

2015 *Annual Report*  
**Manila Mining Corporation**

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Manila Mining Corporation

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## ANNUAL MEETING:

The Annual Meeting of Stockholders of Manila Mining Corporation will be held on Thursday, April 21, 2016, at 3:00 p.m. at the Penthouse, Lepanto Bldg., 8747 Paseo de Roxas, Makati City

## MESSAGE FROM THE CHAIRMAN



Manila Mining Corporation

Our exploration work in 2015 focused on the processing of the geologic information from the database generated in 2014 and from historic drilling data. We validated the database to produce a geologic model and resource estimation of the Ntina and Suyoc deposits which are now in progress.

Additional drilling planned for the recently discovered Ntina Deeps and other prospective porphyry copper-gold deposits was suspended due to the more compelling search for near surface copper-gold deposits that could augment the Ntina-Suyoc mineral resource.

Exploration covering Mapaso, Legaspi and Emma areas entailed detailed geologic mapping and sampling, grid alteration zone delineation, and investigation of small scale mine workings. The initial results indicate the occurrence of very promising near-surface vein and breccia gold deposits and underlying associated porphyry copper-gold potential at Mapaso.

Detailed field work has commenced at another highly promising gold prospect at Emma which has characteristics similar to the previously mined Heine open pit gold deposit.

Pit optimizations were calculated using various mining costs for both Ntina and Suyoc complex, in addition to pit designs and estimated mineable ore reserves. Various mining programs and financial studies on the basis of a 5,000 TPD milling rate were also undertaken.

We carried out a series of metallurgical tests on bulk samples from the Suyoc trenches and four drill holes from Ntina totaling over 200 meters. The composite samples were subjected to gravity and flotation metallurgical tests. Overall, the tests indicate that the Ntina - Suyoc composite ores are amenable to combined gravity and flotation milling processes.

We continue to await the issuance of an Environmental Compliance Certificate for a maximum 15,000 TPD milling operations following our submission of a revised Environmental Performance, Management and Restoration Plan with the Environmental Management Bureau.

There were no further exploration ground works done in the Kalayaan Project. The project has been placed on "care and maintenance" status by Philex Mining Corporation while awaiting approval of the Exploration Permit extension. Philex however continued to review and validate the project database pursuant to its Farm-in Agreement with Kalayaan Copper-Gold Resources, Inc. and Manila Mining Corporation.

In the meantime, we continued to undertake Community Development programs for our host and neighboring communities in the municipalities of Placer and Tagana-an in Surigao Del Norte. We coordinated closely with the different barangays to ensure that our programs are useful and sustainable. Among many other projects, we donated public transport vehicles, a dump truck, school and laboratory supplies, medicines and medical supplies, sewing machines, and constructed a building for livelihood projects and others for use as health centers, as well as classrooms. We also have a scholarship program and provide assistance to several daycare centers.

We established a diversified nursery in compliance with the government's National Greening Program. We also maintain some 30,000 trees within a 50-hectare area in our tenements following the Mines and Geosciences Bureau's "Adopt a Mining Forest Program".

Indeed, we continue to make our presence positively felt in our host communities. Despite zero revenues for so many years, we have remained a good corporate citizen with the able guidance of the other members of the Board of Directors and the invaluable cooperation of our officers, technical personnel and other employees. We thank all of them for their untiring support.

The results of our exploration efforts continue to bear our determination to bring our company back in production. We will improve our potential to carry out this goal as we expect improvement in metal markets and the general environment for the mining industry. To our shareholders, thank you for your perseverance, patience, and faith in Manila Mining Corporation.



FELIPE C. YAP  
Chairman & CEO



# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE **FINANCIAL STATEMENTS**



Manila Mining Corporation

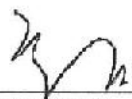
The management of Manila Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. 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, 2015 and 2014, 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 17<sup>th</sup> day of March 2016 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 21<sup>st</sup> day of March 2016 at Makati City.

Doc. No. 264:  
Page No. 54:  
Book No. 2:  
Series of 2016.

  
**NOTARY PUBLIC FOR MAKATI CITY**  
UNTIL DECEMBER 31, 2016  
PTR NO. 4748512 / 01-05-2015/MAKATI  
IBP NO. 656155 LIFETIME MEMBER  
APPT. NO. M-199/2016/ROLL NO. 40091  
MCLE COMPLIANCE NO. V-0006934  
UNIT 102 PENINSULA COURT BLDG.  
4735 MAKATI AVE., MAKATI CITY

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying consolidated financial statements of Manila Mining Corporation and Subsidiary, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, 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, 2015 and a summary of significant accounting policies and other explanatory information.

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

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

### ***Auditors' Responsibility***

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

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

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



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Manila Mining Corporation and Subsidiary as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

*Jaime F. del Rosario*

Jaime F. del Rosario

Partner

CPA Certificate No. 56915

SEC Accreditation No. 0076-AR-3 (Group A),

March 21, 2013, valid until April 30, 2016

Tax Identification No. 102-096-009

BIR Accreditation No. 08-001998-72-2015,

March 24, 2015, valid until March 23, 2018

PTR No. 5321628, January 4, 2016, Makati City

March 17, 2016



**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2015	2014
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	P17,876,188	P71,314,681
Receivables (Note 5)	10,414,667	12,816,481
Inventories (Note 6)	7,057,057	26,762,711
Prepayments and other current assets (Note 7)	310,168,619	370,877,217
<b>Total Current Assets</b>	<b>345,516,531</b>	<b>481,771,090</b>
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) financial assets (Note 8)	21,045,267	22,057,270
Property and equipment (Note 9)	1,476,296,024	1,504,442,080
Deferred mine exploration costs (Note 10)	1,370,575,993	1,302,813,612
Other noncurrent assets (Note 11)	8,868,553	8,891,065
<b>Total Noncurrent Assets</b>	<b>2,876,785,837</b>	<b>2,838,204,027</b>
<b>TOTAL ASSETS</b>	<b>P3,222,302,368</b>	<b>P3,319,975,117</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liability</b>		
Accounts payable and accrued expenses (Note 12)	P139,339,909	P144,730,672
<b>Noncurrent Liabilities</b>		
Retirement benefits obligation (Note 16)	12,020,258	11,051,659
Deferred tax liability - net (Note 17)	55,956,782	66,479,656
<b>Total Noncurrent Liabilities</b>	<b>67,977,040</b>	<b>77,531,315</b>
<b>Total Liabilities</b>	<b>207,316,949</b>	<b>222,261,987</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock (Note 18)	2,595,502,255	2,595,502,255
Additional paid-in capital	617,625,955	617,625,955
Deficit	(1,105,526,972)	(1,025,911,532)
Equity reserves (Note 18)	954,621,275	954,621,275
Cumulative changes in fair values of AFS financial assets (Note 8)	(48,891,997)	(45,484,722)
Remeasurement gain on retirement benefits obligation (Note 16)	1,545,787	1,248,337
	3,014,876,303	3,097,601,568
<b>Non-controlling interest (Note 18)</b>	<b>109,116</b>	<b>111,562</b>
<b>Total Equity</b>	<b>3,014,985,419</b>	<b>3,097,713,130</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P3,222,302,368</b>	<b>P3,319,975,117</b>

