

Manila Mining Corporation

2013 Annual Report

MESSAGE FROM THE CHAIRMAN



Manila Mining Corporation

Activities in 2013 were focused on further exploration drilling, mineral resource exploration drilling and metallurgical studies as part of a feasibility study for recommencing mining at the Placer project site in Surigao.

The exploration program comprised 49 diamond drill holes (11,800 meters). Three deep holes were designed to further define the gold-rich porphyry copper deposit discovered 500 meters below the Ntina pit and 36 holes were along parallel sections to test the Emma and areas immediately north east of the Ntina pit. These target zones might possess additional resources for inclusion in the Ntina feasibility study.

The deep drilling below the Ntina pit indicates a gold-rich copper porphyry body 400 meters by 250 meters over a vertical interval of at least 1100 meters. The gold, chalcopyrite and bornite mineralization is associated the magnetite bearing quartz stockwork and diorite breccias. The technical staff is currently constructing geological and wireframe models for this potential underground resource.

The infill drilling at Emma has encountered sporadic high grade gold mineralization in epithermal breccias veins and shear controlled lodes typically less than one meter in thickness. The drilling is ongoing and will probe down-dip extensions of these interesting intercepts. The Ntina resource is presently being modeled by the on-site technical personnel as part of the on-going feasibility program.

Two large diameter drill holes were completed at Ntina to provide bulk samples for metallurgical testing at the Lepanto laboratory. Additional samples were sent to New Zealand for petrological study and to North America for metallurgical research.

At the Kalayaan project, our joint venture partner Philex has completed an extensive definition and scout drilling program. A significant gold-copper resource has been discovered and Philex is currently evaluating the resource as part of its development studies for Boyongan.

We continue to explore and study the Ntina, Emma and Ntina Deeps resources to assess the feasibility for recommencing operations at Placer.

The company wishes to thank all our stockholders and employees for their valuable support as the company moves forward to developing our Placer projects.



FELIPE B. YAP
Chairman & CEO

THE ORIGIN OF
THE BOARD

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS




Manila Mining Corporation

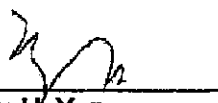
The management of Manila Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. 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.

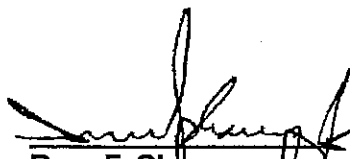
The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders for the period December 31, 2013 and 2012, 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 26th day of March 2014 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 26 day of March 2014 at Makati City.

Doc. No. 63 :
Page No. 14 :
Book No. XVIII :
Series of 2014.

ATTY. GERVASIO B. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2014
PTR NO. 3554330 / 01-02-2012 MAKATI
ISF NO. 656155 / LIFE TIME MEMBER
ADPT. M-199 / 2014 ROLL NO. 40091

FOR THE
ATTORNEY GENERAL

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Manila Mining Corporation and Subsidiary
20th Floor, Lepanto Building
8747 Paseo de Roxas, Makati City

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, 2013 and 2012, 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, 2013, 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 accounting principles generally accepted in the Philippines as described in Note 2 to the financial statements 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.






Building a better
working world

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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, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the Philippines as described in Note 2 to the financial statements.

SYCIP GORRES VELAYO & CO.


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. 4225180, January 2, 2014, Makati City

March 17, 2014



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2013	December 31, 2012 (As restated, Note 2)	December 31, 2011 (As restated, Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4)	₱6,571,015	₱147,056,636	₱527,306,881
Receivables (Note 5)	12,783,507	1,507,699	5,864,957
Inventories (Note 6)	26,834,212	25,741,306	22,764,840
Prepayments and other current assets (Note 7)	97,093,047	78,743,627	53,075,277
Total Current Assets	143,281,781	253,049,268	609,011,955
Noncurrent Assets			
Available-for-sale (AFS) financial assets (Note 8)	27,919,700	73,370,000	109,598,500
Property and equipment (Note 9)	2,721,146,833	2,450,640,251	2,038,984,644
Mine exploration costs (Note 10)	2,664,201	2,664,201	2,664,201
Other noncurrent assets (Note 11)	8,890,719	9,107,224	8,842,841
Total Noncurrent Assets	2,760,621,453	2,535,781,676	2,160,090,186
TOTAL ASSETS	₱2,903,903,234	₱2,788,830,944	₱2,769,102,141
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses (Note 12)	₱387,248,921	₱230,030,364	₱165,583,713
Nontrade payables (Note 13)	1,730,577	570,098	1,964,091
Amounts owed to a stockholder	—	—	178,361
Total Current Liabilities	388,979,498	230,600,462	167,726,165
Noncurrent Liabilities			
Deferred income tax liabilities - net (Note 17)	65,822,880	65,082,289	64,807,904
Retirement benefit obligation (Note 16)	13,131,936	15,600,573	15,416,912
Total Noncurrent Liabilities	78,954,816	80,682,862	80,224,816
Equity Attributable to Equity Holders of the Parent Company (Note 18)			
Capital stock	2,026,232,209	2,019,822,582	2,019,832,208
Additional paid-in capital	508,636,853	502,183,353	502,173,727
Deficit	(1,014,125,610)	(1,001,826,006)	(993,158,223)
Effect of transaction with non-controlling interests (NCI) (Note 1)	954,621,275	954,621,275	954,621,275
Cumulative changes in fair values of AFS financial assets	(39,622,292)	5,828,008	42,056,508
Re-measurement gain (loss) on retirement obligation (Note 2)	111,724	(3,200,637)	(4,497,059)
	2,435,854,159	2,477,428,575	2,521,028,436
Equity Attributable to non-controlling interest	114,761	119,045	122,724
Total Equity	2,435,968,920	2,477,547,620	2,521,151,160
TOTAL LIABILITIES AND EQUITY	₱2,903,903,234	₱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

