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Manila Mining Corporation

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CORPORATE DIRECTORY

ANNUAL MEETING:

The Annual Meeting of Stockholders of Manila Mining Corporation will be held on Monday, April 29, 2013, at 3:00 p.m. at the Penthouse, Lepanto Bldg., 8747 Paseo de Roxas, Makati City

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS




Manila Mining Corporation

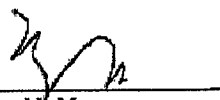
The management of Manila Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2012 and 2011, has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed this 18th day of March 2013 at Makati City.

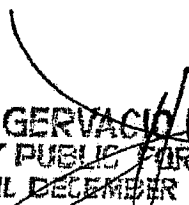

Felipe U. Yap
Chairman of the Board
and Chief Executive Officer
SSS#06-0091101-0


Bryan U. Yap
President
SSS#33-3067339-5


Rene F. Chanyungco
Chief Finance Officer
SSS#03-4793502-9

SUBSCRIBED AND SWORN TO before me this 19th day of March 2013 at Makati City.

Doc. No. 341 :
Page No. 70 :
Book No. IV :
Series of 2013.


ATTY. GERVACIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2013
PTR No. 366 4330/01-02-2013/MAKATI
IBP No. 656 155-LIFE TIME MEMBER
APBT. M-84/2010 ROLL NO. 40091

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Mining Corporation and Subsidiary

We have audited the accompanying consolidated financial statements of Manila Mining Corporation and Subsidiary (the Group) which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

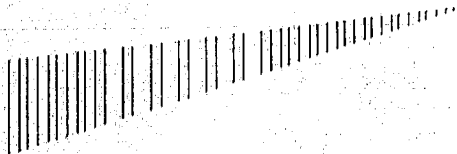
Auditors' Responsibility

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

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

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





Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Mining Corporation and Subsidiary as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Eleanore A. Layug
Eleanore A. Layug

Partner

CPA Certificate No. 0100794

SEC Accreditation No. 1250-A (Group A),

August 9, 2012, valid until August 8, 2015

Tax Identification No. 163-069-453

BIR Accreditation No. 08-001998-97-2012,

January 11, 2012, valid until January 10, 2015

PTR No. 3669689, January 2, 2013, Makati City

March 18, 2013



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱147,056,636	₱527,306,881
Receivables (Note 5)	1,507,699	5,864,957
Inventories (Note 6)	25,741,306	22,764,840
Prepayments and other current assets (Note 7)	78,743,627	53,075,277
Total Current Assets	253,049,268	609,011,955
Noncurrent Assets		
Available-for-sale (AFS) investments (Note 8)	73,370,000	109,598,500
Property and equipment (Note 9)	2,450,640,251	2,038,984,644
Mine exploration costs (Note 10)	2,664,201	2,664,201
Other noncurrent assets (Note 11)	9,107,224	8,842,841
Total Noncurrent Assets	2,535,781,676	2,160,090,186
TOTAL ASSETS	₱2,788,830,944	₱2,769,102,141
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 12)	₱230,030,364	₱165,583,713
Nontrade payables (Note 13)	570,098	1,964,091
Income tax payable	—	178,361
Total Current Liabilities	230,600,462	167,726,165
Noncurrent Liabilities		
Deferred income tax liabilities - net (Note 18)	66,124,650	66,568,083
Retirement benefit obligation (Note 17)	12,126,038	9,549,649
Total Noncurrent Liabilities	78,250,688	76,117,732
Equity Attributable to Equity Holders of the Parent Company		
Capital stock (Note 19)	2,019,822,582	2,019,832,208
Additional paid-in capital	502,183,353	502,173,727
Effect of transaction with non-controlling interests (Note 2)	954,621,275	954,621,275
Cumulative changes in fair values of AFS investments (Note 8)	5,828,008	42,056,508
Deficit	(1,002,594,469)	(993,548,198)
	2,479,860,749	2,525,135,520
Equity Attributable to Non-Controlling Interests	119,045	122,724
Total Equity	2,479,979,794	2,525,258,244
TOTAL LIABILITIES AND EQUITY	₱2,788,830,944	₱2,769,102,141

See accompanying Notes to Consolidated Financial Statements.



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31		
	2012	2011	2010
REVENUE			
Interest income (Note 4)	₱3,995,144	₱12,420,870	₱654,274
Foreign exchange gains - net	—	8,942,750	—
	3,995,144	21,363,620	654,274
ADMINISTRATION AND OVERHEAD COSTS			
(Note 14)	13,488,527	19,716,488	9,516,092
OTHER INCOME (LOSSES) (Note 15)	—	350	(7,867)
INCOME (LOSS) BEFORE INCOME TAX	(9,493,383)	1,647,482	(8,869,685)
PROVISION FOR (BENEFIT FROM) INCOME TAXES (Note 18)			
Current	—	178,361	—
Deferred	(443,433)	(3,051,869)	(389,719)
	(443,433)	(2,873,508)	(389,719)
NET INCOME (LOSS)	(₱9,049,950)	₱4,520,990	(₱8,479,966)
Net income (loss) attributable to:			
Equity holders of the Parent Company	(₱9,046,271)	₱4,523,266	(₱8,479,966)
Non-controlling interests	(3,679)	(2,276)	—
	(₱9,049,950)	₱4,520,990	(₱8,479,966)
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in fair values of AFS investments - net of tax (Note 8)	(36,228,500)	42,056,508	—
TOTAL COMPREHENSIVE INCOME (LOSS) - net of tax	(₱45,278,450)	₱46,577,498	(₱8,479,966)
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	(₱45,274,771)	₱46,579,774	(₱8,479,966)
Non-controlling interests	(3,679)	(2,276)	—
	(₱45,278,450)	₱46,577,498	(₱8,479,966)
EARNINGS (LOSS) PER SHARE (Note 20)			
Basic and diluted earnings (loss) per share	(₱0.00004)	₱0.00002	(₱0.00004)

See accompanying Notes to Consolidated Financial Statements.



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	(P9,493,383)	P1,647,482	(P8,869,685)
Adjustments for:			
Depreciation (Notes 9 and 14)	4,219,646	4,252,849	4,114,645
Movement in retirement benefit obligation (Note 17)	2,576,389	1,869,948	1,251,435
Interest income (Note 4)	(3,995,144)	(12,420,870)	(654,274)
Unrealized foreign exchange gain	—	(24,711)	—
Operating loss before working capital changes	(6,692,492)	(4,675,302)	(4,157,879)
Decrease (increase) in:			
Receivables	4,357,258	(539,270)	10,063
Inventories	(2,976,466)	5,400,554	(1,108,961)
Prepayments and other current assets	(25,668,350)	(20,580,129)	(5,217,711)
Increase (decrease) in accounts payable and accrued expenses	64,446,651	(13,852,987)	(112,888,125)
Net cash generated (used in) from operations	33,466,601	(34,247,134)	(123,362,613)
Interest received	3,995,144	12,420,870	654,274
Income taxes paid	(178,361)	—	—
Net cash from (used in) operating activities	37,283,384	(21,826,264)	(122,708,339)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 9)	(415,875,253)	(361,192,151)	(73,480,752)
Acquisitions of AFS investments (Note 8)	—	(60,041,992)	—
Increase in other noncurrent assets	(264,383)	(270,880)	(110,048)
Net cash used in investing activities	(416,139,636)	(421,505,023)	(73,590,800)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts (payments) of nontrade payables	(1,393,993)	783,443	(128,648,170)
Proceeds from issuance of shares (Note 19)	—	7,963,067	330,659,280
Effect of transaction with non-controlling interests	—	954,746,275	—
Net cash from (used in) financing activities	(1,393,993)	963,492,785	202,011,110
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(380,250,245)	520,161,498	5,711,971
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	527,306,881	7,145,383	1,433,412
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P147,056,636	P527,306,881	P7,145,383

See accompanying Notes to Consolidated Financial Statements.



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

	Attributable to Equity Holders of the Parent Company						
	Capital Stock (Note 19)			Effect of transaction with Non-controlling Interests (Note 2)		Cumulative Changes in Fair Values of AFS Investments (Note 8)	Total
	Issued	Subscribed	Subscription Receivable	Paid-in Capital	Additional	Deficit	
Balances at December 31, 2009	P1,789,563,838	P479,374	(P301,290)	P388,801,666		P- (P989,591,498)	P- P1,188,952,090
Issuance and subscription of shares	223,647,027	108,375	(68,183)	106,972,061		(8,479,966)	330,659,280
Net loss	-	-	-	-	-	-	(8,479,966)
Other comprehensive loss, net of tax	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-	(8,479,966)	(8,479,966)
Balances at December 31, 2010	2,013,210,865	587,749	(369,473)	495,773,727		(998,071,464)	1,511,131,404
Issuance and subscription of shares	3,970,297	2,429,702	3,068	6,400,000		-	12,803,067
Effect of transaction with non-controlling interests (Note 2)	-	-	-	-	-	-	-
Net income (loss)	-	-	-	-	-	954,621,275	125,000
Other comprehensive income, net of tax	-	-	-	-	-	4,523,266	(2,276)
Total comprehensive income (loss)	-	-	-	-	-	42,056,508	42,056,508
Balances at December 31, 2011	2,017,181,162	3,017,451	(366,405)	502,173,727		42,056,508	2,525,258,244
Issuance and subscription of shares (Note 19)	2,270,000	(2,279,626)	-	9,626		-	-
Net loss	-	-	-	-	-	(9,046,271)	(9,046,271)
Other comprehensive loss, net of tax	-	-	-	-	-	(36,228,500)	(36,228,500)
Total comprehensive loss	-	-	-	-	-	(45,274,771)	(45,274,771)
Balances at December 31, 2012	P2,019,451,162	P737,825	(P366,405)	P502,183,353		P954,621,275	P119,045
						P1,002,594,469	P2,479,860,749

See accompanying Notes to Consolidated Financial Statements.

