
Current ratio	**1.49:1**	0.80:1
Quick ratio	**1.16:1**	0.74:1
Solvency ratio	**0.07:1**	0.43:1
Financial Leverage Ratio		
Asset to equity ratio	**2.45:1**	2.52:1
Debt ratio	**0.59:1**	0.60:1
Debt to equity ratio	**1.45:1**	1.52:1
Interest coverage ratio	**7.12:1**	31.72:1

BENGUET CORPORATION AND SUBSIDIARIES

AGING OF RECEIVABLES

AS OF SEPTEMBER 30, 2012

(Amounts in Thousands)

TYPE OF RECEIVABLES	LESS THAN 30 DAYS	30 TO 60 DAYS	LESS THAN ONE YEAR	ONE TO TWO YEARS	THREE TO FIVE YEARS	MORE THAN FIVE YEARS	TOTAL
Trade receivables	₱87,623	₱6,525	₱8,184	₱11,220	₱6,683	₱13,257	₱133,492
Allowance for doubtful accounts	–	–	–	(2,452)	(1,331)	(13,156)	(16,939)
Trade receivables - net	87,623	6,525	8,184	8,768	5,352	101	116,553
Nontrade receivables:							
Officers and employees	9,213	7,857	32,211	4,963	1,133	883	56,260
Others	15,084	15,511	176,584	29,367	27,649	114,489	378,684
Total	24,297	23,368	208,795	34,330	28,782	115,372	434,944
Allowance for doubtful accounts	–	–	(405)	(18,911)	(12,710)	(105,037)	(137,063)
Nontrade receivables - net	24,297	23,368	208,390	15,419	16,072	10,335	297,881
Trade and other receivables - net	₱111,920	₱29,893	₱216,574	₱24,187	₱21,424	₱10,436	₱414,434

BENGUET CORPORATION AND SUBSIDIARIES
ADDITIONAL DISCLOSURES TO FINANCIAL STATEMENTS
(For the Third Quarter Ended September 30, 2012)

i.) The disclosure on significant accounting principles, policies, and practices are substantially the same with the disclosure made in 2011 financial statements. Additional disclosures on the significant changes of accounts and subsequent events are presented in the Management Discussion and Analysis.

ii.) During the third quarter of 2012, there were no seasonal or cyclical aspects that materially affect the operation of the Company, no substantial nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

iii.) There were no unusual items that materially affect the Company's assets, liabilities, equity, net income or cash flows in the third quarter of 2012.

iv.) Issuances, Repurchases, Repayments of Debt and Equity Securities – During the third quarter of 2012, there were no securities sold by the Company which were not registered under the Revised Securities Act (now Securities Regulation Code (SRC)) including the sales of reacquired securities, new issues, securities issued in exchange of property, services or other securities and new securities resulting from the modification of outstanding securities.

v.) Dividends - No cash dividends were declared during the third quarter of 2012.

vi.) Segment Information - The Company is principally engaged in mining industry. Its operating revenues as of September 30, 2012 mainly came from sales of gold to Bangko Sentral Ng Pilipinas amounting to ₱386 million and ₱450 million sales of nickel ore to China.

vii.) Subsequent Material Events - There were no material events subsequent to the end of the quarter that have been reflected in the financial statements for the period.

viii.) There were no changes in the composition of the Company, business combinations, acquisition or disposal of subsidiaries and long-term investments and no substantial changes in contingent liabilities and contingent assets from 2011.

1. **Summary of Significant Accounting Policies**

Basis of Preparation
The unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for land at revalued amounts and AFS investments and investment property, which are measured at fair value. The unaudited interim condensed consolidated financial statements are presented in Philippine peso, the Company's functional currency under Philippine Financial Reporting Standards (PFRS) and as adopted by the Philippine SEC. All amounts are rounded to the nearest thousands (₱000) except when otherwise indicated.

Statement of Compliance
The unaudited interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements of Benguet Corporation (the Company) and its subsidiaries (the Group) do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2011.

Changes in Accounting Policies

New and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2012

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improved PFRS. Unless otherwise indicated, the adoption did not have any significant impact on the interim condensed consolidated financial statements of the Group.