	Years Ended December 31		
	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
REVENUE			
Interest income (Note 4)	P713,863	P3,995,144	P12,420,870
Foreign exchange gains - net	—	—	8,942,750
	713,863	3,995,144	21,363,620
ADMINISTRATION AND OVERHEAD COSTS (Note 14)	(12,823,111)	(11,961,148)	(17,974,639)
FINANCE COSTS (Note 16)	(873,632)	(986,682)	(1,184,742)
OTHER INCOME	—	—	350
INCOME (LOSS) BEFORE INCOME TAX	(12,982,880)	(8,952,686)	2,204,589
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	—	—	178,361
Deferred	(678,992)	(281,224)	(2,884,737)
	(678,992)	(281,224)	(2,706,376)
NET INCOME (LOSS)	(P12,303,888)	(P8,671,462)	P4,910,965
Net income (loss) attributable to:			
Equity holders of the Parent Company	(P12,299,604)	(P8,667,783)	P4,913,241
Non-controlling interest	(4,284)	(3,679)	(2,276)
	(P12,303,888)	(P8,671,462)	P4,910,965
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Item that may be reclassified subsequently to consolidated statements of comprehensive income:</i>			
Changes in fair values of AFS financial assets (Note 8)	(45,450,300)	(36,228,500)	42,056,508
<i>Items that will not be reclassified to consolidated statements of comprehensive income:</i>			
Re-measurement gain (loss) on retirement plan, net of tax (Note 2)	3,312,361	1,296,422	(1,927,311)
TOTAL COMPREHENSIVE INCOME (LOSS)	(P42,137,939)	(P34,932,078)	P40,129,197
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	(P42,133,655)	(P34,928,399)	P40,131,473
Non-controlling interest	(4,284)	(3,679)	(2,276)
	(P42,137,939)	(P34,932,078)	P40,129,197
EARNINGS (LOSS) PER SHARE (Note 19)			
Basic and diluted earnings (loss) per share	(P0.00006)	(P0.00004)	P0.00002

See accompanying Notes to Consolidated Financial Statements.



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2013	2012 (As restated, Note 2)	2011 (As restated, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	(P12,982,880)	(P8,952,686)	P2,204,589
Adjustments for:			
Depreciation (Notes 9 and 14)	4,244,955	4,219,646	4,252,849
Movement in retirement benefit obligation (Note 15)	2,263,307	2,035,692	1,312,841
Interest income (Note 4)	(713,863)	(3,995,144)	(12,420,870)
Unrealized foreign exchange gain	—	—	(24,711)
Operating loss before working capital changes	(7,188,481)	(6,692,492)	(4,675,302)
Decrease (increase) in:			
Receivables	(1,335,808)	4,357,258	(539,270)
Inventories	(1,092,906)	(2,976,465)	5,400,554
Prepayments and other current assets	(18,349,420)	(25,668,350)	(20,580,129)
Increase (decrease) in accounts payable and accrued expenses	157,218,557	64,446,651	(13,852,987)
Net cash generated (used in) from operations	129,251,942	33,466,602	(34,247,134)
Interest received	713,863	3,995,144	12,420,870
Income taxes paid	—	(178,361)	—
Net cash from (used in) operating activities	129,965,805	37,283,385	(21,826,264)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 9)	(274,751,537)	(415,875,253)	(361,192,151)
Decrease (increase) in other noncurrent assets	216,505	(264,383)	(270,880)
Acquisitions of AFS financial assets (Note 8)	—	—	(60,041,992)
Net cash used in investing activities	(274,535,032)	(416,139,636)	(421,505,023)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares (Note 18)	2,923,127	—	783,443
Receipts (payments) of nontrade payables	1,160,479	(1,393,994)	7,963,067
Effect of transaction with NCI	—	—	954,746,275
Net cash from (used in) financing activities	4,083,606	(1,393,994)	963,492,785
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(140,485,621)	(380,250,245)	520,161,498
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	147,056,636	527,306,881	7,145,383
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P6,571,015	P147,056,636	P527,306,881

See accompanying Notes to Consolidated Financial Statements.



MANILA MINING CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 18)		Subscription Receivable	Additional Paid-in Capital	Re-measurement Gain (Loss) on Retirement Liability (Note 2)	Effect of transaction with Non-controlling Interests (Note 2)	Cumulative Changes in Fair Values of AFS Investments (Note 8)	Deficit	Non-controlling Interests	Total
	Issued	Subscribed								
Balances at January 1, 2013, as previously reported	₱2,019,451,162	₱737,825	(₱366,405)	₱502,183,353	₱-	₱954,621,275	₱5,828,008	(₱1,002,594,469)	₱119,045	₱2,479,979,794
Effect of adoption of Revised PAS 19 (Notes 2 and 15)	-	-	-	-	(3,200,637)	-	-	768,463	-	(2,432,174)
Balances at January 1, 2013, as restated	2,019,451,162	737,825	(366,405)	502,183,353	(3,200,637)	954,621,275	5,828,008	(1,001,826,006)	119,045	2,477,547,620
Issuance and subscription of shares (Note 18)	1,760,000	4,649,627	-	6,453,500	-	-	-	-	-	12,863,127
Net loss	-	-	-	-	-	-	-	(12,299,604)	(4,284)	(12,303,888)
Other comprehensive income (loss), net of tax	-	-	-	-	3,312,361	-	(45,450,300)	-	-	(42,137,939)
Total comprehensive income (loss)	-	-	-	-	3,312,361	-	(45,450,300)	(12,299,604)	(4,284)	(41,578,700)
Balances at December 31, 2013	₱2,021,211,162	₱5,387,452	(₱366,405)	₱508,636,853	₱111,724	₱954,621,275	(₱39,622,292)	(₱1,014,125,610)	₱114,761	₱2,435,968,920
Balances at January 1, 2012, as previously reported	₱2,017,181,162	₱3,017,451	(₱366,405)	₱502,173,727	₱-	₱954,621,275	₱42,056,508	(₱993,548,198)	₱122,724	₱2,525,258,244
Effect of adoption of Revised PAS 19 (Notes 2 and 15)	-	-	-	-	(4,497,059)	-	-	389,975	-	(4,107,084)
Balances at January 1, 2012, as restated	2,017,181,162	3,017,451	(366,405)	502,173,727	(4,497,059)	954,621,275	42,056,508	(993,158,223)	122,724	2,521,151,160
Issuance and subscription of shares (Note 18)	2,270,000	(2,279,626)	-	9,626	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(8,667,783)	(3,679)	(8,671,462)
Other comprehensive income (loss), net of tax	-	-	-	-	1,296,422	-	(36,228,500)	-	-	(34,932,078)
Total comprehensive loss	-	-	-	-	1,296,422	-	(36,228,500)	(8,667,783)	(3,679)	(43,603,540)
Balances at December 31, 2012, as restated	₱2,019,451,162	₱737,825	(₱366,405)	₱502,183,353	(₱3,200,637)	₱954,621,275	₱5,828,008	(₱1,001,826,006)	₱119,045	₱2,477,547,620