MANILA MINING CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information and Status of Operations

Manila Mining Corporation

Manila Mining Corporation (the Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on May 20, 1949, primarily to carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in precious and semi-precious metals, ores, minerals and their by-products. The Parent Company's shares are listed and traded on the Philippine Stock Exchange (PSE). On April 16, 1999, the SEC approved the extension of the Parent Company's corporate term for another fifty (50) years upon expiration of its original term on May 30, 1999. Lepanto Consolidated Mining Company (LCMC), a publicly listed Company, and its subsidiaries, has 19.60% equity interest in the Parent Company.

The principal office of the Parent Company is located at the 20th Floor, Lepanto Building, 8747 Paseo de Roxas, 1226 Makati City.

Kalayaan Copper-Gold Resources, Inc. (KCGRI)

Kalayaan Copper-Gold Resources, Inc. (the Subsidiary), a 95%-owned subsidiary, was incorporated with the SEC on December 19, 2006, primarily to carry on the business of exploration, mining, development and utilization of all mineral resources, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in all other kinds of ores, metals and minerals, hydrocarbons acids, and chemicals, and in the products and by-products of every kind and description.

The principal office of the Subsidiary is located at the 21st Floor Lepanto Building, Paseo de Roxas, Makati City.

Status of Operations

On May 22, 1996, the Parent Company's Board of Directors (BOD) approved the expansion of its current mill capacity from 8,000 tonnes per day (TPD) to 10,000 TPD, designed to consolidate the installation of the second semi-autogenous grinding mill unit with the original 48-inch pit conveyor project. The expansion was registered with the Board of Investments (BOI) under Executive Order (E.O.) No. 226 on October 6, 1996.

On November 5, 1997, the BOI approved the Parent Company's application for registration of its copper flotation project under E.O. No. 226 on a non-pioneer status. On June 9, 2000, the BOI likewise approved the Parent Company's application for the modernization program of the copper flotation project under a preferred non-pioneer status. As a registered enterprise, the Parent Company is entitled to certain incentives and tax benefits which include, among others, income tax holiday for a period of 4 years from February 23, 1998, the actual start of commercial operations.

The two (2) BOI certificates of registration are currently suspended in view of the suspension of the Parent Company's operations.

On November 30, 2000, the Parent Company's gold mining and milling operations were temporarily shutdown due to the landslide that occurred in one of its open pits.

On December 20, 2000, the Parent Company temporarily shut down its milling operations pending its receipt of a permit to further raise its tailing pond.



On January 29, 2001, after obtaining the necessary permit to increase the height of the tailing pond to the 65 meter limit set by the Department of Environment and Natural Resources (DENR), the Parent Company resumed its milling operations.

On July 26, 2001, the Parent Company's BOD resolved to shutdown the Parent Company's mining operations due to the expiration of its temporary authority to construct and operate its tailings dam issued by the DENR. In view of the suspension of the Parent Company's mining operations, the registration of the Parent Company's copper flotation project was suspended by the BOI on August 23, 2005.

In 2005, several companies have expressed interest in the area that lies between the Kalaya-an district at the extreme southwest end of the Parent Company's tenement holdings and immediately north of the Philex Boyongan discovery and the historical operations. This area has been named the "Corridor" as it covers important geology and structures that connect two significantly mineralized areas. The Corridor also hosts several small gold deposits that are not currently economic to develop and operate. However, with additional investment and operations, it is expected that the reserves would grow significantly.

The investment and mining climate have improved since 2001 as a result of the 2004 Supreme Court ruling upholding the validity of the Philippine Mining Act of 1995. The Parent Company holds excellent properties and should be able to realize significant benefits over the long term. The Parent Company's Kalaya-an Project is among the mineral exploration projects under the Ten Point Legacy of the President of the Philippines for the years 2004 - 2010.

Exploration drilling activities on the Kalaya-an project started in 2007. On January 22, 2007, the Parent Company has initiated mining activities through an exploration program adopted during the last quarter of 2006.

On April 2010, the Parent Company offered to its shareholders as of record date of March 10, 2010, the right to subscribe to one (1) share for every eight (8) shares held, at an offer price of ₱0.015 per share, covering 22,375,540,151 common shares consisting of 13,429,141,954 Class "A" shares and 8,946,398,197 Class "B" shares. Total capital stock issued and subscribed from the stock rights offering amounted to ₱330,659,280, net of transaction costs. Proceeds from the issuance of stock rights were used to settle debts and fund exploration projects.

On June 8, 2010, the SEC approved the increase in authorized capital stock to 260 billion shares at par value of ₱0.01 per share divided into 156 billion Class "A" and 104 billion Class "B" shares (see Note 19).

On May 11, 2011, the Parent Company, KCGRI and Philex Mining Corporation (Philex), finalized an agreement for the exploration and joint development of the Kalaya-an Project located in Placer, Surigao del Norte.

The Kalaya-an Project, which is registered under KCGRI, is covered by EP No. XIII-014B.

Prior to the expiration of EP-XIII-014-B, an application for another renewal was filed by KCGRI on 18 April 2012 for the purpose of conducting a more in-depth and detailed exploration in the area and to complete the feasibility study.

On the other hand, MMC is a holder of a valid and existing MPSA No. 253-2007-XIII granted on 10 August 2007 for a period of 25 years from issuance thereof or until 10 August 2032, consisting of 211,5000 has, located in Placer, Surigao del Norte.



In addition, MMC also filed applications for MPSA, designated as Application for Production Sharing Agreement (APSA) No. 0006-X (AMD.) filed on 14 Sept. 1992 consisting of 1,580 has.; and APSA No. 0007(X) filed on 26 November 1992, consisting of 4,793.8500 has., located in Cabadbaran City, Agusan del Norte; and applications for conversion covering its mining lease contracts granted under the old mining law namely, APSA No. XIII-083 filed on 21 February 2003 consisting of 530 has.; APSA No. 000107-XIII filed 17 February 2011, consisting of 265.5000 has., all situated in Placer, Surigao del Norte. All these applications were already endorsed by the MGB Regional Office in Surigao City to Director of MGB, for final evaluation and approval by the DENR Secretary.

The second renewal of EP No.XIII-014-A under the name of MMC was granted on 28 April 2010 valid until 28 April 2012. Prior to its expiration, an application for another renewal was filed by MMC on 25 April 2012 for the purpose of completing the feasibility study, consisting of 2,176.2810 has. also in Placer, Surigao del Norte and is awaiting approval by the Director of MGB.

EO No. 79

On July 12, 2012, EO No. 79 was released to lay out the framework for the implementation of mining reforms in the Philippines. The policy highlights several issues that includes area of coverage of mining, small-scale mining, creation of a council, transparency and accountability and reconciling the roles of the national government and local government units. Management believes that EO No. 79 has no major impact on its current operations since the mine is covered by an existing MPSA with the government. Section 1 of EO No. 79, provides that mining contracts approved before the effectivity of the EO shall continue to be valid, binding, and enforceable so long as they strictly comply with existing laws, rules and regulations and the terms and conditions of their grant. The EO could, however, delay or adversely affect the conversion of the Company's mineral properties covered by EPs or Exploration Permit Applications (EPAs) or APSAs given the provision of the EO on the moratorium on the granting of new mineral agreements by the government until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect.

The accompanying consolidated financial statements of Manila Mining Corporation and Subsidiary (the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, were authorized for issue by the Audit Committee on March 18, 2013 in accordance with a resolution by the BOD.

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

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Parent Company's and the Subsidiary's functional and presentation currency. All amounts are rounded to the nearest peso, except as otherwise indicated.

Statement of Compliance

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



Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and KCGRI. The financial statements of the subsidiary are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies of the entity, or generally has an interest of more than half of the voting rights of the entity.

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

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases.

Sale of non-controlling interest of KCGRI

As discussed in Note 1, the Parent Company sold to Philex a total of 125,000 shares of stock of KCGRI, representing a 5% interest in KCGRI, for a consideration of US\$25 million.

The sale brought down the total number of shares owned and controlled by the Parent Company as at December 31, 2011 to 95%. The net proceeds was accounted for as an equity transaction and resulted to an increase in equity amounting to ₱954,621,275 recognized as "Effect of transaction with non-controlling interests" in the equity section of the consolidated statement of financial position.

Non-controlling interests

Non-controlling interests represent the interests in the subsidiary not held by the Parent Company and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to equity holders of the parent. Where the ownership of a subsidiary is less than 100%, and therefore a non-controlling interest exists, any losses of that subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recognized in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.