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure*
Requirements requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*
These changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance.

PAS 12, ***Income Taxes - Recovery of Underlying Assets***

This clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

Improvements to PFRS

The Financial Reporting Standards Council, or FRSC, approved during its meeting in May 2010 the adoption of Improvements to PFRS, which were issued by the International Accounting Standards Board in May 2010. Improvements to PFRS is an omnibus of amendments to standards that deal primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard which are all effective beginning January 1, 2011. The adoption of the following amendments resulted in changes to the Group's accounting policies but did not have any impact on the Group's financial position or performance.

- PFRS 3, *Business Combinations*, amends the measurement options available for noncontrolling interest (NCI). Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- PFRS 7, *Financial Instruments: Disclosures*, intends to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

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

Other amendments resulting from the Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- PFRS 3,*Business Combinations (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008)*
- PFRS 3, *Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (determining the fair value of award credits)*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

New, Revised and Amended Standards and Interpretation Effective Subsequent to Calendar Year 2012

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2012. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have any significant impact on its financial statements.

Effective in 2013

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

1) The gross amounts of those recognized financial assets and recognized financial liabilities;
2) 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;
3) The net amounts presented in the statement of financial position;
4) 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,
5) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

PFRS 11, *Joint Arrangements*
PFRS 11replaces PAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, *Disclosure of Interest in Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

PAS 19, *Employee Benefits (Amendment)*
This amendment removes the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group is currently assessing the impact of the amendment.

PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new PFRS 11and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This specifies that during the development phase of the mine (before production begins), stripping costs are usually capitalized as part of the depreciable cost of building, developing and constructing the mine. Those capitalized costs are depreciated or amortized on a systematic basis, usually by using the units of production method, once production begins. A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine. The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from 5 uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. This Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently. The standard is effective for annual periods beginning on or after January 1, 2013. The Group is currently evaluating the impact of this interpretation.

Effective in 2014

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
This clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment

is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

Effective in 2015

PFRS 9, *Financial Instruments: Classification and Measurement*
This reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

After consideration of the result of its impact evaluation using the outstanding balances of financial statements as of December 31, 2011, the Group has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2012 reporting. The Group will, however, continue to evaluate the impact of the standard in the financial statements for the year 2012.

Financial Instruments
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets. The Group's financial assets are of the nature of loans and receivables and AFS financial assets. As of September 30, 2012 and December 31, 2011, the Group has no financial assets at FVPL and HTM investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities. As of September 30, 2012 and December 31, 2011, the Group has no financial liabilities at FVPL.

Loans and Receivables
Loans and receivables are nonderivative 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 or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents", "Loans receivable" and "Trade and other receivables".

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in the "Other income (charges)" caption in the consolidated statement of income. The losses arising from impairment of receivables, if any, are recognized as "Provision for impairment losses" under "Selling and general expenses" in the consolidated statement of income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets).

Loans and receivables are classified as current assets when they are expected to be realized within twelve months after the reporting date or within the normal operating cycle, whichever is longer. Otherwise, they are classified as noncurrent assets.

AFS Financial Assets

AFS financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. AFS financial assets are those purchased and held indefinitely and may be sold as the need arises. They are included in noncurrent assets unless management intends to dispose of the investment within twelve months from the reporting date. Included in this category are equity investments in publicly listed and private companies other than subsidiaries and associates. These are shown as a separate line item in the consolidated statement of financial position.

After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Unrealized gain (loss) on AFS investments" account in the equity section of the consolidated statement of financial position. They are also reported as other comprehensive income in the consolidated statement of comprehensive income.

AFS financial assets whose fair value cannot be reliably established are carried at cost less an allowance for any possible impairment. This is normally applied to equity investments that are unquoted and whose cash flows cannot be reasonably and reliably determined.

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, the disposal is deemed on a first-in first-out basis. Any interest earned on holding AFS financial assets is reported as interest income using the effective interest rate. Any dividend earned on holding AFS financial assets is recognized in the consolidated statement of income when the right of payment has been established. Any loss arising from impairment of such investments is recognized in the consolidated statement of income.

Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Other financial liabilities are initially recorded at fair value, less directly attributable transaction cost. After initial measurement, other financial liabilities are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities, if any, are recognized in “Foreign currency exchange gain (loss)” in the consolidated statement of income.

This accounting policy relates to the Group’s “Loans payable”, “Trade and other payables” and “Equity of claimowner in contract operations”.

Other financial liabilities are classified as current liabilities when they are expected to be settled within twelve months from the financial position date or the Group has an unconditional right to defer settlement for at least twelve months from financial position date. Otherwise, they are classified as noncurrent liabilities.

Determination of Fair Value
The fair value of financial instruments traded in active markets at reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques and comparison to similar instruments for which market observable prices exist.

Fair Value of Financial Instruments
Financial instruments recognized in fair value are analyzed based on:

- 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); and
- Level 3 - those with inputs for asset or liability that are not based on observable market date (unobservable inputs).

When the fair value of listed equity and debt securities at the end of the reporting date are based on quoted market prices or binding dealer price quotations without any deduction for transaction costs, the instruments are included within Level 1 of the fair value hierarchy.

For all other financial instruments, the fair value is determined using valuation technique. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation model. For these financial instruments, inputs into models are market observable and are therefore included within Level 2 of the fair value hierarchy.

<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.

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 assumed is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether an asset or a group of assets is impaired.

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The amount of the loss shall be recognized in consolidated statement of income.

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

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

AFS Investments
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats ‘significant’ generally as 30% or more of the original cost of investment, and ‘prolonged’ as greater than twelve months. If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the consolidated statement of income as part of the “Provision for impairment losses” account. Reversals in respect of equity instruments classified as AFS are not recognized in consolidated statements of income.

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

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

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle the liability simultaneously.

2. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the 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. Actual results could differ from such estimates.

Judgments

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

Determining Functional Currency

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

Determining Operating Lease Commitments - Group as Lessee

The Group has entered into leases on its various locations. 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 Lessor

The Group has entered into property leases on its mine infrastructure. 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 Recoverability of Deferred Exploration Costs

A valuation allowance is provided for estimated unrecoverable deferred exploration costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of mineral reserves in those properties, and metal prices in the market which is the primary driver of returns on the production.

Assessing Provisions and Contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results.

The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

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, plant and equipment;
- ability to produce ore in saleable form; and

- ability to sustain ongoing production of ore.

The Group did not perform any assessment of production start date during the year.

Classification of Financial Instruments
The Group exercises judgments in classifying a financial instrument on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

<u>Estimates and Assumptions</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Real Estate Revenue and Costs Recognition
The Group's revenue and the costs related to the sale of real estate are recognized based on the percentage of completion and are measured principally on the basis of estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of the project.

Estimating Allowance for Impairment Losses on Trade and Other Receivables and Loan Receivables
The Group evaluates specific accounts where the Group has information that certain customers are unable to meet their financial obligations. 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 reserves that will be recorded in the receivables account. In addition to specific allowances against individually significant accounts, the Group also makes a collective impairment assessment against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any past collection experiences, the current economic conditions, and average age of the group of receivables. Allowance is re-evaluated and adjusted as additional information is received.

Estimating Impairment Losses on Inventories
The Group maintains allowance for inventory losses at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on prevailing estimated selling prices of inventories and the corresponding cost of disposal. Increase in the NRV of inventories will increase cost of inventories but only to the extent of their original acquisition costs.

Estimating Mineral Reserves and Resources
Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores

to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured.

All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions. The Group estimated the Nickel laterite ore reserves of SCNP to be roughly 16.2 million tons as of December 31, 2011.

Assessing Impairment of Property, Plant and Equipment, Investment Property, Deferred Exploration Costs and Other Noncurrent Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property, plant and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment is impaired. Any resulting impairment loss could have a material adverse impact on the consolidated financial condition and results of operations.