Attributable to Equity Holders of the Parent Company

	Capital Stock (Note 18)		Subscription Receivable	Additional Paid-in Capital	Re-measurement Gain (Loss) on Retirement Liability (Note 2)	Effect of transaction with Non-controlling Interests (Note 2)	Cumulative Changes in Fair Values of AFS Investments (Note 8)	Deficit	Non-controlling Interests	Total
Balances at January 1, 2011, as previously reported	P2,013,210,865	P587,749	(P369,473)	P495,773,727	P-	P-	P-	(P998,071,464)	P-	P1,511,131,404
Effect of adoption of Revised PAS 19 (Notes 2 and 15)	-	-	-	-	-	-	-	-	-	-
Balances at January 1, 2011, as restated	2,013,210,865	737,825	(366,405)	502,183,353	-	-	-	(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)	-	-	-	-	-	954,621,275	-	-	125,000	954,746,275
Net income (loss)	-	-	-	-	-	-	-	4,523,266	(2,276)	4,520,990
Other comprehensive income (loss), net of tax	-	-	-	-	-	-	42,056,508	-	-	42,056,508
Total comprehensive income (loss)	-	-	-	-	-	-	42,056,508	4,523,266	(2,276)	46,577,498
Balances at December 31, 2011	P2,017,181,162	P3,017,451	(P366,405)	P502,173,727	-	P954,621,275	P42,056,508	(P993,548,198)	P122,724	P2,525,258,244

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 KCGRI 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 18).

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 hectares 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 September 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 Mine and Geosciences Bureau (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 hectares 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, 2013 and 2012 and for each of the three years in the period ended December 31, 2012, were authorized for issue by the Audit Committee on March 17, 2014 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 when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the parent company presents an additional consolidated statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated statement of financial position as at



January 1, 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies (refer to notes below under Philippine Accounting Standards (PAS) 19 Revised).

The specific accounting policies followed by the Group are disclosed in the following section.

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.

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company controls an investee if and only if the Parent Company has all of the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the Parent Company's returns.

Subsidiaries are deconsolidated from the date on which control ceases.

Subsidiaries

Subsidiaries are entities over which the parent company has control.

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

Sale of NCI of KCGRI

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.

NCI

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 NCI exists, any losses of that subsidiary are attributed to the NCI 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.

Changes in Accounting Policies and Disclosures

The Company applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PAS 19, *Employee Benefits* (Revised 2011), PFRS 13, *Fair Value Measurement* and amendments to PAS 1, *Presentation of Financial Statements*.

Several other amendments apply for the first time in 2013. However, they do not impact the annual financial statements of the Group.

The nature and the impact of each new standard and amendment are described below:

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

These 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 affect disclosures only and have no impact on the Group's financial position or performance. As the Group is not setting off financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.



- **PFRS 10, *Consolidated Financial Statements***
The Company adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adaptation of the standard does not have a significant impact on the groups' statement of financial position and performance.
- **PFRS 11, *Joint Arrangements***
PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The amendment does not have an impact on the Company since the Company has no related joint venture arrangement.
- **PFRS 12, *Disclosure of Interests in Other Entities***
PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The adaptation of the standard does not have a significant impact on the groups' statement of financial position and performance since the Group has no unconsolidated structured entities.
- **PFRS 13, *Fair Value Measurement***
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.
- **PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)* (Amendments)**
The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.



- PAS 19, *Employee Benefits* (Revised)

On January 1, 2013, the Group adopted the Revised PAS 19, *Employee Benefits*.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses at the end of the previous period exceeded ten percent (10%) of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in profit or loss in the period they occur.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact on the Group's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of adoption on the consolidated financial statements are as follows:

	As at December 31, 2013		
	As previously reported	Increase (decrease)	As restated
<u>Consolidated statements of financial position:</u>			
Retirement benefits liability	₱10,813,399	₱2,318,537	₱13,131,936
Deferred tax assets	3,244,020	695,561	3,939,581
Re-measurement loss on retirement plan (net of deferred tax assets)	—	111,724	111,724
Retained earnings	1,013,324,338	801,272	(1,014,125,610)



	As at December 31, 2012		
	As previously reported	Increase (decrease)	As restated
<u>Consolidated statements of financial position:</u>			
Retirement benefits liability	₱12,126,038	₱3,474,535	₱15,600,573
Deferred tax assets	3,637,812	1,042,361	4,680,173
Re-measurement loss on retirement plan (net of deferred tax assets)	—	3,200,637	3,200,637
Deficit	(1,002,594,469)	768,463	(1,001,826,006)

	As at January 1, 2012		
	As previously reported	Increase (decrease)	As restated
<u>Consolidated statements of financial position:</u>			
Retirement benefits liability	₱9,549,649	₱5,867,263	₱15,416,912
Deferred tax assets	2,864,894	1,760,179	4,625,073
Re-measurement loss on retirement plan (net of deferred tax assets)	—	4,497,059	4,497,059
Deficit	(993,548,198)	389,975	(993,158,223)

	For the years ended December 31	
	2012	2011

Consolidated Statements of comprehensive income:

Increase (decrease):		
Net retirement benefits costs	(₱540,696)	(₱557,107)
Provision for income tax	162,209	167,132
Net income	(378,487)	(389,975)
Re-measurements of gain (loss) on retirement benefits liability	1,852,032	—
Income tax effects	(555,610)	—
Other comprehensive loss	1,296,422	—

The Revised PAS 19 has been applied retrospectively from January 1, 2012, in accordance with its transitional provisions. Consequently, the Group has restated its reported results throughout the comparative periods presented and reported the cumulative effect as at January 1, 2012 as adjustment to opening balances.

The adoption did not have a material effect on the consolidated statement of cash flows. The effect on the earnings per share and disclosures on segment information for the years ended December 31, 2013, 2012 and 2011 is significant to the group.

- PAS 27, Separate Financial Statements (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, Consolidated Financial Statements, 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 the separate financial statements. The amendment does not have an impact on the Group.
- PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, Joint Arrangements, and PFRS 12, Disclosure of Interests in Other Entities, 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. This amendment has no impact on the Group's financial position or performance as it currently accounts for its investments in associates, if any, using equity accounting method.



- **Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine***
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a noncurrent asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The adoption has no significant effect on disclosures and no impact on the financial position or performance.
- **PFRS 1, First-time Adoption of International Financial Reporting Standards - *Government Loans* (Amendments)**
The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.