New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended Philippine Financial Reporting Standards (PFRSs), Philippine Accounting Standards (PAS) and Philippine Interpretations and Improvements to PFRSs which were adopted as at January 1, 2012:

- *PAS 12, Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The adoption of the amendment had no impact on the Group's financial position, performance or disclosures since it has no investment property. The amendments are effective for periods beginning on or after January 1, 2012.
- *PFRS 7, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
The amendment 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 adoption of this standard had no impact to the consolidated financial statements since the Group does not have any assets with these characteristics. The amendment becomes effective for annual periods beginning on or after July 1, 2011.
- *PFRS 1, Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)*
The standard provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment had no impact to the Group. The amendment is effective for annual periods beginning on or after July 1, 2011.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2012

The Company will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations International Financial Reporting Interpretation Committee (IFRIC) to have significant impact on its financial statements.



Effective in 2013:

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

- *PAS 19, Employee Benefits (Revised)*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendment becomes effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact of the adoption of the revised standard on its to the financial statements.

- The effects are detailed below:

	As at December 31, 2012	As at January 1, 2012	As at January 1, 2011
Increase (decrease) in:			
<u>Consolidated statement in</u>			
<u>financial position:</u>			
Net defined benefit liability	₱3,474,535	₱5,867,263	₱6,424,370
Deferred income tax asset	1,042,361	1,760,179	1,927,311
Other comprehensive income	(1,852,032)	—	(5,716,060)
Retained earnings	(579,942)	(4,107,084)	1,219,001
<u>Consolidated statement of</u>			
<u>comprehensive income:</u>			
Net retirement benefits expense	(466,924)	(519,556)	
Profit for the year	466,924	519,556	

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



- PAS 28, *Investments in Associates and Joint Ventures (Amendments)*
The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities*
The amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information.

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

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

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

- PFRS 10, *Consolidated Financial Statements*
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Separate and Consolidated Financial Statements*, which addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, resulting to SIC being withdrawn. It does not change the consolidation procedures. Rather, it changes whether an entity is consolidated by revising the definition of control. It also provides a number of clarifications in applying this new definition. The new standard will be applied retrospectively.
- PFRS 11, *Joint Arrangements*
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 introduces the definition of "joint control", for which the reference to "control" in "joint control" refers to the definition of "control" in PFRS 10. It also changes the accounting for joint arrangements by moving from three categories under PAS 31 to two categories, either joint operation or joint venture. Under this



new classification, the structure of the joint arrangement is not the only factor considered when classifying the joint arrangement as either joint operation or a joint venture. Further, parties are required to consider whether a separate vehicle exists and, if so, the legal form of the separate vehicle, the contractual terms and conditions, and other facts and circumstances. In addition, PAS 28, *Investment in Associates*, was amended to include the application of the equity method to investments in joint ventures. PFRS 11 will be applied using modified retrospective approach.

- **PFRS 12, *Disclosure of Interests in Other Entities***
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 12 applies to an entity that has an interest in subsidiaries, joint arrangements, associates and/or structured entities. The objective of the new disclosure requirements is to help the users of the financial statements to understand the effects of an entity's interests in other entities on its financial position, financial performance and cash flows and the nature of, and the risks associated with, the entity's interest in other entities. It also includes more extensive qualitative and quantitative disclosures. PFRS 12 will be applied retrospectively.
- **PFRS 13, *Fair Value Measurement***
This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 13 does not affect when fair value is used, but rather describes how to measure fair value where fair value is required or permitted by PFRS.

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

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

Effective in 2014:

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



Effective in 2015:

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

To be Determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, effective date has been deferred by SEC and the Financial Reporting Standards Council until the final revenue standard is issued by International Accounting Standards Board and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Improvements to PFRS

The omnibus amendment to PFRS issued in 2009, 2010 and 2011, contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- *PFRS 1, First-time Adoption of PFRS - Borrowing Costs* The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet



(mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- *PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment*
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Summary of Significant Accounting Policies

Financial Instruments

Initial Recognition and Measurement

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 and liabilities at initial recognition.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

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 or AFS investments. The Group's financial assets are in the nature of loans and receivables and AFS investments. Also under PAS 39, financial liabilities are classified as either at FVPL, loans and borrowings, or as derivatives. The Group's financial liabilities are in the nature of loans and borrowings.

As at December 31, 2012 and 2011, the Group does not have financial instruments at FVPL and HTM investments.



Subsequent Measurement

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

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 investments or designated at FVPL. This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents" and "Receivables", which arise primarily from nontrade receivables. Loans and receivables are classified as current when these are expected to be realized within one (1) year after the end of each reporting period or within the Group's normal operating cycle, whichever is longer. All others are classified as non-current.

After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized costs is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in "Interest income" caption in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in "Provision for impairment losses on receivables" account under the "Administration and overhead costs" caption in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on Impairment of Financial Assets).

AFS Investments

AFS investments are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They are included in noncurrent assets unless management intends to dispose of the investment within twelve (12) months from the end of each reporting period. Included in this category are equity investments in quoted instruments and private companies other than associates, which are shown as a separate line item in the consolidated statement of financial position.

After initial measurement, AFS investments are subsequently measured at fair value.

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

The unrealized gains and losses arising from the fair valuation of AFS investments are reported in other comprehensive income and accumulated as "Cumulative changes in fair values of AFS investments" in the equity section of the consolidated statement of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of comprehensive income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Any dividends earned on holding AFS investments are recognized in the profit or loss in the consolidated statement of comprehensive income when the right to receive payment has been established.



Any losses arising from impairment of such investments are recognized in the consolidated statement of comprehensive income.

The Group's investments in quoted and unquoted equity securities are included under this category (see Note 8).

Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization shall be included in finance costs in the consolidated statements of comprehensive income.

This accounting policy applies primarily to the Group's accounts payable and accrued expenses and nontrade payables that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

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

Offsetting of Instruments

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

The Group first assesses individually whether its objective evidence of impairment, such as aging of assets and/or status of debtors, 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 asset 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 financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. Time value is generally not considered when the effect of discounting is not material.

The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income. Receivables together with the associated allowance are written-off when there is no realistic prospect of future recovery. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of comprehensive 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 comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Investments Carried at Fair Value

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income is removed from "Other comprehensive income" and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in "Other comprehensive income".

Derecognition of Financial Instruments

Financial Asset

A financial asset (or, where applicable a part of a financial asset or part of a group of 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 the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a



guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Fair Value of Financial Instruments

Financial instruments recognized at fair value are determined and disclosed using the following levels of hierarchy:

- 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 data (unobservable inputs).

When fair values of listed equity and debt securities as well as publicly traded derivatives at 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 hierarchy.

For all other financial instruments, 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.

Instruments included in level 3 include those for which there is currently no active market.

Cash and Cash Equivalents

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Capital Stock

Common shares are classified as equity.

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



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

Inventories

Inventories are stated at the lower of cost or net realizable value (NRV). Costs of parts and supplies are determined using the moving average method. NRV is the replacement cost. In determining NRV, the Group considers any adjustment necessary for obsolescence.

Property and Equipment

Property and equipment, except land, are carried at cost less accumulated depletion and depreciation and impairment in value, if any.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to the consolidated statement of comprehensive income in the period when the costs are incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing funds.

When a mine construction project moves into production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mine site additions or improvements, underground mine development or mineable reserve development.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. Major maintenance and major overhaul costs that are capitalized as part of property and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection or the estimated useful life of the related property and equipment.

Land is recorded at cost less any impairment in value.

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the Group's geologist and certified by an independent geologist.



Depreciation is calculated using the straight-line method to allocate the cost of each asset less its residual value, if any, over its estimated useful life.

Type of Asset	Estimated Useful Life in Years
Machinery and equipment	5-20
Building and improvements	20
Furniture, office and other equipment	5

The assets' residual values, if any, and useful lives and methods of depletion and depreciation are reviewed and adjusted, if appropriate, at the reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

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

Mine Exploration Costs

Pre-license costs are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditure is deferred as asset when future economic benefit is more likely than not be realized. These costs include materials and fuels used, surveying costs, drilling costs and payments made to contractors. The Group capitalizes any further evaluation costs incurred to exploration and evaluation assets up to the point when a commercial reserve is established.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Once commercial reserves are established, exploration and evaluation assets are tested for impairment and transferred to mine and mining properties. No amortization is charged during the exploration and evaluation phase. If the area is found to contain no commercial reserves, the accumulated costs are expensed.

Impairment of Nonfinancial Assets

Nonfinancial Receivables, Prepayments and Other Current Assets and Other Noncurrent Assets

The Company provides allowance for impairment losses on nonfinancial receivables, prepayments and other current assets and other noncurrent assets when they can no longer be realized. The amounts and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease the nonfinancial assets.

Property and Equipment

Property and Equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit (CGU) is written down to its recoverable amount. The estimated



recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statement of comprehensive income.

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

Mine Exploration Costs

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

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Provisions

General

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

Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost.

Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Provision for Mine Rehabilitation and Decommissioning

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailing dams dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.



The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of the related ore. Over time, the discounted liability is increased for the change in the present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The periodic unwinding of the discount is recognized in the consolidated statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of comprehensive income.