*See accompanying Notes to Consolidated Financial Statements.*





**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>COST AND EXPENSES</b>			
Administration and overhead costs (Note 14)	<b>(P8,179,398)</b>	<b>(P11,466,316)</b>	<b>(P12,823,111)</b>
<b>OTHER INCOME (CHARGES)</b>			
Interest expense (Note 16)	<b>(501,745)</b>	<b>(617,201)</b>	<b>(873,632)</b>
Interest income	<b>108,347</b>	<b>382,713</b>	<b>713,863</b>
Others (Note 15)	<b>(81,695,443)</b>	<b>81,339</b>	<b>-</b>
	<b>(82,088,841)</b>	<b>(153,149)</b>	<b>(159,769)</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(90,268,239)</b>	<b>(11,619,465)</b>	<b>(12,982,880)</b>
<b>PROVISION FOR (BENEFIT FROM)</b>			
DEFERRED INCOME TAX (Note 17)	<b>(10,650,353)</b>	<b>169,656</b>	<b>(678,992)</b>
<b>NET LOSS</b>	<b>(P79,617,886)</b>	<b>(P11,789,121)</b>	<b>(P12,303,888)</b>
<b>Net loss attributable to:</b>			
Equity holders of the Parent Company	<b>(P79,615,440)</b>	<b>(P11,785,922)</b>	<b>(P12,299,604)</b>
Non-controlling interest	<b>(2,446)</b>	<b>(3,199)</b>	<b>(4,284)</b>
	<b>(P79,617,886)</b>	<b>(P11,789,121)</b>	<b>(P12,303,888)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Item that may be reclassified subsequently to consolidated statements of comprehensive income:</i>			
Changes in fair values of AFS financial assets (Note 8)	<b>(P3,407,275)</b>	<b>(P5,862,430)</b>	<b>(P45,450,300)</b>
<i>Items that will not be reclassified to consolidated statements of comprehensive income:</i>			
Remeasurement gain on retirement obligations, net of tax (Note 16)	<b>297,450</b>	<b>1,136,613</b>	<b>3,312,361</b>
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(P82,727,711)</b>	<b>(P16,514,938)</b>	<b>(P54,441,827)</b>
<b>Total comprehensive loss attributable to:</b>			
Equity holders of the Parent Company	<b>(P82,725,265)</b>	<b>(P16,511,739)</b>	<b>(P54,437,543)</b>
Non-controlling interest	<b>(2,446)</b>	<b>(3,199)</b>	<b>(4,284)</b>
	<b>(P82,727,711)</b>	<b>(P16,514,938)</b>	<b>(P54,441,827)</b>
<b>LOSS PER SHARE (Note 19)</b>			
Basic and diluted loss per share	<b>(P0.00031)</b>	<b>(P0.00010)</b>	<b>(P0.00006)</b>

*See accompanying Notes to Consolidated Financial Statements.*



**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	(P90,268,239)	(P11,619,465)	(P12,982,880)
Adjustments for:			
Provision for impairment losses on:			
Input VAT (Note 7)	47,585,580	-	-
Inventories (Notes 6)	19,365,776	-	-
Property and equipment (Note 9)	14,539,440	-	-
Receivables (Note 5)	254,454	-	-
Depreciation (Notes 9 and 14)	2,537,394	4,110,909	4,244,955
Retirement benefits costs (Note 16)	1,393,528	1,816,315	2,263,307
Interest income (Note 4)	(108,347)	(382,713)	(713,863)
Operating loss before working capital changes	(4,700,414)	(6,074,954)	(7,188,481)
Decrease (increase) in:			
Receivable	2,147,360	(32,974)	(1,335,808)
Inventories - at cost	339,878	71,501	(1,092,906)
Prepayments and other current assets	13,123,018	(273,784,170)	(18,349,420)
Increase (decrease) in accounts payable and accrued expenses	(3,443,834)	(244,248,826)	158,379,036
Net cash generated from (used in) operations	7,466,008	(524,069,423)	130,412,421
Interest received	108,347	382,713	713,863
Net cash flows from (used in) operating activities	7,574,355	(523,686,710)	131,126,284
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>ADDITIONS TO:</b>			
AFS financial asset (Note 8)	(2,395,272)	-	-
Property and equipment (Note 9)	(1,569,035)	(3,163,333)	(72,490,477)
Deferred mine exploration costs (Notes 9 and 10)	(57,071,053)	(84,392,234)	(202,261,060)
Retirement benefits paid (Note 16)	-	(2,272,859)	-
Decrease (increase) in other noncurrent assets	22,512	(346)	216,505
Net cash flows used in investing activities	(61,012,848)	(89,828,772)	(274,535,032)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Proceeds from issuance of shares (Note 19)	-	678,259,148	2,923,127
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(53,438,493)</b>	<b>64,743,666</b>	<b>(140,485,621)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>71,314,681</b>	<b>6,571,015</b>	<b>147,056,636</b>
<b>CASH AT END OF YEAR</b>	<b>P17,876,188</b>	<b>P71,314,681</b>	<b>P6,571,015</b>

*See accompanying Notes to Consolidated Financial Statements.*



**MANILA MINING CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 and 2013**

	Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 18)				Remeasurement Gain (Loss) on Retirement Obligation (Note 16)	Equity Reserves (Note 18)	Cumulative Changes in Fair Values of AFS Financial Assets (Note 8)	Deficit	NCI	Total
	Issued	Subscribed	Subscription Receivable	Additional Paid-in Capital						
<b>Balances at January 1, 2013</b>	<b>₱2,019,451,162</b>	<b>₱737,825</b>	<b>(₱366,405)</b>	<b>₱502,183,353</b>	<b>(₱3,200,637)</b>	<b>₱954,621,275</b>	<b>₱5,828,008</b>	<b>(₱1,001,826,006)</b>	<b>₱119,045</b>	<b>₱2,477,547,620</b>
Issuance and subscription of shares (Note 18)	1,760,000	4,649,626	—	6,453,500	—	—	—	—	—	12,863,126
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)	(54,441,827)
<b>Balances at December 31, 2013</b>	<b>2,021,211,162</b>	<b>5,387,451</b>	<b>(366,405)</b>	<b>508,636,853</b>	<b>111,724</b>	<b>954,621,275</b>	<b>(39,622,292)</b>	<b>(1,014,125,610)</b>	<b>114,761</b>	<b>2,435,968,919</b>
Issuance and subscription of shares (Note 18)	569,349,274	(80,000)	773	108,989,102	—	—	—	—	—	678,259,149
Net loss	—	—	—	—	—	—	—	(11,785,922)	(3,199)	(11,789,121)
Other comprehensive income (loss), net of tax	—	—	—	—	1,136,613	—	(5,862,430)	—	—	(4,725,817)
Total comprehensive income (loss)	—	—	—	—	1,136,613	—	(5,862,430)	(11,785,922)	(3,199)	(16,514,938)
<b>Balances at December 31, 2014</b>	<b>2,590,560,436</b>	<b>5,307,451</b>	<b>(365,632)</b>	<b>617,625,955</b>	<b>1,248,337</b>	<b>954,621,275</b>	<b>(45,484,722)</b>	<b>(1,025,911,532)</b>	<b>111,562</b>	<b>3,097,713,130</b>
Issuance and subscription of shares (Note 18)	—	—	—	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(79,615,440)	(2,446)	(79,617,886)
Other comprehensive income (loss), net of tax	—	—	—	—	297,450	—	(3,407,275)	—	—	(3,109,825)
Total comprehensive income (loss)	—	—	—	—	297,450	—	(3,407,275)	(79,615,440)	(2,446)	(82,727,711)
<b>Balances at December 31, 2015</b>	<b>₱2,590,560,436</b>	<b>₱5,307,451</b>	<b>(₱365,632)</b>	<b>₱617,625,955</b>	<b>₱1,545,787</b>	<b>₱954,621,275</b>	<b>(₱48,891,997)</b>	<b>(₱1,105,526,972)</b>	<b>₱109,116</b>	<b>₱3,014,985,419</b>

See accompanying Notes to Consolidated Financial Statements.





## **MANILA MINING CORPORATION AND SUBSIDIARY**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. General Information, Status of Operations and Authorization for Issue of the Consolidated Financial Statements**

##### Manila Mining Corporation

Manila Mining Corporation (the Parent Company; the 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, has 20% equity interest in the Parent Company.