Annual Improvements to PFRSs (2009-2011 cycle)

The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments for the current year.

- **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***
These 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 does 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 amendment does not have any significant impact on the Group's 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.

Standards and Interpretation Issued but not yet Effective

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). This amendment is not relevant to the Group.
- Philippine Interpretation IFRIC 21, *Levies*
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.



- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.
- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*
The amendments 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. The amendments affect presentation only and have no impact on the Group's financial position or performance.

The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the re-measurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendment is not relevant to the Group.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*
The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment has no impact to the Group.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.



- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*
The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- *PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.
- *PAS 24, Related Party Disclosures - Key Management Personnel*
The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.



- *PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of "Effective PFRSs"*

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the consolidated financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- *PFRS 13, Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.

- *PAS 40, Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for



annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at FVPL. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the 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. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.



Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expense in one single consolidated statement of comprehensive income.

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.

Financial Instruments

Date of Recognition

Financial instruments are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition and Classification of Financial Instruments

Financial instruments are recognized initially at fair value 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 financial assets. The Group's financial assets are in the nature of loans and receivables and AFS financial assets. 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, 2013 and 2012, 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 as at FVPL. This accounting policy relates to the consolidated statements of financial position captions "Cash and Cash Equivalents" and "Receivables", which arise primarily from sale and other types of receivables. Loans and receivables are classified as current when these are expected to be realized within one (1) year, after the end of the reporting period or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent. Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is included in "Finance costs" caption in the consolidated statements of comprehensive income. The losses arising from impairment of receivables are recognized in "Provision for impairment losses on receivables" account on "Administration and overhead costs" caption in the consolidated statements 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 Financial Assets

AFS investments are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. AFS financial assets are those purchased and held indefinitely and may be sold as the need arises. They are included in noncurrent assets unless management intends to dispose of the investment within one (1) year from the end of the reporting period. Included in this category are equity investments in quoted instruments and private companies other than associates, which is shown as a separate line item in the consolidated statements of financial position.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as "Cumulative changes in fair values of AFS financial assets" account in the equity section of the consolidated statements of financial position.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statements 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 interest earned on holding AFS financial assets are reported as interest income using the EIR. Any dividends earned on holding AFS financial assets are recognized in the consolidated statements of comprehensive income when the right of payment has been established. Any losses arising from impairment of such investments are recognized in the consolidated statements of comprehensive income.

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.

Fair Value Measurement

The Group measures financial instruments at each end of the reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 32.



Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at each end of the reporting period.

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the end of the reporting period.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle 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 the end of the reporting period whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost

The Group first assesses whether objective evidence of impairment, such as age analysis and status of counterparty, 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. The factors in determining whether objective evidence of impairment exist, include, but are not limited to, the length of the Group's relationship with the debtors, their payment behavior and known market factors. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 asset's 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 shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statements 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 statements of comprehensive income.

Impairment losses are estimated by taking into consideration the following information: current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period.

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 statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets Carried at Fair Value

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any



impairment loss on that financial asset previously recognized 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.

Capital Stock

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

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.



Other comprehensive income

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

Retained Earnings

The amount included in retained earnings includes profit (loss) attributable to the parent company's equity holders and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the Parent Company's stockholders. Interim dividends, if any, are deducted from equity when they are paid. Dividends for the year that are approved after the end of the reporting period are dealt with as an event after the end of the reporting period.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. Retained earnings may be appropriated for any plant expansion, investments and funding of certain reserve accounts to be established pursuant to the requirements of the lenders in accordance with the agreement. When appropriation is no longer needed, it is reversed.

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.

When retained earnings account has a debit balance, it is called "Deficit". A deficit is not an asset but a deduction from equity.

Inventories

Parts and supplies are stated at the lower of cost or NRV. Cost of parts and supplies on hand are determined at moving average. Parts and supplies in-transit are valued at invoice cost. NRV is the replacement cost. In determining the NRV, the Group considers any adjustments necessary for obsolescence.

Prepayments and Other Current Assets and Noncurrent Assets

The Company's prepayments and other current assets include miscellaneous deposits, excess creditable input Value-Added Tax (VAT) and prepaid royalties. These are classified as current since the Company expects to realize or consume the assets within twelve (12) months after the end of the reporting period. Otherwise, these are classified as noncurrent assets.



Input VAT

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. Deferred input VAT represents input VAT on purchase of capital goods exceeding one million pesos. The related input VAT is recognized over 5 years or the useful life of the capital goods, whichever is shorter. Input VAT is stated at its estimated NRV.

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 Noncurrent Assets

The Company provides allowance for impairment losses on nonfinancial receivables, prepayments and 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.

Liability for Mine Rehabilitation Cost

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



The liability is reviewed on an annual basis for changes to obligations or legislation or discount rates that affect change in cost estimates or life of operations. The cost of the related asset is adjusted for changes in the liability resulting from changes in the estimated cash flows or discount rate, and the adjusted cost of the asset is depleted prospectively.

When rehabilitation is conducted progressively over the life of the operation, rather than at the time of closure, liability is made for the estimated outstanding continuous rehabilitation work at each end of the reporting period and the cost is charged to the consolidated statement of comprehensive income.

The ultimate cost of mine rehabilitation 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 liability for mine rehabilitation cost, which would affect future financial results.

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within "Other noncurrent assets" in the consolidated statements of financial position. The rehabilitation fund was deposited on trust accounts with banks and earns interest at the respective bank rates. This was established to comply with the requirements of the Philippine Mining Act of 1995 and shall be used for physical and social rehabilitation of areas and communities affected by mining activities and for research on the social, technical and preventive aspects of rehabilitation.

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.

Retirement Benefit Obligations

The net defined retirement benefits liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.



Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined retirement benefits liability or asset
- Re-measurements of net defined retirement benefits liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined retirement benefits liability or asset is the change during the period in the net defined retirement benefits liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined retirement benefits liability or asset. Net interest on the net defined retirement benefits liability or asset is recognized as expense or income in profit or loss.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined retirement benefits liability) are recognized immediately in OCI in the period in which they arise. Re-measurements are not reclassified to profit or loss in subsequent periods. Re-measurements recognized in OCI after the initial adoption of Revised PAS 19 are not closed to any other equity account.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined retirement benefits liability, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined retirement benefits liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.



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.