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

Revenue Recognition

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

Interest Income

Interest income is recognized as it accrues using EIR method.

Other Income

Other income is recognized when earned.

Costs and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Administrative and overhead costs are generally recognized when the service is used or the expense arises.

Employee Benefits

Retirement Obligations

Retirement cost and obligation are computed in accordance with Republic Act (RA) No.7641, *Retirement Pay Law*, which is similar to that computed under a defined benefit pension plan. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on certain factors such as age, years of credited service and salary.

The liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the reporting date, together with any adjustments for unrecognized gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity which approximates the terms of the related pension liability. The defined benefit obligation is calculated on a regular periodic basis by an independent actuary using the projected unit credit cost method.



Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognized immediately in income, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after reporting date are discounted to present value.

Share-based Payment Transactions

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

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

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

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

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

The dilutive effect of outstanding stock options is reflected as additional share dilution in the computation of diluted earnings per share in 2011. The stock options were excluded from the computation of diluted earnings per share in 2010 because the effect was antidilutive (see Note 20).



Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate at the reporting date. Foreign exchange differences between rate at transaction date and rate at settlement date or at each reporting date are credited to or charged against current operations.

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused NOLCO can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced 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 asset to be utilized. Unrecognized deferred income tax assets are reassessed at reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.



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

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

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

Earnings (Loss) Per Share

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

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

Dividend Distribution

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

Contingencies

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

Events After the Reporting Period

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

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group has only one business and geographical segment.



3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable. Actual results could differ from such estimates.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and the Subsidiary has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Parent Company and the Subsidiary operate. It is the currency that mainly influences the revenues and expenses of the Parent Company and the Subsidiary.

The functional currency of the Group has been determined by the management based on the currency that most faithfully represents the primary economic environment in which the individual company operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the individual companies within the Group.

Classification of Financial Instruments

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of the financial instrument, rather than its legal form, governs its classification in the statements of financial position.

The Group classified its equity investments as AFS, since it were purchased not for the purpose of selling and repurchasing in the near term. These are held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. The Group does not intend to dispose the investments within twelve (12) months from the reporting date.

Estimates and Assumptions

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

Estimating Allowances for Impairment Losses on Receivables

The provision for impairment losses on receivables is based on the Group's assessment of the collectibility of payments from employees and other third parties. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that



affect the collectibility of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception.

The Group assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows. In 2012 and 2011, the Group used specific impairment on its loans and receivables. The Group did not assess its loans and receivables for collective impairment due to the few counterparties which can be specifically identified.

As at December 31, 2012 and 2011, the Group has receivables of ₱1,507,699 and ₱5,864,957, respectively, net of allowance for impairment losses of ₱573,897 as of those dates (see Note 5).

Estimating Allowance for Inventory Obsolescence

Mill materials, hardware and other supplies, which are used in the Group's operations, are stated at the lower of cost or NRV. Allowance due to obsolescence is established when there are evidences that the equipment where the parts and supplies originally purchased is no longer in service. Inventories which are nonmoving or have become unusable are priced at their recoverable amount.

Inventories, at lower of cost or NRV, amounted to ₱25,741,306 and ₱22,764,840 as at December 31, 2012 and 2011, respectively, net of allowance for inventory obsolescence of ₱48,856,467 and ₱49,111,896 as at December 31, 2012 and 2011, respectively (see Note 6).

Estimating Impairment of AFS Investments

The Group treats AFS investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

The carrying amounts of AFS Investments amounted to ₱73,370,000 and ₱109,598,500 as at December 31, 2012 and 2011, respectively (see Note 8). The change in the fair value of AFS investments is recognized in other comprehensive income and is accumulated in the equity section of the consolidated statements of financial position under "Cumulative changes in fair values of AFS investments". As at December 31, 2012 and 2011, the cumulative changes in fair values of AFS investments amounted to ₱5,828,008 and ₱42,056,508, respectively.

Estimating Impairment Losses on Nonfinancial Receivables, Prepayments and Other Current and Other Noncurrent Assets

Assets are reviewed and tested whenever there is an indication of impairment and are reassessed at least each reporting date. Factors such as significant underperformance of an asset relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets, or significant negative industry or economic trends are considered by the



Group in assessing whether there is an indication that an asset's carrying amount may exceed its recoverable amount. There were no provision for impairment losses recognized in 2012 and 2011. As at December 31, 2012 and 2011, the Group has nonfinancial receivables, prepayments and other current and other noncurrent assets amounting to ₱86,823,147 and ₱63,943,838, net of allowance of ₱4,391 as of those dates.

Estimating Useful Lives of Property and Equipment

Estimated useful lives of the property and equipment are determined based on the assessment by the end user and the parameters of usage indicated in the Group's manual. The Group estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property 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, the estimation of the useful lives of property and equipment is based on collective assessment of 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.

As at December 31, 2012 and 2011, the net book values of the property and equipment, except land, amounted to ₱2,443,369,538 and ₱2,031,713,931, respectively (see Note 9).

Estimating Impairment of Property and Equipment

The Group assesses impairment on property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognized and charged to the consolidated statement of comprehensive income if the recoverable amount is less than the carrying amount. The estimated recoverable amount of the asset is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.



The aggregate net book values of property and equipment amounted to ₱2,450,640,251 and ₱2,038,984,644 as at December 31, 2012 and 2011, respectively, net of allowance for impairment losses of ₱143,272,443 (see Note 9). No provision for impairment loss was recognized in 2012 and 2011.

Estimating Recoverability of Mine Exploration Costs

Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to operations until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. Mine exploration costs amounted to ₱2,664,201, net of allowance for impairment loss of ₱92,028,090 as at December 31, 2012 and 2011 (see Note 10).

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 extraction 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 estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of mine, stripping ratios and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning.

As at December 31, 2012 and 2011, mine and mining properties included in property and equipment account amounted to ₱2,277,049,572 and ₱1,945,564,896, respectively (see Note 9).

Estimating Realizability of Deferred Income Tax Assets

The Group reviews the carrying amounts of deferred income tax assets at the reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has recognized deferred income tax assets amounting to ₱63,740,876 and ₱63,304,856 as at December 31, 2012 and 2011, respectively. No deferred income tax assets were recognized for temporary differences amounting to ₱111,643,401 and ₱107,740,949 as at December 31, 2012 and 2011, respectively, since management believes that there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized (see Note 18).



Estimating Provision for Mine Rehabilitation and Decommissioning

The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

The provision for mine rehabilitation and decommissioning costs is based on estimated future costs using information available at the reporting date. To the extent the actual costs differ from these estimates, adjustments will be recorded and the parent company statement of comprehensive income may be impacted. As at December 31, 2012 and 2011, the Parent Company is in the process of evaluating, as such, no provision for mine rehabilitation and decommissioning was recorded (see Note 16).

Determining Retirement Benefit Obligation

The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 17 to the consolidated financial statements.

Retirement benefit obligation amounted to ₱12,126,038 and ₱9,549,649 as at December 31, 2012 and 2011, respectively (see Note 17).

Estimating Fair Values of Financial Assets and Liabilities

PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect the consolidated statement of comprehensive income. Fair value of financial assets as at December 31, 2012 and 2011 amounted to ₱222,966,430 and ₱640,749,009, respectively. Fair value of financial liabilities as at December 31, 2012 and 2011 amounted to ₱228,703,721 and ₱162,629,421, respectively (see Note 23).

Estimating Contingencies

The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 22).

4. Cash and Cash Equivalents

	2012	2011
Cash on hand and with banks	₱12,550,422	₱249,752,972
Cash equivalents	134,506,214	277,553,909
	₱147,056,636	₱527,306,881



Cash with banks earn interest at the respective bank deposit rates. Cash equivalents are short-term deposits, which are made for varying periods up to three (3) months or less depending on the immediate cash requirements of the Group. The effective annual interest rate on cash equivalents, which have an average maturity of 29 days, ranges from 4.50% to 4.75% in 2012.

Interest income earned from cash and cash equivalents amounted to ₱3,995,144, ₱12,420,870 and ₱654,274 in 2012, 2011 and 2010, respectively.

5. Receivables

	2012	2011
Nontrade	₱1,143,374	₱1,294,782
Stock options receivables (Note 21)	568,000	4,840,000
Advances to officers and employees	370,222	304,072
	2,081,596	6,438,854
Less allowance for impairment losses	573,897	573,897
	₱1,507,699	₱5,864,957

Stock options receivables are noninterest bearing receivables from employees in respect of stock options exercise under a share-based plan. These are generally collectible on demand based from the Company's experience (see Note 21).

Nontrade receivables are noninterest bearing with no fixed maturities and are generally collectible on demand.

Advances to officers and employees are noninterest bearing and are generally subject to liquidation.

Based on the assessment done by the management, the Group recognized an allowance for specifically identified accounts amounting to ₱573,897 as at December 31, 2012 and 2011. Receivables which were not individually significant and individually significant receivables for which no specific impairment were recognized were assessed and subjected to collective assessment. Based on assessment done, the Group has not recognized any provision for receivables which were assessed collectively. Allowance for impairment losses on nontrade receivables and advances to officers and employees amounted to ₱569,506 and ₱4,391, respectively, as at December 31, 2012 and 2011.