The principal office of the Parent Company is located at the 20th Floor, Lepanto Building, Paseo de Roxas, 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

###### Manila Mining Corporation

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 four (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 tailings pond.

On January 29, 2001, after obtaining the necessary permit to increase the height of the tailings 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.

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 to 2010.

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, 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 the other hand, the Parent Company is a holder of a valid and existing Mineral Production Sharing Agreement (MPSA) No. 253-2007-XIII granted on August 10, 2007 for a period of 25 years from issuance thereof or until August 10, 2032, consisting of 211.50 hectares (has.) located in Placer, Surigao del Norte.

In addition, the Parent Company also filed applications for MPSA, designated as Application for Production Sharing Agreement (APSA) No. 0006-X (AMD.) filed on September 14, 1992 consisting of 1,580.00 has.; and APSA No. 0007(X) filed on November 26, 1992, consisting of 4,793.85 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 February 21, 2003 consisting of 530 has.; APSA No. 000107-XIII filed February 17, 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 April 28, 2010 valid until April 28, 2012. Prior to its expiration, an application for another renewal was filed by MMC on April 25, 2012 for the purpose of completing the feasibility study, consisting of 2,176.2810 has. also in Placer, Surigao del Norte and is awaiting approval by the Director of MGB.



On April 30, 2014, the PSE Board of Directors approved the application covering the Offer Shares of 56,926,927,347 with offer price of P683,123,128. The offer period was from June 16, 2014 to June 20, 2014.

Proceeds from the issuance of stock rights were used to fund drilling program for the period 2014 to 2015, settlement of debts to suppliers, service providers, and to fund the Company's working capital.

#### *KCGRI*

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.

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 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 Exploration Permit (EP) No. XIII-014B.

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

#### Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements of the Parent Company and Subsidiary (the Group) as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 were authorized for issue by the BOD on March 17, 2016.

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

### Basis of Preparation

The consolidated financial statements of the Group have been prepared under the historical cost basis, except for AFS financial assets 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.

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 Group 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 Group controls an investee if and only if the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of 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 its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with the other vote holders of the investee,
- Rights arising from other contractual arrangements,
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statement of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity, while any gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

#### Subsidiaries

Subsidiaries are entities over which the Parent Company has control.



#### *NCI*

NCI represents 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 an NCI exists, any losses of that subsidiary are attributed to the NCI even if that results in a deficit balance. Transactions with NCI are accounted for as equity transactions.

#### Changes in Accounting Policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with the prior year, except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) which were adopted as at January 1, 2015:

- *Amendments to PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions*  
This standard requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Group, since the Group has no defined benefit plans with contributions from employees or third parties.

#### *Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. Unless otherwise stated, these amendments have no impact on the Group's consolidated financial statements. They include:

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*  
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
  - A performance condition must contain a service condition.
  - A performance target must be met while the counterparty is rendering service.
  - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
  - A performance condition may be a market or non-market condition.
  - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

These amendments does not have significant effect to the Group's consolidated financial statements.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*  
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss (FVPL) whether or not





it falls within the scope of PAS 39, *Financial Instruments Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). 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 are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar".
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- **PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization***  
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the Group's consolidated financial statements as the Group's property, plant and equipment and intangible assets are not carried at revalued amounts.
- **PAS 24, *Related Party Disclosures - Key Management Personnel***  
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. Unless otherwise stated, these amendments have no impact on the Group's consolidated financial statements. They include:

- **PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements***  
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
  - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
  - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- **PFRS 13, *Fair Value Measurement - Portfolio Exception***  
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, if early adopted).



- **PAS 40, *Investment Property***

The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Standards and Interpretations Issued but not yet Effective

The Group will adopt the following standards and interpretations enumerated below when these become effective:

*Effective January 1, 2016*

- **PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)**

These amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- **PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture* - Bearer Plants (Amendments)**

These amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- **PAS 27, *Separate Financial Statements* - Equity Method in Separate Financial Statements (Amendments)**

These amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

- **PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Investment Entities: Applying and Consolidation Exception (Amendments)**

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity





that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint venture.

- **PFRS 11, *Joint Arrangements* - Accounting for Acquisitions of Interests (Amendments)**  
These amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- **PFRS 14, *Regulatory Deferral Accounts*,**  
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.
- **PAS 1, *Presentation of Financial Statements* - Disclosure Initiative (Amendments)**  
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. These amendments clarify the following:
  - Entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - Specific line items in the statements of profit or loss and OCI and the statements of financial position may be disaggregated
  - Entities have flexibility as to the order in which they present the notes to the financial statements
  - The share of OCI of associates and joint ventures accounted using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.



Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

*Annual Improvements to PFRSs (2012-2014 cycle)*

These Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have an impact on the Group. They include:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*  
This amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*  
This standard requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*  
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate*  
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*  
This amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).





*Effective January 1, 2018*

- **PFRS 9, *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

- **International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers***

IFRS 15 was issued in May 2014 by the International Accounting Standards Board (IASB) and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- **IFRS 16, *Leases***

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.



The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, Revenue from Contracts with Customers. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

#### Summary of Significant Accounting Policies

##### Presentation of Consolidated Financial Statements

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

##### Cash

Cash includes cash on hand and with banks.

##### 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 trade date.

###### *Initial Recognition and Classification of Financial Instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those financial assets and liabilities at FVPL, includes transaction cost. On initial recognition, the Group classifies its financial assets as at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as financial liability as at FVPL and other financial liabilities, as appropriate. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at each reporting period.

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.

As at December 31, 2015 and 2014, the Group does not have financial instruments at FVPL and HTM.

###### *Fair Value Measurement*

The Group measures financial instruments at fair value at each end of the reporting period. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 21.





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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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.

#### *Subsequent Measurement*

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



#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate 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 "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 Company's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent. Receivables are recognized initially at fair value, which normally pertains to the billable amount.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

#### *AFS Financial Assets*

AFS financial assets are non-derivative 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.

#### *Other Financial Liabilities*

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.





#### 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 period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When 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 OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

#### 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; 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial 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.





#### Inventories

Parts and supplies are stated at the lower of cost and net realizable value (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 value of the inventories when sold at their condition at the end of the reporting period. In determining the NRV, the Group considers any adjustments necessary for obsolescence.

#### Prepayments and Other Current Assets and Other Noncurrent Assets

The Group's prepayments and other current assets include contract deposits, miscellaneous deposits, excess creditable input Value-Added Tax (VAT) and prepaid royalties. These are classified as current since the Group expects to realize or consume the assets within 12 months after the end of the reporting period. Otherwise, these are classified as other 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 (1) million pesos. The related input VAT is recognized over five (5) years or the useful life of the capital goods, whichever is shorter. Input VAT is stated at its estimated NRV.

#### *Contract Deposits*

Contract Deposits are payment to suppliers and contractors before goods or services has been received or rendered. These are classified as current since these are expected to be offset against future short-term billings and are recognized in the books at amounts initially paid.

#### 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 expense 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, as follows:

Type of Asset	Estimated Useful Life in Years
Machinery and equipment	5 to 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 at each reporting period and adjusted prospectively, if appropriate. 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.

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.

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

Fully-depreciated property and equipment are maintained in the accounts until these are no longer in use.

#### Deferred Mine Exploration Costs

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

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed. Once commercial reserves are established, exploration and evaluation assets are tested for impairment and transferred to mine and mining properties. No amortization is charged during the exploration and evaluation phase. If the area is found to contain no commercial reserves, the accumulated costs are expensed.



#### Impairment of Nonfinancial Assets

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

The Group 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 Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase recorded expenses and decrease the nonfinancial assets.