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.

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.

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 End of the Reporting Period

Events after the end of the reporting period 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. Events after the end of the reporting period that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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 2013 and 2012, 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, 2013 and 2012, the Group has receivables of ₱12,783,507 and ₱1,507,699, respectively, net of allowance for impairment losses of ₱573,897 as at December 31, 2013 and 2012, respectively. (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 ₱26,834,212 and ₱25,741,306 as at December 31, 2013 and 2012, respectively, net of allowance for inventory obsolescence of ₱48,829,958 and ₱48,856,467 as at December 31, 2013 and 2012, respectively (see Note 6).

Estimating Impairment of AFS Financial Assets

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. 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 financial assets amounted to ₱27,919,700 and ₱73,370,000 as at December 31, 2013 and 2012, respectively (see Note 8). The change in the fair value of AFS financial assets 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 financial assets". As at December 31, 2013 and 2012, the cumulative changes in fair values of AFS financial assets amounted to ₱39,622,292 and ₱5,828,008, 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 2013 and 2012. As at December 31, 2013 and 2012, the Group has nonfinancial receivables, prepayments and other current assets and other noncurrent assets amounting to ₱119,445,093 and ₱98,529,839, 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, 2013 and 2012, the net book values of the property and equipment, except land and construction in progress, amounted to ₱2,608,829,433 and ₱2,327,856,650, 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 ₱2,721,146,833 and ₱2,450,640,251 as at December 31, 2013 and 2012, respectively, net of allowance for impairment losses of ₱143,272,443 (see Note 9). No provision for impairment loss was recognized in 2013, 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, 2013 and 2012 (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, 2013 and 2012, mine and mining properties included in property and equipment account amounted to ₱2,545,093,465 and ₱2,277,049,572, 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 ₱60,042,644 and ₱64,783,237 (as restated) as at December 31, 2013 and 2012, respectively. No deferred income tax assets were recognized for temporary differences amounting to ₱114,734,614 and ₱111,643,401 as at December 31, 2013 and 2012, 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 17).

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, 2013 and 2012, the Parent Company is in the process of evaluating, as such, no provision for mine rehabilitation and decommissioning was recorded (see Note 15).

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 16 to the consolidated financial statements.

Retirement benefit obligation amounted to ₱13,131,936 and ₱15,600,573 (as restated) as at December 31, 2013 and 2012, respectively (see Note 16).

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.



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 21).

4. Cash and Cash Equivalents

	2013	2012
Cash on hand	₱110,000	₱110,000
Cash with banks	6,461,015	12,440,422
Short-term deposits	—	134,506,214
	₱6,571,015	₱147,056,636

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

Interest income amounted to ₱713,863, ₱3,995,144 and ₱12,420,870 in 2013, 2012 and 2011, respectively.

The Parent has US dollar (US\$)-denominated cash with banks amounting to US\$3,815 and US\$4,550 as at December 31, 2013 and 2012, respectively.

5. Receivables

	2013	2012
Stock options receivable (Note 20)	₱9,940,000	₱568,000
Nontrade	3,298,080	1,143,374
Advances to officers and employees	119,324	370,222
	13,357,404	2,081,596
Less allowance for impairment losses	573,897	573,897
	₱12,783,507	₱1,507,699

Stock options receivables are noninterest bearing receivables from employees in respect of stock options exercise under a share-based plan (see Note 20).

Nontrade receivables comprise mainly of receivables from contractors and suppliers while advances to officers pertain to cash advances made by employees for the operations of the Group.

Nontrade and stock options receivables are noninterest bearing and are generally collectible on demand. Advances to officers and employees 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, 2013 and 2012. 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, for both years.

The following table shows the aging of receivables that are past due as at December 31, 2013 and 2012 but are not considered impaired:

2013	Total	Past due but not impaired			
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days
Nontrade	₱2,728,574	₱970,756	₱1,749,318	₱—	₱8,500
Advances to officers and employees	114,933	114,933	—	—	—
	₱2,843,507	₱1,085,689	₱1,749,318	₱—	₱8,500

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

6. Inventories

	2013	2012
At NRV:		
Mill materials, hardware and other supplies	₱7,228,936	₱6,174,950
At cost:		
Machinery and automotive parts	19,375,804	19,408,423
Fuel, oil and lubricants	229,472	157,933
	19,605,276	19,566,356
	₱26,834,212	₱25,741,306

Cost of mill materials, hardware and other supplies amounted to ₱52,181,243 and ₱55,031,417 as at December 31, 2013 and 2012, respectively.

Movements in allowance for inventory obsolescence in 2013 and 2012 are as follows:

	2013	2012
Balances at beginning of year	₱48,856,467	₱49,111,896
Reversal	(26,509)	(255,429)
Balances at end of year	₱48,829,958	₱48,856,467

There were no inventories charged to expenses as at December 31, 2013 and 2012.



7. Prepayments and Other Current Assets

	2013	2012
Prepaid royalties	₱4,461,899	₱4,376,619
Input VAT	92,269,583	74,083,148
Miscellaneous deposits	361,565	283,860
	₱97,093,047	₱78,743,627

Prepaid royalties are advance payments to landowners while miscellaneous deposits are advance payments made to suppliers of services. 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).

In June 2012, the Company applied for tax refund on input VAT amounting to ₱55,171,276 which covered input taxes incurred in 2011 and 2010.

8. AFS Financial Assets

	2013	2012
Quoted instruments	₱20,419,700	₱65,870,000
Unquoted instruments	7,500,000	7,500,000
	₱27,919,700	₱73,370,000

Quoted AFS financial assets pertain to investment on common shares of various local public companies. The fair value on the quoted instrument is based on the exit market price as at December 31, 2013 and 2012, respectively.

Unquoted AFS financial assets pertain to investment in 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, 2013, the Group has no intention to dispose its quoted and unquoted equity shares within next year.