The following table shows the aging of receivables that are past due as at December 31, 2012 and 2011 but are not considered impaired:

2012	Total	Past due but not impaired			
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days
Nontrade	₱573,868	₱192,609	₱-	₱381,259	₱-
Advances to officers and employees	365,831	219,155	101,313	4,400	40,963
	₱939,699	₱411,764	₱101,313	₱385,659	₱40,963



2011	Total	Past due but not impaired			
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days
Nontrade	₱725,276	₱171,254	₱2,000	₱210,000	₱342,022
Advances to officers and employees	299,681	112,437	54,338	55,859	77,047
	₱1,024,957	₱283,691	₱56,338	₱265,859	₱419,069

6. Inventories

	2012	2011
At NRV:		
Mill materials, hardware and other supplies	₱6,174,950	₱3,304,379
At cost:		
Machinery and automotive parts	19,408,423	19,372,549
Fuel, oil and lubricants	157,933	87,912
	19,566,356	19,460,461
	₱25,741,306	₱22,764,840

Cost of mill materials, hardware and other supplies amounted to ₱55,031,417 and ₱52,416,275 as at December 31, 2012 and 2011, respectively. The allowance for inventory obsolescence on mill materials, hardware and other supplies amounted to ₱48,856,467 and ₱49,111,896 as at December 31, 2012 and 2011, respectively.

Movements of allowance for inventory obsolescence in 2012 and 2011 are as follows:

	2012	2011
Beginning balances	₱49,111,896	₱41,643,581
Provision for impairment loss (Note 14)	-	7,591,885
Reversal	(255,429)	(123,570)
Ending balances	₱48,856,467	₱49,111,896

7. Prepayments and Other Current Assets

	2012	2011
Input value-added taxes (VAT)	₱74,083,148	₱47,490,832
Prepaid royalties	4,376,619	4,148,159
Miscellaneous deposits	283,861	1,436,286
	₱78,743,628	₱53,075,277

Input VAT represents VAT paid on purchases of goods and services which can be recovered as tax credit against future tax liability of the Parent Company upon approval by the Philippine Bureau of Internal Revenue (BIR). Prepaid royalties are advance payments to landowners while miscellaneous deposits are advance payments made to suppliers of services.



8. AFS Investments

	2012	2011
Quoted instruments	₱65,870,000	₱102,098,500
Unquoted instruments	7,500,000	7,500,000
	₱73,370,000	₱109,598,500

Quoted equity instruments, which are investments in listed shares, are carried at fair market value as at reporting date. Unquoted equity instruments, which pertains to investments in a private company, have no fixed maturity date or coupon rate and are carried at cost since fair values of these investments cannot be reliably determined as they have no available bid price.

As at December 31, 2012, the Group has no intention to dispose its quoted and unquoted equity shares within next year.

Movement of AFS investments in 2012 is as follows:

	2012	2011
Balance at beginning of year	₱109,598,500	₱7,500,000
Additions	—	60,041,992
Change in fair value of AFS Investments	(36,228,500)	42,056,508
Balance at end of year	₱73,370,000	₱109,598,500

The unrealized gain (loss) on the movement in fair value of these investments amounting to (₱36,228,500) and ₱42,056,508 as at December 31, 2012 and 2011, respectively, are recognized in other comprehensive income and accumulated as a separate component in the consolidated statements of changes in equity.



9. Property and Equipment

	2012				
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land
Cost:					
Balances at beginning of year	₹3,010,889,218	₹794,331,631	₹104,494,501	₹85,648,531	₹7,270,713
Additions	331,484,676	2,066,225	4,087,917	11,092,251	—
Balances at end of year	3,342,373,894	796,397,856	108,582,418	96,740,782	7,270,713
Accumulated depreciation, and depletion:					
Balances at beginning of year	1,065,324,322	645,504,591	74,585,715	73,611,450	—
Depreciation	—	6,330,284	3,190,798	4,418,697	—
Balances at end of year	1,065,324,322	651,834,875	77,776,513	78,030,147	—
Allowance for impairment losses	—	125,501,962	17,706,056	64,425	—
Net book values	₹2,277,049,572	₹19,061,019	₹13,099,849	₹18,646,210	₹7,270,713
				₹115,512,888	₹2,450,640,251

	2011						
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Construction In-progress	Total
Cost:							
Balances at beginning of year	₹2,699,952,460	₹787,647,760	₹104,494,501	₹73,930,631	₹7,270,713	₹—	₹3,673,296,065
Additions	310,936,758	6,683,871	—	11,717,900	—	38,648,571	367,987,100
Balances at end of year	3,010,889,218	794,331,631	104,494,501	85,648,531	7,270,713	38,648,571	4,041,283,165
Accumulated depreciation, and depletion:							
Balances at beginning of year	1,065,324,322	639,175,216	71,450,089	72,028,653	—	—	1,847,978,280
Depreciation	—	6,329,375	3,135,626	1,582,797	—	—	11,047,798
Balances at end of year	1,065,324,322	645,504,591	74,585,715	73,611,450	—	—	1,859,026,078
Allowance for impairment losses	—	125,501,962	17,706,056	64,425	—	—	143,272,443
Net book values	₹1,945,564,896	₹23,325,078	₹12,202,730	₹11,972,656	₹7,270,713	₹38,648,571	₹2,038,984,644

Total depreciation of property and equipment and certain idle assets charged to operations amounted to ₱4,219,646, ₱4,252,849 and ₱4,114,645 in 2012, 2011 and 2010, respectively (see Note 14). Depreciation amounting to ₱9,720,133, ₱6,794,949 and ₱7,713,661 were capitalized in 2012, 2011 and 2010, respectively, as part of mine and mining properties.

10. Mine Exploration Costs

Mine exploration costs amounted to ₱2,664,201, net of allowance for impairment losses amounting to ₱92,028,090 as at December 31, 2012 and 2011. No movement was recognized in the account in 2012.

11. Other Noncurrent Assets

	2012	2011
Environmental fund	₱5,530,900	₱5,563,735
Miscellaneous deposits	1,682,066	1,682,066
Advances to landowners	1,568,141	1,571,141
Idle and other assets, net of accumulated amortization of ₱32,413,431 and allowance for impairment losses of ₱7,640,740, as at December 31, 2012 and 2011	326,117	25,899
	₱9,107,224	₱8,842,841

On November 13, 1998, the Parent Company entered into a separate Memorandum of Agreement with the Office of Municipal Mayor and Sangguniang Bayan of Placer, Surigao del Norte, DENR and Mines and Geosciences Bureau (MGB). Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and a Mine Rehabilitation Fund (MRF) amounting to ₱5,150,000. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, for pollution control, slope stabilization and integrated community development. The environmental fund to be maintained by the Group in a mutually acceptable bank is subject to annual review of the MRF committee. The funds earn interest based on the prevailing market rate.

Miscellaneous deposits pertain to advances made to local government agencies for pending project agreements. Advances to landowners pertain to advances made to certain landowners for future purchases of parcels of land. The same will be deducted from the total acquisition cost of parcels of land purchased in the future.

12. Accounts Payable and Accrued Expenses

	2012	2011
Accounts payable	₱168,482,508	₱133,891,381
Due to related parties (see Note 13)	33,933,710	10,395,877
Accrued payroll	19,369,034	9,693,700
Unclaimed dividends	573,097	573,097
Accrued taxes	—	3,250,460
Other liabilities	7,672,015	7,779,198
	₱230,030,364	₱165,583,713

Other liabilities pertain to the Group's payable to various regulatory agencies.



Terms and conditions of the aforementioned liabilities are as follows:

- Accounts payables and due to related parties are noninterest bearing and are normally settled on thirty (30) days' terms.
- Accrued payroll are normally payable in thirty (30) days.
- Accrued taxes are payable within ninety (90) day's term.
- Other liabilities are noninterest bearing and have an average term of one (1) - three (3) months.

13. Related Party Disclosures

Related parties are those with the ability to control, directly, or indirectly, through one or more intermediaries, the Group or exercise significant influence over the Group in making financial and operating decisions. Related party relationships also exist between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors, or its shareholders.

Intercompany transactions are eliminated in the consolidated financial statements. The Group's related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

2012					
	Relationship	Amount/ Volume	Outstanding Balance	Terms	Conditions
Receivables: increase (decrease)					
KCGRI	Subsidiary	₱66,409	₱793,004	Non-interest bearing	Unsecured, no impairment
2011					
	Relationship	Amount/ Volume	Outstanding Balance	Terms	Conditions
Receivables: increase (decrease)					
KCGRI	Subsidiary	₱7,850	₱726,595	Non-interest bearing	Unsecured, no impairment

The Parent Company, in the normal course of business, enters into transactions with related parties.