##### *Inventories*

The Group determines the NRV of inventories at each reporting period. If the cost of the inventories exceeds its NRV, the asset is written down to its NRV and impairment loss is recognized in the consolidated statement of comprehensive income in the period the impairment incurred. In case the NRV of the inventories increased subsequently, the NRV will increase carrying amount of inventories but only to the extent of the impairment loss previously recognized.

##### *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.

##### *Deferred Mine Exploration Costs*

Deferred mine exploration costs are assessed for impairment when facts and circumstances suggest that the carrying amount of the deferred mine exploration costs may exceed its recoverable amount. 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.





An impairment loss recognized in prior periods for an asset other than goodwill must be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset must be increased to its recoverable amount. However, such reversal must not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

#### Provisions

##### *General*

Provisions are recognized when the Group has a present obligation (legal and constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 in the consolidated comprehensive income.

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

##### *Provision for Mine Rehabilitation Cost and Decommissioning*

Provision is made for close down, restoration and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the financial reporting date.

The provision is discounted using a current market-based pre-tax discount rate and the unwinding of the discount is classified as interest accretion in the consolidated statements of comprehensive income. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

The provision 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 provision resulting from changes in the estimated cash flows or discount rate, and the adjusted cost of the asset is depreciated prospectively.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each financial reporting date and the cost is charged to the consolidated statement of comprehensive income.

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





Capital Stock and Additional Paid-in Capital (APIC)

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 APIC.

Deficit

Deficit represents accumulated losses of the Group.

Equity Reserves

Equity reserves is the difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received attributable to the owners of the Parent Company.

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.

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.

Leases

*Determination of Whether an Arrangement Contains a Lease*

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

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

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



*Operating Lease - Group as a Lessee*

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

Employee Benefits

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
- Remeasurements 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 consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income.

Remeasurements, comprising actuarial gains and losses, are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to consolidated statement of comprehensive income in subsequent periods.

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.





#### Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of reporting period.

#### 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.

When 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 period. Foreign exchange differences between rate at transaction date and rate at settlement date or at each reporting period are credited to or charged against the consolidated comprehensive income.

#### 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 period.

##### Deferred Income Tax

Deferred income tax is provided, using the balance sheet 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:

- When 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, the carryforward benefits of unused tax credits and unused net operating loss carryover (NOLCO). Deferred income tax assets are recognized 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:

- When 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 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 OCI 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.

#### Loss Per Share

Loss per share amounts are calculated by dividing the net 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 loss per share amounts are calculated by dividing the net 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.

#### 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 statement. 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 statement but are 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.

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcome can differ from these estimates.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which 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 financial assets, since they 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 12 months from the reporting period.

#### *Determination of Control*

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

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

#### *Determining Operating Lease Commitments - Group as Lessee*

The Group has entered into a lease with a lessor for the use of office space. The Group has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased on operating leases.

#### 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 and liabilities within the next financial year are discussed below.

#### *Estimating Allowance for Impairment for Losses on Receivables*

The provision for impairment losses on receivables is based on the Group's assessment of the collectability of payments from employees, related 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 collectability 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.

The Group recognized provision for impairment loss on receivables amounting to P254,454 and nil in 2015 and 2014, respectively (see Notes 5 and 15). As at December 31, 2015 and 2014, the carrying value of receivables amounted to P10,414,667 and P12,816,481, respectively (see Note 5). Allowance for impairment losses on other receivables amounted to P828,351 and P573,897 as at December 31, 2015 and 2014, respectively (see Note 5).



*Estimating Impairment of Input VAT*

The Group assesses impairment on its input VAT whenever events or changes in circumstances indicate that the carrying amount of input VAT may not be recovered. As at December 31, 2015 and 2014, carrying values of input VAT amounted to ₱49,079,172 and ₱95,774,698, respectively (see Note 7). Provision for impairment losses on input VAT amounted to ₱47,585,580 in 2015 (see Notes 7 and 15). No impairment losses were recognized in 2014 and 2013.

*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 ₱7,057,057 and ₱26,762,711 as at December 31, 2015 and 2014, respectively, net of allowance for inventory obsolescence of ₱68,061,247 and ₱48,747,492 as at December 31, 2015 and 2014, respectively (see Note 6).

*Estimating Impairment on AFS Financial Assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

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.

The carrying amounts of AFS financial assets amounted to ₱21,045,267 and ₱22,057,270 as at December 31, 2015 and 2014, respectively (see Note 8). The change in the fair value of AFS financial assets is recognized in consolidated OCI 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, 2015 and 2014, the cumulative changes in fair values of AFS financial assets amounted to ₱48,891,997 and ₱45,484,722, respectively (see Note 8).

*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, 2015 and 2014, the net book values of the property and equipment, except land and construction in progress, amounted to ₱1,363,622,637 and ₱1,391,877,120, respectively (see Note 9).





*Assessing Impairment on 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 ₱1,476,296,024 and ₱1,504,442,080 as at December 31, 2015 and 2014, respectively, net of allowance for impairment losses of ₱157,811,883 and ₱143,272,443 as at December 31, 2015 and 2014, respectively (see Note 9).

The impairment losses recognized on the Group's property and equipment amounted to ₱14,539,440 and nil in 2015 and 2014, respectively (see Note 15).

*Estimating Recoverability of Deferred 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 ₱1,370,575,993 and ₱1,302,813,612, net of allowance for impairment loss of ₱92,028,090 as at December 31, 2015 and 2014, respectively (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, 2015 and 2014, mine and mining properties included in property and equipment account amounted to P1,341,176,196 (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 P73,908,744 and P63,385,870 as at December 31, 2015 and 2014, respectively. No deferred income tax assets were recognized for temporary differences amounting to P170,945,812 and P126,665,890 as at December 31, 2015 and 2014, 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, 2015 and 2014, the Parent Company is in the process of evaluating, as such, no provision for mine rehabilitation and decommissioning was recorded.





*Determining Retirement Benefits 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 benefits obligation amounted to ₱12,020,258 and ₱11,051,659 as at December 31, 2015 and 2014, respectively (see Note 16). Retirement benefits costs amounted to ₱1,393,528, ₱1,816,315, and ₱2,263,307 in 2015, 2014 and 2013, 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 (Note 21).

*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 25).

**4. Cash**

	2015	2014
Cash on hand	₱110,000	₱110,000
Cash with banks	17,766,188	71,204,681
	<b>₱17,876,188</b>	<b>₱71,314,681</b>

Cash with banks earn interest at the respective bank deposit rates. Total interest income amounted to ₱108,347, ₱382,713 and ₱713,863 in 2015, 2014 and 2013, respectively.

The Parent Company has US dollar (US\$) denominated cash with banks amounting to US\$4,604 and US\$4,589 as at December 31, 2015 and 2014, respectively (see Note 21).

**5. Receivables**

	2015	2014
Stock options receivable	₱9,780,000	₱9,780,000
Nontrade	1,463,018	3,610,378
	<b>11,243,018</b>	<b>13,390,378</b>
Less allowance for impairment losses	828,351	573,897
	<b>₱10,414,667</b>	<b>₱12,816,481</b>

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



Nontrade receivables which is non-interest bearing comprise mainly of receivables from subcontractors and other third parties. Nontrade receivables are collectible on demand. Based on the assessment done by the management, the Group recognized an allowance for specifically identified accounts amounting to ₱828,351 and ₱573,897 as at December 31, 2015 and 2014, respectively. 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 by the management, the Group has not recognized any provision for receivables which were assessed collectively.