Movement of AFS financial assets are as follows:

	2013	2012
Balance at beginning of year	₱73,370,000	₱109,598,500
Change in fair value of AFS financial assets	(45,450,300)	(36,228,500)
Balance at end of year	₱27,919,700	₱73,370,000



9. Property and Equipment

	2013						Total
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Construction In-progress	
Cost:							
Balances at beginning of year	₱3,342,373,894	₱796,397,856	₱108,582,418	₱96,740,782	₱7,270,713	₱115,512,888	₱4,466,878,551
Additions	268,043,893	1,373,643	—	8,959,372	—	11,194,940	289,571,848
Transfers	—	19,399,963	1,937,984	323,194	—	(21,661,141)	—
Balances at end of year	3,610,417,787	817,171,462	110,520,402	106,023,348	7,270,713	105,046,687	4,756,450,399
Accumulated depreciation, and amortization:							
Balances at beginning of year	1,065,324,322	651,834,875	77,776,513	78,030,147	—	—	1,872,965,857
Depreciation (see Note 14)	—	9,227,173	3,010,653	6,827,440	—	—	19,065,266
Balances at end of year	1,065,324,322	661,062,048	80,787,166	84,857,587	—	—	1,892,031,123
Allowance for impairment losses	—	125,501,962	17,706,056	64,425	—	—	143,272,443
Net book values	₱2,545,093,465	₱30,607,452	₱12,027,180	₱21,101,336	₱7,270,713	₱105,046,687	₱2,721,146,833

	2012						Total
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Construction In-progress	
Cost:							
Balances at beginning 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
Additions	331,484,676	2,066,225	4,087,917	11,092,251	—	76,864,317	425,595,386
Balances at end of year	3,342,373,894	796,397,856	108,582,418	96,740,782	7,270,713	115,512,888	4,466,878,551
Accumulated depreciation, and amortization:							
Balances at beginning of year	1,065,324,322	645,504,591	74,585,715	73,611,450	—	—	1,859,026,078
Depreciation	—	6,330,284	3,190,798	4,418,697	—	—	13,939,779
Balances at end of year	1,065,324,322	651,834,875	77,776,513	78,030,147	—	—	1,872,965,857
Allowance for impairment losses	—	125,501,962	17,706,056	64,425	—	—	143,272,443
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

Total depreciation of property and equipment and certain idle assets charged to operations amounted to ₱4,244,955, ₱4,219,646 and ₱4,252,849 in 2013, 2012 and 2011, respectively (see Note 14). Depreciation amounting to ₱14,820,311, ₱9,720,133 and ₱6,794,949 were capitalized in 2013, 2012 and 2011, respectively, as part of mine and mining properties.



10. Mine Exploration Cost

Mine exploration costs amounted to ₱2,664,201, net of allowance for impairment losses amounting to ₱92,028,090 as at December 31, 2013 and 2012. No movement was recognized in the account in 2013 and 2012.

11. Other Noncurrent Assets

	2013	2012
Mine rehabilitation funds	₱5,374,195	₱5,530,900
Miscellaneous deposits	1,682,066	1,682,066
Advances to landowners	1,508,341	1,568,141
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, 2013 and 2012	326,117	326,117
	₱8,890,719	₱9,107,224

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 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

	2013	2012
Accounts payable	₱329,337,094	₱168,482,508
Due to related parties (see Note 13)	35,585,717	33,933,710
Accrued expenses	19,285,628	19,369,034
Unclaimed dividends	573,097	573,097
Other liabilities	2,467,385	7,672,015
	₱387,248,921	₱230,030,364

Terms and conditions of the aforementioned liabilities are as follows:

- Accounts payable includes local purchases of equipment, inventories and various parts. Normally settled on thirty (30) days' terms.
- Due to related parties, consist of short-term borrowings from related parties. Normally settled on thirty (30) days' terms.



- Accrued payroll are normally payable within five (5) - ten (10) days.
- Other liabilities are noninterest bearing and have an average term of one (1) - three (3) months.
- Other liabilities pertain to the Group's payable to various regulatory agencies.

13. Related Party Disclosures

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

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:

2013				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Payables</i>				
KCGRI; <i>Subsidiary</i>	₱82,883	₱875,887	On demand; non-interest bearing	Unsecured, no impairment

2012				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Payables</i>				
KCGRI; <i>Subsidiary</i>	₱66,409	₱793,004	On demand; 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:

2013				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Amounts owed to related parties</i>				
LCMC; <i>Under common control</i>	₱1,160,479	₱1,730,577	On demand; non-interest bearing	Unsecured, no guarantee
DDCP; <i>Under common control</i>	53,178,203	35,585,717	On demand; non-interest bearing	Unsecured, no guarantee
		₱37,316,294		



		2012		
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Amounts owed to related parties</i>				
LCMC; Parent Company	(P1,393,993)	P570,098	On demand; non interest-bearing	Unsecured, no impairment
DDCP; Under common control	23,537,833	33,933,710	On demand; non interest-bearing	Unsecured, no impairment
		P34,503,808		

- LCMC, holds a 19.60% equity interest in the Parent Company. It provided cash advances and paid expenses on behalf of the Parent Company.

Total compensation of the Group's key management personnel in 2013, 2012 and 2011, which pertains to short-term benefits, amounted to P2,446,950, P2,432,450 and P468,950, respectively. There were no post-employment benefits for the Group's key management personnel in 2013, 2012 and 2011.

14. Administration and Overhead Costs

	2013	2012 (As restated)	2011 (As restated)
Depreciation (see Note 9)	P4,244,955	P4,219,646	P4,252,849
Salaries, allowances and other benefits	2,043,944	1,903,911	1,411,711
Retirement benefits cost (see Note 16)	1,389,675	1,049,011	872,091
Listing fees	1,228,158	1,202,576	463,524
Outside services	747,566	270,583	589,656
Representation and entertainment	467,958	372,759	103,050
Membership fees and dues	454,000	542,000	638,000
Transportation and travel	441,402	386,904	453,702
Maintenance supplies	326,143	163,366	148,895
Communication, postage and telephone	203,668	299,258	106,147
Insurance	78,486	69,666	—
Supplies	68,635	250,372	—
Annual stockholders' expenses	52,760	400,486	238,880
Medical reimbursements	47,262	194,791	208,258
Taxes and licenses	46,304	31,654	62,192
Provision for inventory obsolescence	—	—	7,591,885
Other charges	982,196	604,165	833,799
	P12,823,112	P11,961,148	P17,974,639



15. Provision for Mine Rehabilitation and Decommissioning

Department of Environment and Natural Resources (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, 2013, 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.

16. 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 2013, 2012 and 2011.