Estimating Impairment of AFS Investments

The determination of impairment loss for AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, objective evidence of impairment includes a significant or prolonged decline in the fair value of the investments below its cost. The Group treats “significant” generally as 30% or more and “prolonged” as greater than twelve months. The Group expands its analysis to consider changes in the issuer’s industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Group’s investments.

Estimating Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment 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, plant and equipment 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.

Determining the Appraised Value of Land
The appraised value of land is based on a valuation by an independent appraiser firm, which management believes, holds a recognized and relevant professional qualification and has recent experience in the location and category of the land being valued. The appraiser firm used the market data approach in determining the appraised value of land.

Estimating Provision for Mine Rehabilitation
The Group estimates the costs of mine rehabilitation based on previous experience in rehabilitating fully mined areas in sections of the mine site. These costs are adjusted for inflation factor based on the average annual inflation rate as of adoption date or re-evaluation of the asset dismantlement, removal or restoration costs. Such adjusted costs are then measured at present value using the market interest rate for a comparable instrument adjusted for the Group's credit standing. 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 liability for mine rehabilitation.

Estimating 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. 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 Group's recognized expense and recorded obligation 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 pension obligations.

Assessing Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces deferred income tax assets 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 deductible temporary differences excess MCIT and unused NOLCO for which deferred income tax assets were not recognized as it is not probable that sufficient taxable profit will be available against which the benefit of the deferred income tax assets can be utilized.

3. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise unsecured and secured bank loans. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has financial instruments such as cash and cash equivalents, trade and other receivables and trade and other payables, which arise directly from its operations. Other financial asset includes AFS investments.

The significant risks arising from the Group's financial instruments are liquidity risk, credit risk, interest rate risk and foreign currency risk. The BOD reviews and agrees policies for managing each of these risks and they are summarized below.

<u>Liquidity Risk</u>
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial liabilities. The Group's objective is to maintain a balance between continuity of funding in order to continuously operate and support its exploration activities.

The Group considers its available funds and liquidity in managing its immediate financial requirements.

As of September 30, 2012 and December 31, 2011, cash and cash equivalents may be withdrawn anytime while quoted AFS investments may be converted to cash by selling them during the normal trading hours in any business day. The tables below summarize the maturity profile of the Group's financial assets as of September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011
Cash and cash equivalents		
Cash in banks	**₱762,796**	₱639,654
Short-term investments	**355,351**	617,710
Trade and other receivables		
Trade	**389,099**	57,726
Others	**25,335**	24,213
Loans receivable	**48,961**	58,632
Total credit risk exposure	**₱1,581,542**	₱1,397,935

The tables below summarize the maturity profile of the Group's financial liabilities based in contractual undiscounted payments as of September 30, 2012 and December 31, 2011:

September 30, 2012

	On demand	**More than 90 days**	**More than 1 year**	**Total**
Loans payable	**₱972,629**	**₱–**	**₱1,396,894**	**₱2,369,523**
Trade and other payables*	**81,102**	**232,183**	**–**	**313,285**
Equity of claimowner incontract operations	**–**	**–**	**49,136**	**49,136**
Total	**₱1,053,731**	**₱274,551**	**₱1,446,030**	**₱2,774,312**

Excludes statutory payables

December 31, 2011

	On demand	More than 90 days	More than 1 year	Total
Loans payable	₱890,308	₱–	₱719,920	₱1,610,228
Trade and other payables*	46,304	156,753	–	203,057
Equity of claimowner in contract operations	–	–	49,136	49,136
Total	₱936,612	₱156,753	₱769,056	₱1,862,421

**Excludes statutory payables*

Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations as they fall due. It is inherent to the business that potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

With respect to credit risk arising from other financial assets of the Group, which comprise of cash and cash equivalents, 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.

Since the Group trades only with recognized third parties, there is no requirement for collateral.

The table below shows the maximum exposure to credit risk for the component of the consolidated financial position. The maximum exposure is shown at gross amount, before the effect of mitigation through the use of master netting and collateral agreements.