Movement of allowance for impairment losses are as follows:

	2015	2014
Balances at beginning of year	₱573,897	₱573,897
Provision for impairment loss on receivable (Note 15)	254,454	-
	<b>₱828,351</b>	<b>₱573,897</b>

#### 6. Inventories

	2015	2014
At NRV:		
Machinery and automotive parts	₱6,886,059	₱26,584,498
At cost:		
Fuel, oil and lubricants	170,998	178,213
	<b>₱7,057,057</b>	<b>₱26,762,711</b>

Cost of inventories carried at NRV are as follows:

	2015	2014
Mill materials, hardware and other supplies	₱55,577,131	₱55,945,715
Machinery and automotive parts	19,370,175	19,386,275
	<b>₱74,947,306</b>	<b>₱75,331,990</b>

Movements in allowance for inventory obsolescence in 2015 and 2014 are as follows:

	2015	2014
Balances at beginning of year	₱48,747,492	₱48,829,958
Provision for inventory obsolescence (Note 15)	19,365,776	-
Reversal	(52,021)	(82,466)
Balances at end of year	<b>₱68,061,247</b>	<b>₱48,747,492</b>

The reversal on impairment of inventories amounting to ₱52,021 and ₱82,466 as at December 31, 2015 and 2014, respectively, pertains to the issuance of various inventory items used in the mining exploration activities of the Group. Reversal of inventory obsolescence resulted to other income of ₱49,807. The remaining amount of ₱2,214 pertains to adjustment in amount of obsolete items as a result of inventory count.

Provision for impairment losses on inventory obsolescence in 2015, 2014 and 2013 amounted to ₱19,365,776 and nil, respectively (see Note 15).





## 7. Prepayments and Other Current Assets

	2015	2014
Contract deposits	₱255,000,000	₱268,874,434
Input VAT	96,664,752	95,774,698
Prepaid royalties	4,903,819	4,718,179
Miscellaneous deposits	1,185,628	1,509,906
	357,754,199	370,877,217
Allowance for impairment losses (Note 15)	(47,585,580)	—
	₱310,168,619	₱370,877,217

Contract deposits pertain to deposits made for future drilling services of its affiliate, Diamond Drilling Corporation of the Philippines (DDCP). This is refundable upon nonperformance of services (see Note 13).

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.

Prepaid royalties are advance payments to claim owner while miscellaneous deposits are advance payments made to suppliers of services.

Based on the assessment done by the management, the Group recognized allowance for impairment losses for input VAT amounting to ₱47,585,580 and nil as at December 31, 2015 and 2014, respectively.

## 8. AFS Financial Assets

	2015	2014
Quoted instruments	₱13,545,267	₱14,557,270
Unquoted instruments	7,500,000	7,500,000
	₱21,045,267	₱22,057,270

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, 2015 and 2014.

Unquoted AFS financial assets pertain to investment in private company which have no fixed maturity date or coupon rate and are carried at cost. Fair values of these investments cannot be reliably determined as they have no available exit market price.

As at December 31, 2015, the Group has no intention to dispose its unquoted equity shares.



Movement of AFS financial assets are as follows:

	2015	2014
Balance at beginning of year	P22,057,270	P27,919,700
Additions	2,395,272	-
Changes in fair value of AFS financial assets	(3,407,275)	(5,862,430)
Balance at end of year	P21,045,267	P22,057,270

Movement in the "Cumulative changes in fair values of AFS financial assets" presented as separate component of equity follow:

	2015	2014
Balance at beginning of year	P45,484,722	P39,622,292
Valuation loss	3,407,275	5,862,430
Balances at end of year	P48,891,997	P45,484,722

There was no dividend income earned from the quoted equity instruments in 2015, 2014 and 2013.

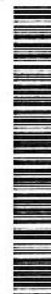




# 9. Property and Equipment

2015							
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Construction In-progress	Total
Cost:							
Balances at beginning of year	₹2,406,500,518	₹817,720,570	₹110,520,402	₹108,390,013	₹7,270,713	₹105,294,247	₹3,555,696,463
Additions	-	-	-	1,460,608	-	108,427	1,569,035
Disposals	-	(2,123,923)	-	-	-	-	(2,123,923)
Balances at end of year	2,406,500,518	815,596,647	110,520,402	109,850,621	7,270,713	105,402,674	3,555,141,575
Accumulated depreciation and amortization:							
Balances at beginning of year	1,065,324,322	667,411,394	82,398,020	92,848,204	-	-	1,907,981,940
Depreciation	-	4,312,437	1,505,201	7,411,084	-	-	13,228,722
Disposals	-	(176,994)	-	-	-	-	(176,994)
Balances at end of year	1,065,324,322	671,546,837	83,903,221	100,259,288	-	-	1,921,033,668
Allowance for impairment losses							
Balances at beginning of year	-	125,501,962	17,706,056	64,425	-	-	143,277,443
Provision (Note 15)	-	14,042,407	380,040	116,993	-	-	14,539,440
Balances at end of year	-	139,544,369	18,086,096	181,418	-	-	157,811,883
Net book values	₹1,341,176,196	₹4,505,441	₹8,531,085	₹9,409,915	₹7,270,713	₹105,402,674	₹1,476,296,024

	2014						
	Mine and Mining Properties	Machinery and Equipment	Building and Improvements	Furniture, Office and Other Equipment	Land	Construction In-progress	Total
Cost:							
Balances at beginning of year	P2,406,500,518	P817,171,462	P110,520,402	P106,023,348	P7,270,713	P105,046,687	P3,552,533,130
Additions	-	549,108	-	2,366,665	-	247,560	3,163,333
Balances at end of year	2,406,500,518	817,720,570	110,520,402	108,390,013	7,270,713	105,294,247	3,555,696,463
Accumulated depreciation and amortization:							
Balances at beginning of year	1,065,324,322	661,062,048	80,787,166	84,857,587	-	-	1,892,031,123
Depreciation	-	6,349,346	1,610,854	7,990,617	-	-	15,950,817
Balances at end of year	1,065,324,322	667,411,394	82,398,020	92,848,204	-	-	1,907,981,940
Allowance for impairment losses	-	125,501,962	17,706,056	64,425	-	-	143,272,443
Net book values	P1,341,176,196	P24,807,214	P10,416,326	P15,477,384	P7,270,713	P105,294,247	P1,504,442,080



Total depreciation of property and equipment charged to operations amounted to ₱2,537,394, ₱4,110,909 and ₱4,244,955 in 2015, 2014 and 2013, respectively (see Note 14). Depreciation of property and equipment, except mill machinery and equipment, amounting to ₱10,691,328, ₱11,839,908 and ₱14,820,311 were capitalized in 2015, 2014 and 2013, respectively, as part of mine exploration costs.

Construction in-progress consists mainly of expenditures for the preparation of commercial operations of the Company. The projects are intended for the building of process plant. Construction in-progress includes cost of various projects at different percentages of completion as at December 31, 2015 and 2014.

Fully-depreciated property, plant, and equipment are retained in the books until they are no longer in use. The cost of fully depreciated property and equipment still being used in operation amounted to ₱1,751,159,772 and ₱1,445,557,841 as at December 31, 2015 and 2014, respectively.

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#### 10. Deferred Mine Exploration Costs

Mine exploration costs amounted to ₱1,370,575,993 and ₱1,302,813,612, net of allowance for impairment losses amounting to ₱92,028,090, as at December 31, 2015 and 2014, respectively.