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

	2013	2012	2011
Current service costs (see Note 14)	₱1,389,675	₱1,049,011	₱872,091
Interest costs	873,632	986,682	1,184,742
	₱2,263,307	₱2,035,693	₱2,056,833

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

	2013	2012	2011
Balances at beginning of year	₱15,600,573	₱15,416,912	₱14,104,071
Interest costs	873,632	986,682	1,184,742
Current service cost	1,389,675	1,049,011	872,091
Benefits paid	—	—	(743,992)
Re-measurement of actuarial loss (gains)	(4,731,944)	(1,852,032)	—
Balances at end of year	₱13,131,936	₱15,600,573	₱15,416,912



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

	2013	2012	2011
Discount rate	4.70%	5.60%	6.40%
Salary increase rate	5.00%	10.00%	10.00%
Expected remaining working lives of employees	9 years	8 years	9 years

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined retirement benefits liability as at the end of the reporting period, assuming all other assumptions were held constant

	Increase (decrease)	2013
Discount rates	+0.50%	(P416,046)
	-0.50%	441,165
Salary increase rate	+0.50%	P386,187
	-0.50%	(368,882)

Retirement costs for 2012 and 2011 are restated under Revised PAS 19 and do not correspond to the figures in 2012 and 2011 consolidated financial statements.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2013:

Less than one (1) year	P3,319,516
More than one (1) year to five (5) years	4,631,513
More than five (5) years to ten (10) years	12,155,570

17. Income Taxes

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

	2013	2012 (As restated)	2011 (As restated)
Income tax at statutory tax rates	(P3,894,864)	(P2,685,806)	P661,377
Additions to (reductions in)			
income tax resulting from:			
Expired NOLCO	2,449,159	1,983,664	—
Change in unrecognized deferred income taxes	980,872	1,170,736	330,698
Interest income subjected to final tax	(214,159)	(1,198,543)	(3,726,261)
Nondeductible expenses	—	111,828	30,915
Dividend exempt from income tax	—	—	(105)
Others	—	336,897	—
	(P678,992)	(P281,224)	(P2,703,376)



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

	2013	2012 (As restated)
Deferred tax assets:		
Allowance for:		
Impairment losses on property and equipment and idle assets	₱45,273,955	₱45,273,955
Inventory obsolescence	14,656,940	14,656,940
Impairment losses on receivables	172,169	172,169
Retirement benefit obligation	3,939,581	4,680,173
	<u>64,042,645</u>	<u>64,783,237</u>
Deferred tax liability:		
Excess of allowable depletion over depletion per books	129,865,526	129,865,526
Deferred liability - net	<u>₱65,822,880</u>	<u>₱65,082,289</u>

Deferred 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:

	2013	2012
Balances at beginning of year	₱19,436,950	₱15,534,498
Additions	11,433,436	10,514,667
Expirations	(8,163,862)	(6,612,215)
Balances at end of year	<u>₱22,706,524</u>	<u>₱19,436,950</u>

As at December 31, 2013, the Group has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Year of Expiry	Amount	Tax Effect
2009	2014	₱189,356	₱56,807
2010	2015	71,275	21,383
2011	2016	78,361	23,508
2012	2017	73,775	22,133
2013	2018	85,681	25,704
2011	2014	419,429	125,829
2012	2015	10,440,892	3,132,268
2013	2016	11,347,755	3,512,321
		<u>₱22,706,524</u>	<u>₱6,919,953</u>

As at December 31, 2013 and 2012, 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.

	2013	2012
Allowance for impairment losses on mine exploration costs	₱92,028,090	₱92,028,090
NOLCO	22,706,524	19,436,950
MCIT	178,361	178,361
	₱114,912,975	₱111,643,401

18. 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 20).

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 forty percent (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.

	2013		2012	
	No. of shares	Amount	No. of shares	Amount
Issued and outstanding				
Class "A"	121,309,336,313	₱1,213,093,363	121,203,736,313	₱1,212,037,363
Class "B"	80,811,779,944	808,117,799	80,741,379,944	807,413,799
	202,121,116,257	2,021,211,162	201,945,116,257	2,019,451,162
Subscribed				
Class "A"	320,941,644	3,209,417	44,269,466	442,695
Class "B"	217,803,455	2,178,035	29,512,978	295,130
	538,745,099	5,387,452	73,782,444	737,825
Total shares issued and subscribed	202,659,861,356	2,026,598,614	202,018,898,701	2,020,188,987
Less subscriptions receivable		366,405		366,405
	202,659,861,356	₱2,026,232,209	202,018,898,701	₱2,019,822,582

As at December 31, 2013 and 2012, 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, 2013, 2012 and 2011, the Parent Company has 3,800, 3,950 and 3,950 stockholders, respectively.

19. Earnings (Loss) Per Share

Basic earnings per common share based on net income were computed as follows: Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of common shares in issue during the period, excluding any ordinary shares purchased by the parent company and held as treasury shares.



In computing for the diluted earnings per share, the parent company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2013 and 2012. There were no outstanding stock options as of December 31, 2013 and 2012.

	2013	2012 (As restated)	2012 (As restated)
Net income (loss) attributable to equity holders of the parent company	(P12,299,604)	(P8,667,783)	P4,913,241
Weighted average number of common shares for basic earnings (loss) per share	201,121,116,257	201,982,489	201,699,861
Adjusted weighted average number of common shares for diluted earnings per share	(11,599,013)	(8,667,783)	4,913,241
Basic earnings (loss) per share	(P0.00006)	(P0.00004)	(P0.00002)
Diluted earnings (loss) per share	(P0.00006)	(P0.0004)	(P0.00002)

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 20).

20. 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 P0.02 per share, within 5 years from the date of SEC approval of the same. The option price of P0.02 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:

	2013		2012	
	Class A	Class B	Class A	Class B
Outstanding at beginning of year	501,000,000	334,000,000	576,000,000	384,000,000
Exercised during the year	(309,000,000)	(206,000,000)	(75,000,000)	(50,000,000)
Outstanding at end of year	192,000,000	128,000,000	501,000,000	334,000,000

21. 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, 2013, 2012 and 2011.

22. 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, AFS financial assets 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, 2013 and 2012.