September 30, 2012

	Neither Past Due Nor Impaired				
	High Grade	**Standard Grade**	**Past Due But Not Impaired**	**Impaired**	**Total**
Cash and cash equivalents					
Cash in banks	**₱762,796**	**₱–**	**₱–**	**₱–**	**₱762,796**
Short-term investments	**355,351**	**–**	**–**	**–**	**355,351**
Trade and other receivables					
Trade	**78,668**	**8,955**	**28,930**	**16,939**	**133,492**
Employee stock ownership incentive plan	**–**	**–**	**–**	**58,416**	**58,416**
Others	**–**	**24,297**	**273,584**	**78,647**	**376,528**
Loans receivable	**–**	**48,961**	**–**	**–**	**48,961**
Total credit risk exposure	**₱1,196,815**	**₱82,213**	**₱302,514**	**₱154,002**	**₱1,735,544**

December 31, 2011

	Neither Past Due Nor Impaired				
	High Grade	Standard Grade	Past Due But Not Impaired	Impaired	Total
Cash and cash equivalents					
Cash in banks	₱638,947	₱–	₱–	₱–	₱638,947
Short-term investments	617,710	–	–	–	617,710
Trade and other receivables					
Trade	–	24,719	33,007	16,939	74,665
Employee stock ownership incentive plan	–	–	–	58,416	58,416
Others	1,800	3,691	18,722	78,647	102,860
Loans receivable	–	58,632	–	–	58,632
Total credit risk exposure	₱1,258,457	₱87,042	₱51,729	₱154,002	₱1,551,230

The Group has assessed the credit quality of the following financial assets:

a. Cash and cash equivalents are assessed as high grade since these are deposited in reputable banks, which have a low probability of default.

b. Trade receivables and loans receivable were assessed as high grade and standard grade. These were assessed based on past collection experience and the debtors' ability to pay. Other than receivables which were fully provided with allowance, there were no history of default on the outstanding receivables as of September 30, 2012 and December 31, 2011.

The table below shows an aging analysis of trade and other receivables:

<u>September 30, 2012</u>

		Past due but not impaired				
	Neither past due nor Impaired	**Less than 30 days past due**	**30 to 60 days past due**	**More than 60 days past due**	**Impaired**	**Total**
Trade	**₱87,623**	**₱–**	**₱6,525**	**₱22,405**	**₱16,939**	**₱133,492**
Employee stock incentive ownership plan	**–**	**–**	**–**	**–**	**58,416**	**58,416**
Others	**24,297**	**–**	**23,368**	**250,216**	**78,647**	**376,528**
	₱111,920	**₱–**	**₱29,893**	**₱272,621**	**₱154,002**	**₱568,436**

<u>December 31, 2011</u>

		Past due but not impaired				
	Neither past due nor Impaired	Less than 30 days past due	30 to 60 days past due	More than 60 days past due	Impaired	Total
Trade	₱24,719	₱5,236	₱64	₱27,707	₱16,939	₱74,665
Employee stock incentive ownership plan	–	–	–	–	58,416	58,416
Others	5,491	1,642	898	16,182	78,647	102,860
	₱30,210	₱6,878	₱962	₱43,889	₱154,002	₱235,941

<u>Market Risks</u>

Foreign Currency Risk

Foreign currency risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial performance and cash flows. The Group has transactional currency exposures. Such exposure arises from the sale of gold, nickel ore and beneficiated chrome ore and the purchase of certain goods and services denominated in USD. All sales of gold and nickel ore are denominated in USD. Dollar conversion of metal sales to Philippine peso is based on the prevailing exchange rate at the time of sale.

The Group's policy is to maintain foreign currency exposure within acceptable limits. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for an institution engaged in the type of business in which the Group is involved. The Group did not seek to hedge the exposure on the change in foreign exchange rates between the USD and the Philippine peso. The Group does not generally believe that active currency hedging would provide long-term benefits to stockholders.