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#### 11. Other Noncurrent Assets

	2015	2014
Mine rehabilitation funds (MRF)	₱5,352,029	₱5,374,541
Miscellaneous deposits	1,682,066	1,682,066
Advances to landowners	1,508,341	1,508,341
Others	326,117	326,117
	<b>₱8,868,553</b>	<b>₱8,891,065</b>

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 MGB. Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and MRF amounting to ₱5,150,000 recorded as environmental fund. 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

	2015	2014
Trade payable	₱128,316,959	₱126,153,176
Due to a related party (Note 13)	1,482,946	3,764,095
Accrued expenses	6,993,375	11,675,419
Unclaimed dividends	573,097	573,097
Payable to government	564,906	614,032
Other liabilities	1,408,626	1,950,853
	<b>₱139,339,909</b>	<b>₱144,730,672</b>

Terms and conditions of the aforementioned liabilities are as follows:

- Trade payable includes local purchases of equipment, inventories and various parts. This is non-interest bearing and normally settled on 30 days' terms.
- Accrued payroll included in accrued expenses are normally payable within five (5) to ten (10) days.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders.
- Payable to government pertains to the Group's payable to various regulatory agencies.
- Other liabilities are non-interest bearing and have an average term of one (1) to three (3) months.

## 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.

The Parent Company provides cash advance and pays expenses on behalf of its 95%-owned subsidiary, KCGRI.

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:

		Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>Receivables</b>					
<b>KCGRI; Subsidiary</b>	2015	₱53,686	₱1,000,140	On demand; non-interest bearing	Unsecured, no impairment, no guarantee
	2014	₱70,567	₱946,454	On demand; non-interest bearing	Unsecured, no impairment, no guarantee

LCMC holds a 20% equity interest in the Parent Company. It provided cash advances and paid expenses on behalf of the Parent Company.



DDCP, a wholly-owned subsidiary of LCMC, provides various drilling services to the Parent Company.

The Parent Company, in the normal course of business, enters into transactions with related parties. The consolidated statements of financial position include the following assets and liabilities resulting from the above transactions with related parties:

	2015			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Contract deposits</i>				
DDCP, Affiliate	₱10,923,751	₱255,000,000	On demand; non-interest bearing	Refundable
<i>Due to a related party</i>				
LCMC; Shareholder	₱1,258,721	₱1,482,946	On demand; non-interest bearing	Unsecured, no guarantee
	2014			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Contract deposits</i>				
DDCP, Affiliate	₱268,874,433	₱268,874,433	On demand; non-interest bearing	Refundable
<i>Due to a related party</i>				
LCMC; Shareholder	₱2,033,518	₱3,764,095	On demand; non-interest bearing	Unsecured, no guarantee

Total compensation of the Group's key management personnel in 2015, 2014 and 2013, which pertains to short-term benefits, amounted to ₱485,450, ₱2,262,450 and ₱2,446,950, respectively. There were no post-employment benefits for the Group's key management personnel in 2015, 2014 and 2013.

#### 14. Administration and Overhead Costs

	2015	2014	2013
Depreciation (Note 9)	₱2,537,394	₱4,110,909	₱4,244,955
Salaries, allowances and other benefits:			
Salaries and wages	1,365,680	1,660,680	1,810,852
Pension Cost (Note 16)	891,783	1,199,114	1,389,675
Other benefits	164,496	296,839	233,092
Outside services	1,258,546	1,461,679	747,566
Listing fees	391,596	276,728	1,228,158
Rent	253,200	253,200	263,475
Repairs and maintenance	236,181	208,620	326,143
Other charges	1,080,522	1,998,547	2,579,195
	₱8,179,398	₱11,466,316	₱12,823,111





# 15. Others

	2015	2014	2013
Provision for impairment losses on:			
Input VAT (Note 7)	P47,585,580	P-	P-
Inventory obsolescence (Note 6)	19,365,776	-	-
Property and equipment (Note 9)	14,539,440	-	-
Receivables (Note 5)	254,454	-	-
Income from inventory obsolescence	(49,807)	(81,339)	-
	P81,695,443	(P81,339)	P-

# 16. Retirement Benefits 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 retirement benefits obligation is determined using the projected unit credit method. There was no planned termination, curtailment or settlement for the years ended December 31, 2015, 2014 and 2013.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The amounts of retirement benefits costs recognized in the consolidated statements of comprehensive income follow:

	2015	2014	2013
Current service costs (Note 14)	P891,783	P1,199,114	P1,389,675
Interest costs	501,745	617,201	873,632
	P1,393,528	P1,816,315	P2,263,307

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

	2015	2014
Balances at beginning of year	P11,051,659	P13,131,936
Current service cost (Note 14)	891,783	1,199,114
Interest costs	501,745	617,201
Pension cost charged to profit or loss	1,393,528	1,816,315
Benefits paid	-	(2,272,859)
Remeasurement loss (gain) on:		
Change in financial assumptions	(383,841)	170,003
Experience adjustment	(41,088)	(1,793,736)
Pension cost charged to other comprehensive income	(424,929)	(1,623,733)
Balances at end of year	P12,020,258	P11,051,659



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

	2015	2014
Discount rate	4.99%	4.54%
Salary increase rate	5.00%	5.00%
Expected remaining working lives of employees	10 years	10 years

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

	Increase (decrease)	2015	2014
Discount rates	0.50%	(P11,624,015)	(P10,697,537)
	(0.50%)	12,448,194	11,427,611
Salary increase rate	0.50%	12,421,914	11,394,351

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2015:

Less than one (1) year to five (5) years	P6,781,563
More than five (5) years to ten (10) years	11,242,155
More than ten (10) years to fifteen (15) years	4,550,344
Sixteen years (16) and up	49,401,696
	<b>P71,975,758</b>

## 17. Income Taxes

No provision for current income tax was recognized since the Parent Company and KCGRI are in gross and net taxable loss position.

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

	2015	2014	2013
Income tax at statutory tax rates	(P27,080,472)	(P3,485,840)	(P3,894,864)
Additions to (reductions in) income tax resulting from:			
Change in unrecognized deferred income taxes	13,283,977	3,401,022	980,872
Expired NOLCO	3,153,650	182,636	2,449,159
Expired excess MCTT	—	178,361	—
Interest income subjected to final tax	(32,504)	(114,814)	(214,159)
Other nondeductible expenses	24,996	8,291	—
	<b>(P10,650,353)</b>	<b>P169,656</b>	<b>(P678,992)</b>





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

	2015	2014
Deferred tax assets:		
Allowance for:		
Impairment losses on property and equipment and idle assets	₱49,635,788	₱45,273,956
Inventory obsolescence	20,418,374	14,624,247
Impairment losses on receivables	248,505	172,169
Retirement benefits obligation	3,606,077	3,315,498
	<u>73,908,744</u>	<u>63,385,870</u>
Deferred tax liability:		
Excess of allowable depletion over depletion per books	129,865,526	129,865,526
Deferred tax liability - net	<u>₱55,956,782</u>	<u>₱66,479,656</u>

Deferred tax liability is mainly provided on taxable temporary differences arising on the difference between normal depletion and allowed depletion under Presidential Decree 1353, Amending Section 30 of the Tax Code to Allow Accelerated Deduction under Certain Conditions of Exploration and Development Expenditures.

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

	2015	2014
Balances at beginning of year	₱34,637,800	₱22,706,524
Additions	7,206,509	12,540,061
Expirations	(10,512,167)	(608,785)
Balances at end of year	<u>₱31,332,142</u>	<u>₱34,637,800</u>

As at December 31, 2015, the Group has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Year of Expiry	Amount	Tax Effect
2011	2016	₱78,361	₱23,508
2012	2017	73,775	22,133
2013	2018	85,681	25,704
2014	2019	63,985	19,196
2015	2020	48,928	14,678
2013	2016	11,347,755	3,404,327
2014	2017	12,476,076	3,742,823
2015	2018	7,157,581	2,147,274
		<u>₱31,332,142</u>	<u>₱9,399,643</u>

As at December 31, 2015 and 2014, the Group has an excess MCIT that can be claimed as tax credit amounting to nil and ₱178,361, respectively. The excess MCIT has expired 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.