The consolidated statements of financial position include the following liabilities resulting from the above transactions with related parties:

2012					
	Relationship	Amount/ Volume	Outstanding Balance	Terms	Conditions
Payables: increase (decrease)					
LCMC	Under Common Ownership	(1,393,993)	570,098	Non-interest bearing	Unsecured, no impairment
DDCP	Under Common Ownership	23,537,833	33,933,710	Non-interest bearing	Unsecured, no impairment



		2011		
		Amount/ Volume	Outstanding Balance	Terms Conditions
Payables: increase (decrease)				
LCMC	Under Common Ownership	783,443	1,964,091	Non-interest bearing Unsecured, no impairment
DDCP	Under Common Ownership	(11,003,448)	10,395,877	Non-interest bearing Unsecured, no impairment

- LCMC, holds a 19.60% equity interest in the Parent Company. It provided cash advances and paid expenses on behalf of the Parent Company. In 2012 and 2011, the Parent Company partially paid these advances to LCMC. The outstanding balance of ₱570,098 and ₱1,964,091 as at December 31, 2012 and 2011, respectively, is due and demandable.
- In the normal course of business, DDCP, a wholly-owned subsidiary of LCMC, provides various drilling and hauling services to the Parent Company.

Total compensation of the Group's key management personnel in 2012, 2011 and 2010, which pertains to short-term benefits, amounted to ₱2,432,450, ₱468,950 and ₱475,950, respectively. There were no post-employment benefits for the Group's key management personnel in 2012, 2011 and 2010.

14. Administration and Overhead Costs

	2012	2011	2010
Depreciation (see Note 9)	₱4,219,646	₱4,252,849	₱4,114,645
Retirement benefit cost (see Note 17)	2,576,389	2,613,940	1,251,435
Salaries, allowances and other benefits	1,903,911	1,411,711	969,791
Listing fees	1,202,576	463,524	465,321
Membership fees and dues	542,000	638,000	101,000
Representation and entertainment	372,759	103,050	75,349
Transportation and travel	386,904	453,702	310,516
Communication, postage and telephone	299,258	106,147	136,803
Outside services	270,583	589,656	856,717
Supplies	250,372	—	—
Annual stockholders' expenses	400,486	238,880	316,287
Medical reimbursements	194,791	208,258	119,106
Maintenance supplies	163,366	148,895	179,511
Insurance	69,666	—	—
Taxes and licenses	31,654	62,192	36,165
Provision for inventory obsolescence (see Note 6)	—	7,591,885	43,201
Other charges	604,166	833,799	540,245
	₱13,488,527	₱19,716,488	₱9,516,092



15. Other Income (Losses)

	2012	2011	2010
Dividend income	P-	P350	P350
Unrealized foreign exchange losses	-	-	(8,217)
	P-	P350	(P7,867)

16. Provision for Mine Rehabilitation and Decommissioning

DENR Administrative Order (DAO) No. 2007-26, which was published in the Philippine Star on August 9, 2007 and took effect 15 days thereafter, was released by the DENR, amending Section 2 of DAO 2005-7 and requires Contractors with approved Environmental Protection and Enhancement Programs to submit the Final Mine Rehabilitation and Decommissioning Plan (FMR/DP) for review by the MRF Committee and approval by the Contingent Liability and Rehabilitation Fund Steering Committee before December 31, 2007.

As at December 31, 2012, the Group is still in the process of evaluating the timing and amount of estimated cash flows relating to the mine rehabilitation and decommissioning costs. Once the Group has been able to complete and submit to MGB its FMR/DP, it will provide the necessary accrual for mine rehabilitation and decommissioning.

17. Retirement Benefit Obligation

The Parent Company has an unfunded defined retirement benefit plan covering substantially all regular employees. Benefits are dependent on the years of service and the respective employee's compensation. The defined unfunded retirement benefit plan obligation is determined using the projected unit credit method. There was no planned termination, curtailment or settlement in 2012, 2011 and 2010.

The amounts of retirement benefit costs recognized in the consolidated statements of comprehensive income under administration and overhead costs are determined as follows:

	2012	2011	2010
Current service costs	P1,049,011	P872,091	P580,597
Interest costs	986,682	1,184,742	670,838
Net actuarial loss recognized	540,696	557,107	-
	P2,576,389	P2,613,940	P1,251,435

The amounts of retirement benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2012	2011
Present value of defined benefit obligation	P15,600,573	P15,416,912
Actuarial losses not recognized	(3,474,535)	(5,867,263)
	P12,126,038	P9,549,649



Changes in the present value of the unfunded retirement benefit obligation are determined as follows:

	2012	2011
Balances at beginning of year	₱15,416,912	₱14,104,071
Interest costs	986,682	1,184,742
Current service cost	1,049,011	872,091
Benefits paid	—	(743,992)
Actuarial gain	(1,852,032)	—
Balances at end of year	₱15,600,573	₱15,416,912

Movements in the unfunded retirement benefit obligation recognized in the consolidated statements of financial position are as follows:

	2012	2011
Balances at beginning of year	₱9,549,649	₱7,679,701
Expense recognized for the year	2,576,389	2,613,940
Benefits paid during the year	—	(743,992)
Balances at end of year	₱12,126,038	₱9,549,649

The principal assumptions used in determining retirement benefit plan obligations are as follows:

	2012	2011
Discount rate	6.40%	8.40%
Salary increase rate	10%	10%
Expected remaining working lives of employees	8 years	9 years

Amounts for the current and previous four years are as follows:

	2012	2011	2010	2009	2008
Defined benefit obligation	₱15,600,573	₱15,416,912	₱14,104,071	₱7,136,576	₱6,147,283
Experience adjustments on plan liabilities	4,943,628	—	3,329,204	—	1,626,083

18. Income Taxes

The provision for current income tax in 2011 is from the minimum corporate income tax (MCIT) of the Parent Company amounting to ₱178,361. No provision for current income tax was recognized in 2012 and 2010, since it is in a net taxable loss position.

A reconciliation of income tax applicable to income loss before income tax at the statutory income tax rates to benefit from income tax shown in the consolidated statements of comprehensive income follows:

	2012	2011	2010
Income tax at statutory tax rates	(₱2,848,015)	₱494,245	(₱2,660,906)
Additions to (reductions in) income tax resulting from:			
Interest income subjected to final tax	(1,198,543)	(3,726,261)	(196,282)

(Forward)



	2012	2011	2010
Change in unrecognized deferred income taxes	₱1,170,736	₱327,698	(₱4,298,407)
Expired NOLCO	1,983,664	—	—
Nondeductible expenses	111,828	30,915	31,424
Dividend exempt from income tax	—	(105)	(105)
Expired MCIT	—	—	6,734,557
Others	336,897	—	—
	(₱443,433)	(₱2,873,508)	(₱389,719)

The components of the net deferred income tax liability as at December 31 are as follows:

	2012	2011
Deferred income tax assets:		
Allowances for:		
Impairment losses on property and equipment and idle assets	₱45,273,955	₱45,273,955
Inventory obsolescence	14,656,940	14,770,640
Impairment losses on receivables	172,169	172,169
Retirement benefit obligation	3,637,812	3,088,092
	63,740,876	63,304,856
Deferred income tax liabilities:		
Excess of allowable depletion over depletion per books	129,865,526	129,865,526
Unrealized foreign exchange gain	—	7,413
	129,865,526	129,872,939
Deferred income tax liabilities - net	₱66,124,650	₱66,568,083

Deferred income tax liability is mainly provided on taxable temporary differences arising on the difference between allowed depletion under Presidential Decree 1353 and normal depletion.

The following are the movements in the Group's NOLCO for the years ended December 31:

	2012	2011
Balances at beginning of year	₱15,534,498	₱60,079,760
Additions	10,514,667	497,790
Expirations	(6,612,215)	(45,043,052)
Balances at end of year	₱19,436,950	₱15,534,498

As at December 31, 2012, the Group has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Year of Expiry	Amount	Tax Effect
2008	2013	₱114,639	₱34,392
2009	2014	189,356	56,807
2010	2015	71,275	21,383
2011	2016	78,361	23,509
2012	2017	73,775	22,133
2010	2013	8,049,223	2,414,767
2011	2014	419,429	125,829
2012	2015	10,440,892	3,132,268
		₱19,436,950	₱5,831,088



As at December 31, 2012 and 2011, the Group has an excess MCIT that can be claimed as tax credit amounting to ₱178,361. The excess MCIT will expire in 2014.

No deferred income tax assets were recognized for the following temporary differences since management expects that it is not probable that sufficient taxable income will be available to allow all or part of these deferred income tax assets to be utilized.

	2012	2011
Allowance for impairment losses		
on mine exploration costs	₱92,028,090	₱92,028,090
NOLCO	19,436,950	15,534,498
MCIT	178,361	178,361
	₱111,643,401	₱107,740,949

19. Capital Stock

On August 2, 2006, the Parent Company's BOD approved the offer of 35,811,045,334 Class "A" shares and 23,857,061,734 Class "B" shares, or one (1) share for every two (2) shares held by shareholders as of August 30, 2006 at the offer price of ₱0.015 per share to support the increase in the authorized capital stock from ₱1.2 billion to ₱1.8 billion.

On November 10, 2009, the Parent Company's BOD approved the offer of 13,429,141,954 "A" shares and 8,946,398,197 "B" shares, or 1 share for every 8 shares held by shareholders as of March 10, 2010 at the offer price of ₱0.015 per share to support the increase in the parent company's authorized capital stock from ₱1.8 billion to ₱2.6 billion. The offer was approved and confirmed by the SEC as an exempt transaction on March 4, 2010.