The Group’s foreign currency-denominated monetary assets and liabilities as of September 30, 2012 and December 31, 2011 follow:

	September 30, 2012		December 31, 2011	
	USD	**Peso Equivalent**	USD	Peso Equivalent
Asset				
Cash and cash equivalents	**19,993**	**837,307**	20,934	917,747
Trade and other receivables	**1,733**	**72,578**	207	9,075
	21,726	**909,885**	21,141	926,822
Liabilities				
Loans payable	**38,408**	**1,608,527**	21,003	920,771

As of September 30, 2012 and December 31, 2011, the exchange rates of the Philippine peso to the US Dollar are ₱41.88 and ₱43.84, respectively.

The sensitivity to a reasonably possible change in the USD exchange rate, with all other variables held constant, of the Group’s income before income tax as of September 30, 2012 and December 31, 2011 is as follows:

	Change in foreign exchange rate	Sensitivity of pretax income (loss)
September 30, 2012	**Strengthens by Php1.00**	**₱16,682**
	Weakens by Php1.00	**(16,682)**
December 31, 2011	Strengthens by Php1.00	(138)
	Weakens by Php1.00	138

Based on the historical movement of the foreign exchange rate, management believes that the reasonably possible change for the next quarter would result in an increase (decrease) of ₱1.00.

Fair Values of Financial Instruments

Fair value is defined as the amount at which a financial instrument can be exchanged in a current transaction between knowledgeable willing parties in an arm’slength transaction, other than in a forced sale or liquidation.

Set out below is a comparison by category and class of carrying amounts and estimated fair values of the Group’s significant financial assets and liabilities as of September 30, 2012 and December 31, 2011:

	Carrying Amounts		Fair Values	
	September 30, 2012	December 31, 2011	**September 30, 2012**	December 31, 2011
Financial Assets:				
Loans and receivables:				
Cash and cash equivalents	**₱1,118,247**	₱1,257,364	**₱1,118,247**	₱1,257,364
Trade and other receivables	**414,434**	81,939	**414,434**	81,939
Loans receivable	**48,061**	58,632	**48,061**	58,632
AFS investments	**291,152**	14,462	**291,152**	14,462
	₱1,871,894	₱1,412,397	**₱1,871,894**	₱1,412,397
Financial Liabilities:				
Other financial liabilities:				
Trade and other payables	**₱355,653**	₱243,977	**₱355,653**	₱243,977
Loans payable	**2,369,523**	1,567,503	**2,369,523**	1,567,503
Equity of claimowner in contract operations	**49,136**	49,136	**49,136**	49,136
	₱2,774,312	₱1,860,616	**₱2,774,312**	₱1,860,616

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, Trade and Other Receivables, and Trade and Other Payables
The fair values of these instruments approximate their carrying amounts as of reporting date due to the short-term nature.

Loans Receivable
The fair value of loans receivable approximate their carrying amounts as of reporting date due to the short-term nature. Loans receivable carry interest at 9% per annum and are due and demandable.

AFS Investments
The fair value of investments that are actively traded in organized markets is determined by reference to quoted market bid prices at the close of business on reporting date. The fair value of unquoted AFS equity investments cannot be reliably measured and accordingly measured at cost, net of impairment.

Loans Payable
Where the repricing of the variable-rate interest bearing loan is frequent (i.e., three-month repricing), the carrying value approximates the fair value. The fair value of other loans payable is determined by discounting the principal using the 3-month LIBOR rate of 0.36% plus credit spread of 2.50%.

<u>Fair Value Hierarchy</u>
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2 - other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3 - techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The quoted AFS investments are classified under Level 1 of the fair value hierarchy since these are based on quoted market prices or binding dealer price quotations. The Group has no financial instruments measured at fair value under Levels 2 and 3 of fair value hierarchy. There are no transfers between levels in 2012 and 2011.

Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to ensure that the Group has available funds in order to continuously operate and support its business activities. The Group has no externally imposed capital requirements.

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 obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes in2012 and 2011.

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

	September 30, 2012	December 31, 2011
Capital stock	**₱492,421**	₱492,220
Deposit for future stock subscription	**180,000**	–
Capital surplus	**20,746**	18,895
Other components of equity	**826,526**	833,465
Retained earnings	**1,160,172**	974,735
Treasury shares	**(8,016)**	(8,016)
	₱2,671,849	₱2,311,299