	2015	2014
Allowance for impairment losses on mine exploration costs	<b>P92,028,090</b>	P92,028,090
Allowance for impairment losses on input VAT	<b>47,585,580</b>	—
NOLCO	<b>31,332,142</b>	34,637,800
	<b>P170,945,812</b>	P126,665,890

## 18. Equity

### Capital Stock

As at December 31, 2015, details of the Parent Company's Capital stock follow:

	2015		2014	
	No. of shares	Amount	No. of shares	Amount
Issued and outstanding				
Class "A"	155,479,944,728	P1,554,799,447	155,479,944,728	P1,554,799,447
Class "B"	103,576,098,876	1,035,760,989	103,576,098,876	1,035,760,989
	<b>259,056,043,604</b>	<b>2,590,560,436</b>	<b>259,056,043,604</b>	<b>2,590,560,436</b>
Subscribed				
Class "A"	316,141,644	3,161,416	316,141,644	3,161,416
Class "B"	214,603,455	2,146,035	214,603,455	2,146,035
	<b>530,745,099</b>	<b>5,307,451</b>	<b>530,745,099</b>	<b>5,307,451</b>
Total shares issued and subscribed	<b>259,586,788,703</b>	<b>2,595,867,887</b>	<b>259,586,788,703</b>	<b>2,595,867,887</b>
Less subscriptions receivable	—	365,632	—	365,632
	<b>259,586,788,703</b>	<b>P2,595,502,255</b>	<b>259,586,788,703</b>	<b>P2,595,502,255</b>

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.

### Stock Rights Offering

On April 30, 2014, the PSE Board of Directors approved the application covering the Offer Shares of 56,926,927,347, consisting of the following:

	No. of Shares	Offer Price
Class "A"	34,165,808,415	P409,989,701
Class "B"	22,761,118,932	273,133,427
	<b>56,926,927,347</b>	<b>P683,123,128</b>

The offer period was from June 16, 2014 to June 20, 2014.



Proceeds from the issuance of stock rights were used to fund drilling program for the period 2014 to 2015, settlement of debts to suppliers, service providers, and to fund the Company's working capital.

Equity Reserves

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 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 P954,621,275 recognized as "Effect of transaction with non-controlling interests" in the equity section of the consolidated statement of financial position.

As at December 31, 2015, 2014 and 2013, the Parent Company has 4,315, 4,389 and 3,800 stockholders, respectively.

Non-controlling Interest

Non-controlling interest represents interest of Philex in KCGRI. Financial information of the subsidiary that has material non-controlling interests are provided below:

	Principal Place of Business	2015	2014
KCGRI	Philippines	5%	5%

Loss allocated to material non-controlling interest:

	2015	2014
KCGRI	(P2,446)	(3,199)

The summarized financial information of the subsidiary before intercompany eliminations is provided below:

Statement of comprehensive income as of December 31:

	2015	2014
Administration and overhead costs	(P48,928)	(P63,985)
Loss before income tax	(48,928)	(63,985)
Benefit from income tax	—	—
Net loss	(48,928)	(63,985)
Other comprehensive income	—	—
Total comprehensive income	(P48,928)	(P63,985)
Attributable to non-controlling interest	(P2,446)	(P3,199)





Statement of financial position as at December 31:

	2015	2014
Current assets	P112,228	P107,470
Noncurrent assets	2,664,201	2,664,201
Current liabilities	(1,050,140)	(996,454)
Noncurrent liabilities	—	—
Total equity	1,726,289	1,775,217
Attributable to:		
Equity holders of the Parent Company	P1,639,975	(P1,686,456)
Non-controlling interests	86,314	88,761

The Group did not opt to present the statement of cash flows for the years ended December 31, 2015 and 2014 since it is deemed immaterial relative to the consolidated financial statements.

#### 19. Loss Per Share

Basic loss 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.

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, 2015, 2014 and 2013. There were no outstanding stock options as of December 31, 2015, 2014 and 2013.

	2015	2014	2013
Net loss attributable to equity holders of the Parent Company	(P79,615,440)	(P11,785,922)	(P12,299,604)
Weighted average number of common shares for basic loss per share	259,056,043,604	116,597,354,870	201,121,116,257
Adjusted weighted average number of common shares for diluted loss per share	259,056,043,604	116,597,354,870	201,121,116,257
Basic loss per share	(P0.00031)	(P0.00010)	(P0.00006)
Diluted loss per share	(P0.00031)	(P0.00010)	(P0.00006)

#### 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:

	2015		2014	
	Class A	Class B	Class A	Class B
Outstanding at beginning of year	142,800,000	95,200,000	192,000,000	128,000,000
Exercised during the year	—	—	—	—
Cancellation during the year	(142,800,000)	(95,200,000)	(49,200,000)	(32,800,000)
Outstanding at end of year	—	—	142,800,000	95,200,000

## 21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash 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, 2015 and 2014.

	2015	2014
Cash with banks	<b>₱17,766,188</b>	₱71,204,681
Nontrade receivables	<b>634,667</b>	3,040,871
Miscellaneous deposits	<b>2,867,694</b>	3,191,972
Contract deposits	<b>255,000,000</b>	268,874,434
AFS financial assets		
Quoted	<b>13,545,267</b>	14,557,270
Unquoted	<b>7,500,000</b>	7,500,000
<b>Total credit risk exposure</b>	<b>₱297,313,816</b>	₱368,369,228

The tables below summarize the aging analysis of the Group's financial assets as at December 31, 2015 and 2014:

2015	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	₱17,766,188	₱-	₱-	₱-	₱-	₱17,766,188
Nontrade receivables	634,667	-	-	-	-	634,667
Miscellaneous deposits	1,185,628	-	-	-	1,682,066	2,867,694
Contract deposits	255,000,000	-	-	-	-	255,000,000
AFS financial assets	21,045,267	-	-	-	-	21,045,267
	<b>₱295,631,750</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,682,066</b>	<b>₱297,313,816</b>

2014	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	₱71,204,681	₱-	₱-	₱-	₱-	₱71,204,681
Nontrade receivables	3,040,871	-	-	-	-	3,040,871
Miscellaneous deposits	1,509,906	-	-	-	1,682,066	3,191,972
Contract deposits	268,874,434	-	-	-	-	268,874,434
AFS financial assets	22,057,270	-	-	-	-	22,057,270
	<b>₱366,687,162</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,682,066</b>	<b>₱368,369,228</b>

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

- Cash with banks 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.
- Nontrade receivables which mainly pertain to receivables from subcontractors and are assessed as high grade. These were assessed as such since historical experience shows collection of accounts and offsetting of deposits made by the counterparty.
- Miscellaneous and contract deposits consist of advances to related parties and various suppliers and are assessed as high grade since these have high probability of collection through application of outstanding amount against future billings.
- 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\$ 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, 2015 and 2014:

	2015		2014	
	United States Dollar	Peso Equivalent	United States Dollar	Peso Equivalent
Cash	\$4,604	₱216,664	\$4,589	₱205,220

The exchange rate of the Philippine peso to the US dollar is ₱47.06 and ₱44.72 as at December 31, 2015 and 2014, respectively.

Since the amounts of above foreign currency denominated financial assets are immaterial relative to the financial statements, management opted not to disclose the foreign currency risk sensitivity analysis for 2015 and 2014.

### 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 financial assets. The Group's exposure to equity price risk relates primarily to its AFS financial assets 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.