The offer period was from April 7, 2010 to April 14, 2010. As at April 14, 2010, all shares of stock offered were fully subscribed and/or issued.

The BOD approved the grant of the 8th Stock Option Awards (Awards) to selected directors, officers and employees of the Parent Company and of its subsidiary, covering 1.6 billion common shares consisting of 960 million Class "A" shares and 640 million Class "B" shares. The option is exercisable within five (5) years; to the extent of 20% of the Awards every year, from the SEC approval of the Awards. The SEC approved the awards on July 9, 2010. The Awards constitutes 0.8%, more or less, of the outstanding capital stock of the Parent Company (see Note 21).

On June 8, 2010, the SEC approved the increase in authorized capital stock to 260 billion shares at par value of ₱0.01 per share divided into 156 billion Class "A" shares and 104 billion Class "B" shares.



Only Philippine nationals are qualified to acquire, own or hold Class "A" common shares of stock of the Parent Company. The total number of Class "B" common shares of stock subscribed, issued or outstanding at any given time shall in no case exceed two-thirds (2/3) of the number of Class "A" common shares of stock or 40% of the aggregate number of Class "A" and Class "B" common shares of stock then subscribed, issued or outstanding. Each common share entitles the holder to one (1) vote, enjoys full dividend and pre-emptive rights.

	2012		2011	
	No. of Shares	Amount	No. of Shares	Amount
Issued and outstanding				
Class "A"	121,203,736,313	₱1,212,037,363	121,067,536,313	₱1,210,675,363
Class "B"	80,741,379,944	807,413,799	80,650,579,944	806,505,799
	201,945,116,257	2,019,451,162	201,718,116,257	2,017,181,162
Subscribed				
Class "A"	44,269,466	442,695	179,934,900	1,799,349
Class "B"	29,512,978	295,130	121,810,212	1,218,102
	73,782,444	737,825	301,745,112	3,017,451
Total shares issued and subscribed	202,018,898,701	2,020,188,987	202,019,861,369	2,020,198,613
Less subscriptions receivable		366,405		366,405
	202,018,898,701	₱2,019,822,582	202,019,861,369	₱2,019,832,208

As at December 31, 2012 and 2011, authorized capital stock of the Subsidiary includes 200 convertible preferred shares with par value of ₱15,000 each. The convertible preferred shares are non-voting, non-cumulative, and shall be convertible to common shares at the option of the shareholder subscribing to the convertible preferred shares under terms and conditions as may be agreed upon between the Subsidiary and the Subsidiary's shareholders.

In April 2010, the Parent Company offered to its shareholders as of record date of March 10, 2010, the right to subscribe to one (1) share for every eight (8) shares held covering 22,375,540,151 common shares consisting of 13,429,141,954 Class "A" shares and 8,946,398,197 Class "B" shares.

The offer period was from April 7, 2010 to April 14, 2010. As at April 14, 2010, all shares of stocks offered were fully subscribed and/or issued.

As at December 31, 2012, 2011 and 2010, the Parent Company has 3,850, 3,950 and 4,803 stockholders, respectively.

20. Earnings (Loss) Per Share

Basic earnings per common share based on net income were computed as follows:

	2012	2011	2010
a. Net income (loss) attributable to equity holders of the Parent Company	(₱9,046,271)	₱4,523,266	(₱8,479,966)
b. Weighted average number of common shares issued (in thousands)	201,982,489	201,699,861	193,921,348
Earnings (loss) per share (a/b)	(₱0.00004)	₱0.00002	(₱0.00004)



Diluted earnings per common share based on net income were computed as follows:

	2012	2011	2010
a. Net income (loss) attributable to equity holders of the Parent Company	(₱9,046,271)	₱4,523,266	(₱8,479,966)
b. Weighted average number of common shares adjusted for the effect of exercise of stock options (in thousands)	201,982,489	202,337,692	194,130,044
Earnings (loss) per share (a/b)	(₱0.00004)	₱0.00002	(₱0.00004)

The Parent Company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2011. The assumed exercise of these stock options would have resulted in additional 960,000,000 shares in 2011 (see Note 21).

21. Share-based Plan

Under the share-based plan, the Parent Company's officers and employees and those of its subsidiary may be granted options to purchase shares of stock of the Parent Company. The aggregate number of shares to be granted under the plan should not exceed five percent (5%) of the total number of shares of the Parent Company's outstanding capital stock.

An individual may be granted an option to purchase not more than five percent (5%) of the total number of shares set aside at the date of the grant and may exercise the option up to a maximum of twenty percent (20%) of the total number of option shares granted per year. Options are valid for five (5) years and are exercisable from the date of the approval of the grant by the SEC.

On November 10, 2009, the BOD approved the grant of the 8th Stock Option Awards (Awards) to selected employees, directors and officers of the Group in accordance with the board-approved Revised Stock Option Plan ("RSOP"). The Awards cover a total of 1,600,000,000 common shares consisting of 960,000,000 class "A" and 640,000,000 class "B" shares from the Parent Company's unissued capital stock, exercisable at the price of ₱0.02 per share, within 5 years from the date of SEC approval of the same. The option price of ₱0.02 per share was computed based on a new formula in the RSOP, that is, "the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of the approval of the Grant by the BOD as determined from quotations in the PSE.

The SEC approved the Awards and the RSOP on July 9, 2010; the pertinent listing application was approved by the PSE on October 20, 2010.

The following table illustrates the number of and movement in stock options:

	2012		2011	
	Class A	Class B	Class A	Class B
Outstanding at beginning of year	576,000,000	384,000,000	960,000,000	640,000,000
Exercised during the year	(69,000,000)	(46,000,000)	(384,000,000)	(256,000,000)
Outstanding at end of year	507,000,000	338,000,000	576,000,000	384,000,000



22. Commitments and Contingent Liabilities

- On May 11, 2011, the Parent Company, KCGRI and Philex entered into a Farm-in agreement (Agreement) for the exploration and joint development of the Kalaya-an Project located in Placer, Surigao del Norte. The pre-feasibility study of the project may be completed by Philex within the three (3) year earn-in period.

Pursuant to the agreement, the Parent Company sold to Philex a total of 125,000 shares of stock of KCGRI, representing a 5% interest in KCGRI, for a consideration of US\$25 million. Philex shall earn an additional 55% interest in KCGRI by sole-funding all pre-development expenses including a final feasibility study for the Project.

- The Parent Company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the parent company's legal counsel, any adverse decision on these cases would not materially affect the consolidated financial position and results of operations as at and for the years ended December 31, 2012, 2011 and 2010.

23. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and accounts payable and accrued expenses. The main purpose of the financial instruments is to fund the Group's operations. The Group has other financial instruments such as receivables, miscellaneous deposits, AFS investments and nontrade payables which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, market risk and liquidity risk. The Group's BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk represents the loss that the Group would incur if a counterparty failed to perform its contractual obligations. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all credit is subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group's gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.



The table below shows the gross maximum exposure to credit risk without consideration to collateral or other credit enhancements for the components of the consolidated statements of financial position as at December 31, 2012 and 2011.

	Note	2012	2011
Cash with banks and cash equivalents	4	₱145,901,666	₱526,406,627
Nontrade receivables	5	573,868	725,276
Miscellaneous deposits included under "Prepayments and other current assets and other noncurrent assets"	7 & 11	1,965,927	3,118,352
AFS investments	8		
Quoted		65,870,000	102,098,500
Unquoted		7,500,000	7,500,000
Total credit risk exposure		₱221,811,461	₱639,848,755

The tables below summarize the aging analysis of the Group's financial assets as at December 31, 2012 and 2011:

2012	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days		
Cash with banks	₱11,395,452	₱-	₱-	₱-	₱-	₱-	₱11,395,452
Cash equivalents	134,506,214	-	-	-	-	-	134,506,214
Nontrade receivables	-	192,609	-	381,259	-	569,506	1,143,374
Miscellaneous deposits	283,861	-	-	-	1,682,066	-	1,965,927
AFS investments	73,370,000	-	-	-	-	-	73,370,000
	₱219,555,527	₱192,608	₱-	₱381,259	₱1,682,066	₱569,506	₱222,380,967

2011	Neither past due nor impaired	Past due but not impaired				Impaired	Total
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days		
Cash with banks	₱248,852,718	₱-	₱-	₱-	₱-	₱-	₱248,852,718
Cash equivalents	277,553,909	-	-	-	-	-	277,553,909
Nontrade receivables	-	171,254	2,000	210,000	342,022	569,506	1,294,782
Miscellaneous deposits	754,286	-	-	-	2,364,066	-	3,118,352
AFS investments	109,598,500	-	-	-	-	-	109,598,500
	₱636,759,413	₱171,254	₱2,000	₱210,000	₱2,706,088	₱569,506	₱640,418,261

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

- Cash with banks and cash equivalents are assessed as high grade since these are deposited in reputable banks in the country as approved by the BOD and which have a low probability of insolvency.
- Quoted and unquoted equity instruments are assessed as high grade since it can be traded and are from companies with good financial capacity. The unquoted equity instruments are from one of the reputable hotels in the country.
- Miscellaneous deposits are assessed as high grade since these relate to advances made to local government agencies for pending project agreements.