	2013	2012
Cash with banks and cash equivalents	₱6,461,015	₱145,901,666
Nontrade receivables	2,724,184	573,868
AFS financial assets		
Quoted	20,419,700	65,870,000
Unquoted	7,500,000	7,500,000
Total credit risk exposure	₱37,104,899	₱219,845,534

The tables below summarize the aging analysis of the Group's financial assets as at December 31, 2013 and 2012:

2013	Neither past due nor impaired	Past due but not impaired				Total
		Less than 30 days	30 to 60 days	61 to 90 days	Over 90 days	
Cash with banks	₱6,461,015	₱-	₱-	₱-	₱-	₱6,461,015
Cash equivalents	-	-	-	-	-	-
Nontrade receivables	2,724,184	-	-	-	-	2,724,184
Miscellaneous deposits	361,565	-	-	-	1,682,066	2,043,631
AFS financial assets	27,919,700	-	-	-	-	27,919,700
	₱37,466,464	₱-	₱-	₱-	₱1,682,066	₱39,148,530

2012	Neither past due nor impaired	Past due but not 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	-	191,135	-	378,342	-	569,477
Miscellaneous deposits	283,861	-	-	-	1,682,066	1,965,927
AFS financial assets	73,370,000	-	-	-	-	73,370,000
	₱219,555,527	₱191,135	₱-	₱378,342	₱1,682,066	₱221,807,070

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.

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

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statements of cash flows. 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 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 as at December 31, 2013 and 2012:

	2013		2012	
	United States Dollar	Peso Equivalent	United States Dollar	Peso Equivalent
Cash	\$5,570	₱273,341	\$4,550	₱186,778

The exchange rate of the Philippine peso to the US dollar is ₱44.40 and ₱41.05 as at December 31, 2013 and 2012.

Based on the historical movement of the US Dollar and the Philippine peso, management believes that the estimated reasonably possible change in the next twelve (12) months would be a strengthening of ₱0.66 and ₱0.72 and weakening of ₱0.70 and ₱0.42 for 2013 and 2012 against the US\$. Sensitivity of the Company's 2013 and 2012, respectively, pre-tax income to foreign currency risks are as follows:

- An increase of ₱3,899 in the pre-tax income if peso weakens by ₱0.70. A decrease of ₱3,676 in the pre-tax income if the peso strengthens by ₱0.66 against the US\$.
- An increase of ₱1,911 in the pre-tax income if peso weakens by ₱0.42. A decrease of ₱3,276 in the pre-tax income if the peso strengthens by ₱0.72 against the US\$.

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

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 profit or 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 4.61% and 2.56% in 2013 and 2012 resulting to a possible effect in the equity of increase (decrease) of ₱1,287,098 and ₱2,215,174 in 2013 and 2012, 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, 2013 and 2012 that are used to manage the liquidity risk of the Group:

2013	On demand	Less than 3 months	Total
Cash on hand and with banks	₱6,571,015	₱-	₱6,571,015
Short-term deposits	-	-	-
Nontrade receivables	2,724,184	-	3,298,081
AFS financial asset	27,919,700	-	27,919,700
Total	₱37,214,899	₱-	₱37,214,899

2012	On demand	Less than 3 months	Total
Cash on hand and with banks	₱12,440,422	₱-	₱12,440,422
Cash equivalents	-	134,506,214	134,506,214
Nontrade receivables	573,868	-	573,868
AFS financial asset	73,370,000	-	73,370,000
Total	₱86,384,290	₱134,506,214	₱220,890,504



The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2013 and 2012 based on contractual undiscounted payments.

2013	On demand	Less than 3 months	Total
Accounts payable and accrued expenses*	₱384,208,438	₱—	₱384,208,438
Nontrade payables	573,096	—	573,096
Total	₱384,781,534	₱—	₱384,781,534

*Excluding government payables

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

*Excluding government payables

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, Accounts Payable and Accrued Expenses and Nontrade Payables

The carrying amounts of cash and cash equivalents, nontrade receivables, 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 Financial Assets

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.

As at December 31, 2013 and 2012, the following table presents the level of hierarchy of the Group's AFS financial assets:

	2013		2012	
	Level 1	Level 3	Level 1	Level 3
AFS financial assets				
Equity securities	₱20,419,700	₱7,500,000	₱65,870,000	₱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, 2013 and 2012, respectively.

There were no purchases, sales, issues and settlements of Level 3 AFS investments in 2013 and 2012.



23. 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.

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 2013. The Group is not exposed to externally imposed capital requirements. As at December 31, 2013 and 2012, the Group's capital is composed of common shares amounting to ₱2,026,232,209 and ₱2,019,822,582 and additional paid-in capital amounting to ₱508,636,853 and ₱502,183,353, respectively.

24. Supplemental Disclosure to Statement of Cash Flows

In 2013 and 2012 non-cash investing activities pertain to additions to mine and mining properties from adjustment for capitalized depreciation and amortization.

	2013	2012
Increase in mine and mining properties	₱14,830,312	₱9,720,133
Adjustment for depreciation and amortization	(14,830,312)	(9,720,133)

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 RENE F. CHANYUNGCO ETHELWOLDO E. FERNANDEZ RODOLFO S. MIRANDA AUGUSTO C. VILLALUNA PATRICK K. YAP STEPHEN Y. YAP	TEODORO G. ABLANG Jr. Vice President and Resident Manager ROBERTO A. MABINI Exploration Manager SEGUNDO A. VILLANUEVA Mine Engineering Manager EDGARDO D. CEREDON Sr. Mining Engineer SUNSHINE F. ELAN Project Geologist JOBELLE CABRERA Project Geologist VERNIE S. REYES Environment Supt. DEXTER G. MENDOZA Chief Assayer EDITO C. ESPANTO PED Controller FLORIGER E. VARONA Maintenance Head	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 EDGARDO P. ACILO OIC - Safety Officer ISAGANI C. SULAPAS Finance/Admin. Consultant	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 Stock Transfer Service Inc. 34/F Unit D. Rufino Pacific Tower 6787 Ayala Mkt. City 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 MINESITE OFFICE Barangay Magsaysay Placer, Surigao del Norte Tel No. (086) 626-0999
CORPORATE OFFICERS FELIPE U. YAP Chairman of the Board and Chief Executive Officer BRYAN U. YAP President / COO RENE F. CHANYUNGCO Sr. Vice President-Treasurer Compliance Officer - Good Governance ETHELWOLDO E. FERNANDEZ Corporate Secretary AUGUSTO C. VILLALUNA Senior Vice President PATRICK K. YAP Senior Vice President PABLO T. AYSON Vice President STEPHEN Y. YAP Vice President KNESTOR JOSE Y. GODINO Asst. Vice President for Human Resource MA. LOURDES B. TUASON Asst. Treasurer ODETTE A. JAVIER Asst. Corporate Secretary MARIO L. LAVENTE Financial Controller VLADIMIR B. BUMATAY Manager, Legal Services			