The effect on equity (as a result of change in fair value of equity instruments held as AFS investments at December 31, 2015 and 2014) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2015	2014
Change in basis points	2.45%	2.18%
Effect on fund balance	₱150,710	₱216,478



### 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, 2015 and 2014 that are used to manage the liquidity risk of the Group:

2015	On demand	Less than 3 months	Total
Cash	₱17,876,188	₱—	₱17,876,188
Nontrade receivables	634,667	—	634,667
Miscellaneous deposits	1,185,628	—	1,185,628
Contract deposits	255,000,000	—	255,000,000
AFS financial assets	21,045,267	—	21,045,267
<b>Total</b>	<b>₱295,741,750</b>	<b>₱—</b>	<b>₱295,741,750</b>

2014	On demand	Less than 3 months	Total
Cash	₱71,314,681	₱—	₱71,314,681
Nontrade receivables	3,040,871	—	3,040,871
Miscellaneous deposits	1,509,906	—	1,509,906
Contract deposits	268,874,434	—	268,874,434
AFS financial assets	22,057,270	—	22,057,270
<b>Total</b>	<b>₱366,797,162</b>	<b>₱—</b>	<b>₱366,797,162</b>

The tables below summarize the maturity profile of the Group's financial liabilities as at December 31, 2015 and 2014 based on contractual undiscounted payments.

2015	On demand	Less than 3 months	Total
Accounts payable and accrued expenses	₱136,718,960	₱—	₱136,718,960
Unclaimed dividends	573,097	—	573,097
<b>Total</b>	<b>₱137,292,057</b>	<b>₱—</b>	<b>₱137,292,057</b>



2014	On demand	Less than 3 months	Total
Accounts payable and accrued expenses	₱138,801,895	₱—	₱138,801,895
Unclaimed dividends	573,097	—	573,097
<b>Total</b>	<b>₱139,374,992</b>	<b>₱—</b>	<b>₱139,374,992</b>

#### 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, Nontrade Receivables, Accounts Payable and Accrued Expenses and Nontrade Payables*

The carrying amounts of cash, 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, 2015 and 2014, the Company's quoted equity securities fair value is at Level 1.

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, 2015 and 2014, respectively.

There were no purchases, sales, issues and settlements of Level 3 AFS financial assets in 2015 and 2014.

## **22. 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 2015. The Group is not exposed to externally imposed capital requirements.

As at December 31, 2015 and 2014, the Group's capital is composed of the following:

	2015	2014
Capital Stock	₱2,595,502,255	₱2,595,502,255
Additional paid-in capital	617,625,955	617,625,955
	<b>₱3,213,128,210</b>	<b>₱3,213,128,210</b>





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### 23. Segment Reporting

As discussed in Note 1, the Parent Company and its 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.

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### 24. Notes to Statements of Cash Flow

Noncash financing activities pertain to disposal of property and equipment amounting to ₱1,946,929 and nil as at December 31, 2015 and 2014, respectively.

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### 25. Other Matters

- 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, 2015 and 2014.
- 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 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 delay the processing of the Company's 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.
- On March 7, 2013, the MGB has recommended with the DENR the lifting of DENR Memorandum Order No. 2011-01 on the suspension of acceptance of all types of mining applications. Effective March 18, 2013, MGB has started accepting mining applications for EPs and Financial or Technical Assistance Agreement (FTAA) pursuant to DENR Administrative Order (DAO) No. 2013-11.
- Certain accounts in the 2014 and 2013 consolidated financial statements were reclassified to conform with the 2015 presentation. Management believes that this presentation will provide more reliable and relevant information to the users of the consolidated financial statements.



# CORPORATE DIRECTORY



Manila Mining Corporation

DIRECTORS	PLACER STAFF		MAKATI - BASED STAFF
<b>FELIPE U. YAP</b> <b>BRYAN U. YAP</b> <b>EDUARDO A. BANGAYAN</b> <b>RENE F. CHANYUNGCO</b> <b>ETHELWOLDO E. FERNANDEZ</b> <b>DOUGLAS KIRWIN</b> <b>RODOLFO S. MIRANDA</b> <b>PATRICK K. YAP</b> <b>STEPHEN Y. YAP</b>	<b>SEGUNDO A. VILLANUEVA**</b> Officer-In-Charge Engineering and Technical Services Manager  <b>ROBERTO A. MABINI</b> Exploration Manager  <b>ANGELINE B. ABRENICA</b> Sr. Geologist - Resource  <b>ANTONIO C. OLARTE</b> Sr. Field Geologist  <b>SUNSHINE F. ELAN</b> Sr. Geologist - Corehouse  <b>VERNIE S. REYES</b> Environmental Supt.  <b>EDGARDO D. CEREDON</b> Sr. Mining Engineer  <b>DELIA I. ALIPAO</b> Officer-In-Charge Assay  <b>FLORIGER E. VARONA</b> Officer-In-Charge General Services  <b>EDITO C. ESPANTO</b> PED Controller  <b>JOBELLE C. CABRERA</b> <b>ROWENA F. BANSILOY</b> Field Geologist  <b>EDGARDO P. ACILO</b> Safety Inspector	<b>TESSIE T. SARDOVIA</b> Finance Manager  <b>ISAGANI C. SULAPAS</b> Officer-In-Charge Administrative Services  <b>LEONILLO B. DELUVIO</b> Officer-In-Charge Security  <b>SHARVIN RAY M. FRANCISCO</b> Asst. Mine Chief Accountant  <b>FLORIFE M. PAREL</b> Asst. Head Administration Services  <b>MELBA P. ESPANTO</b> Mine Treasury/Cashier  <b>LUCITA S. REBUCAS</b> Inventory Control Officer  <b>LELAND TERESITO P. QUIROS</b> Company Nurse  <b>VANESSA D. SAYSON</b> HR Supervisor  <b>MARK RAYMOND B. AÑORA</b> Land Documentation/ Negotiation In-charge  <b>ATTY. VICTOR F. BERNAL</b> Legal Retainer	<b>JOSEPHINE DC. SUBIDO</b> Chief Accountant  <b>RICO LAURENCE D. CAYABYAB</b> Accountant  <b>ROMMEL R. DELA CRUZ</b> Accounting / MIS Assistant  <b>ANTONIO P. OPEÑA</b> Purchasing Officer  <b>AUDITORS</b> Sycip Gorres Velayo & Co. 6760 Ayala Avenue 1226 Makati City  <b>TRANSFER AGENT</b> Stock Transfer Service Inc. 34/F Unit D. Rufino Pacific Tower 6787 Ayala Mkt. City  <b>GENERAL COUNSEL</b> Sycip, Salazar, Hernandez & Gatmaitan Law Offices  <b>BANKS</b> Bank of the Phil. Islands Banco de Oro Unibank China Banking Corporation  <b>EXECUTIVE OFFICES</b> 20 <sup>th</sup> Floor, Lepanto Bldg. 8747 Paseo de Roxas Makati City 1226 Tel. 815-9447 Fax 894-6265  <b>MAILING ADDRESSES</b> 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  <b>MINESITE OFFICE</b> Barangay Magsaysay Placer, Surigao del Norte
<b>CORPORATE OFFICERS</b>  <b>FELIPE U. YAP</b> Chairman of the Board and Chief Executive Officer  <b>BRYAN U. YAP</b> President / Chief Operating Officer  <b>RENE F. CHANYUNGCO</b> Sr. Vice President-Treasurer Compliance Officer – Good Governance  <b>ETHELWOLDO E. FERNANDEZ</b> Corporate Secretary  <b>PATRICK K. YAP</b> Senior Vice President  <b>PABLO T. AYSON</b> Vice President  <b>STEPHEN Y. YAP</b> Vice President  <b>KNESTOR JOSE Y. GODINO</b> Asst. Vice President for Human Resource  <b>MA. LOURDES B. TUASON</b> Asst. Treasurer  <b>ODETTE A. JAVIER</b> Asst. Corporate Secretary  <b>MARIO L. LAVENTE*</b> Financial Controller  <b>VLADIMIR B. BUMATAY</b> Manager, Legal Services			

\*Retired Feb 2016

\*\*Officer in charge effective Dec 1, 2014