There are no significant concentrations of credit risk within the Group.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity



prices, equity prices and other market changes. The Group's market risk originates from its holdings of equity instruments as well as foreign currency-denominated financial instruments.

Foreign Currency Risk

The Group uses the Philippine peso as its functional currency and is therefore exposed to foreign exchange movements, primarily in US dollar currency. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine peso currencies.

The following table sets forth the Group's foreign currency-denominated monetary assets and liabilities as at December 31, 2012 and 2011:

	2012		2011	
	United States Dollar	Peso Equivalent	United States Dollar	Peso Equivalent
Cash	\$4,550	₱186,778	\$5,433	₱238,183
Accounts payable and accrued expenses	-	-	280,805	12,310,491
Net assets (liabilities)	\$4,550	₱186,778	(\$275,372)	(₱12,072,308)

The exchange rate of the Philippine peso to the US dollar is ₱41.05 and ₱43.84 as at December 31, 2012 and 2011.

The following table demonstrates the sensitivity to a reasonable possible change in exchange rates, with all other variables held constant, of the Group's pre-tax loss due to changes in fair value of monetary assets and liabilities.

	Peso Strengthens (Weakens) by	Effect on pre-tax income (loss)
2012	₱0.72 (0.42)	(₱3,276) 1,911
2011	(₱0.68) 0.55	(₱187,253) 151,455

The reasonable possible change in exchange rates in the next twelve (12) months were determined based on the historical movement of the US\$ and Philippine peso.

There is no other impact on the Group's equity other than those already affecting the consolidated pre-tax income (loss).

Equity Price Risk

Equity price risk is the risk that the fair values of equity securities will fluctuate because of changes in the level of indices and the value of individual stocks. The Group is exposed to equity securities price risk because of investments held by the Group, which are classified in the consolidated statements of financial position as AFS investments. The Group's exposure to equity price risk relates primarily to its AFS investment in LCMC.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine its impact on the consolidated statement of financial position.



Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change was determined to be an increase (decrease) of 2.56% and 4.94% in 2012 and 2011 resulting to a possible effect in the equity of increase (decrease) of ₱2,215,174 and ₱6,315,145 in 2012 and 2011, respectively.

Liquidity Risk

Liquidity risk arises when there is a shortage of funds and the Group, as a consequence, could not meet its maturing obligations. The Group seeks to manage its liquid funds through cash planning on a monthly basis. The Group uses historical figures and experiences and forecasts from its collection and disbursement.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. The Group considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Group's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions. Also, the Group only places funds in money markets which are exceeding the Group's requirements. Placements are strictly made based on cash planning assumptions and covers only a short period of time.

The tables below summarize the aging analysis of the Group's financial assets as at December 31, 2012 and 2011 that are used to manage the liquidity risk of the Group:

	On demand	Less than 3 months	Total
2012			
Cash on hand with banks	₱12,550,422	₱-	₱12,550,422
Cash equivalents	-	134,506,214	134,506,214
Nontrade receivables	573,868	-	573,868
AFS investments	73,370,000	-	73,370,000
Total	₱86,494,290	₱134,506,214	₱221,000,504

	On demand	Less than 3 months	Total
2011			
Cash on hand with banks	₱249,752,972	₱-	₱249,752,972
Cash equivalents	-	277,553,909	277,553,909
Nontrade receivables	725,276	-	725,276
AFS investments	109,598,500	-	109,598,500
Total	₱360,076,748	₱277,553,909	₱637,630,657



The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2012 and 2011 based on contractual undiscounted payments.

2012	On demand	Less than 3 months	Total
Accounts payable and accrued expenses	₱205,750,149	₱22,576,040	₱228,326,189
Nontrade payables	—	570,098	570,098
Total	₱205,750,149	₱23,146,138	₱228,896,287

2011	On demand	Less than 3 months	Total
Accounts payable and accrued expenses	₱148,133,669	₱12,531,661	₱160,665,330
Nontrade payables	—	1,964,091	1,964,091
Total	₱148,133,669	₱14,495,752	₱162,629,421

Fair Values

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, Nontrade Receivables, Miscellaneous Deposits, Accounts Payable and Accrued Expenses and Nontrade Payables

The carrying amounts of cash and cash equivalents, nontrade receivables, miscellaneous deposits, accounts payable and accrued expenses and nontrade payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

AFS Investments

Fair values of investments are estimated by reference to their quoted market price at the reporting date. For unquoted shares classified as AFS, these are carried at cost, since fair value of these AFS investments cannot be reliably determined as these securities have no available bid price.

The carrying values and fair values of the Group's financial assets and liabilities as at December 31, 2012 and 2011 are as follows:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
<i>Loans and receivables</i>				
Cash and cash equivalents	₱147,056,636	₱147,056,636	₱527,306,881	₱527,306,881
Nontrade receivables	573,868	573,868	725,276	725,276
Miscellaneous deposits included under "Prepayments and other current assets" and "Other noncurrent assets"	1,965,927	1,965,927	3,118,352	3,118,352
<i>AFS investments</i>	73,370,000	73,370,000	109,598,500	109,598,500
Total financial assets	₱222,966,430	₱222,966,430	₱640,749,009	₱640,749,009

(Forward)



	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Liabilities				
<i>Loans and borrowings</i>				
Accounts payable and accrued expenses	₱228,133,623	₱228,133,623	₱160,665,330	₱160,665,330
Nontrade payables	570,098	570,098	1,964,091	1,964,091
Total financial liabilities	₱228,703,721	₱228,703,721	₱162,629,421	₱162,629,421

As at December 31, 2012 and 2011, the following table presents the level of hierarchy of the Group's AFS investments:

	2012		2011	
	Level 1	Level 3	Level 1	Level 3
AFS investments				
Equity securities	₱65,870,000	₱7,500,000	₱102,098,500	₱7,500,000

There were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements as at December 31, 2012 and 2011, respectively.

There were no purchases, sales, issues and settlements of Level 3 AFS investments in 2012 and 2011.

24. Capital Management

The primary objective of the Group's capital management is to ensure that the Group has sufficient funds in order to support their business, pay existing obligations and maximize shareholder value. As at December 31, 2012 and 2011, the Group's capital is composed of common shares amounting to ₱2,019,822,582 and ₱2,019,832,208 and additional paid-in capital amounting to ₱502,183,353 and ₱502,173,727, respectively.

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 in 2012. The Group is not exposed to externally imposed capital requirements.

25. Segment Reporting

As discussed in Note 1, the Parent Company and its ninety five percent (95%) owned subsidiary is engaged in the business of mine operations. Accordingly, the Group operates mainly in one reportable business and geographical segment which is the Philippines. No entity-wide disclosures pertaining to revenues are provided as the Group has not earned revenue. Noncurrent assets of the Group are located in the Philippines.



CORPORATE DIRECTORY



Manila Mining Corporation

DIRECTORS	PLACER STAFF		MAKATI - BASED STAFF
FELIPE U. YAP BRYAN U. YAP EDUARDO A. BANGAYAN JOSE G. CERVANTES RENE F. CHANYUNGCO ETHELWOLDO E. FERNANDEZ RODOLFO S. MIRANDA AUGUSTO C. VILLALUNA PATRICK K. YAP	TEODORO G. ABLANG Jr. Vice President and Resident Manager ROBERTO A. MABINI Exploration Manager SEGUNDO A. VILLANUEVA Mine Engineering Manager	TESSIE T. SARDOVIA Acting Finance Manager AMOR B. GARCIA Asst. Mine Chief Accountant MELBA P. ESPANTO Mine Treasury / Cashier AGRECIO U. AMBRAY Asst. Chief Security Officer LUPERCIO E. GONZAGA Asst. IMD Supt. LUCITA S. REBUCAS Inventory Control Officer FLORIFE M. PAREL Administration Asst. LELAND TERESITO P. QUIROS Company Nurse ISAGANI C. SULAPAS Finance/Admin. Consultant ANTHONY M. REVECHO Security Consultant OFELIO T. MIPARANUM Electrical Consultant MINESITE OFFICE Barangay Magsaysay Placer, Surigao del Norte Tel No. (086) 626-0999	JOSEPHINE DC. SUBIDO Chief Accountant JEFF M. AGANON Accountant ROMMEL R. DELA CRUZ Purchasing / MIS Assistant WINFREDO ALCALA ANTONIO P. OPEÑA Purchasing Officers AUDITORS Sycip Gorres Velayo & Co. 6760 Ayala Avenue 1226 Makati City TRANSFER AGENT Bank of the Phil. Islands GENERAL COUNSEL Sycip, Salazar, Hernandez & Gatmaitan Law Offices BANKS Bank of the Phil. Islands Banco de Oro Unibank China Banking Corporation EXECUTIVE OFFICES 20 th Floor, Lepanto Bldg. 8747 Paseo de Roxas Makati City 1226 Tel. 815-9447 812-7241 Fax 894-6265 MAILING ADDRESSES Domestic Surface Mail P.O. Box 1460, Makati Central Post Office Makati City 1254 Domestic & Foreign Air Mail P.O. Box 7507 Domestic Airport Post Office, Domestic Road 1300 Pasay City, Philippines
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