COVER SHEET

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SEC Registration Number

PHILEX MINING CORPORATION AND SUBSIDIARIES

(Company's Full Name)

Philex Building, 27 Brixton corner Fairlane Streets, Pasig City

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

Danny Y. Yu

(Contact Person)

(632) 631-1381

(Company Telephone Number)

1 2	3 1
Month	*Day*

(Calendar Year)

A A C F S

(Form Type)

Month	*Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Not Applicable

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

44,533

Total No. of Stockholders

₱2,569,750,000	**₱3,661,633,000**
Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
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Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation
Philex Building
27 Brixton corner Fairlane Streets
Pasig City

We have audited the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

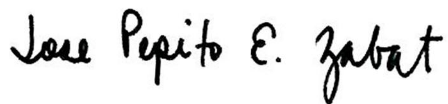
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-2 (Group A),
March 1, 2012, valid until March 1, 2015
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225235, January 2, 2014, Makati City

February 26, 2014

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands, Except Par Value Per Share)

	December 31		
	2013	2012 (As restated, see Note 2)	January 1, 2012 (As restated, see Note 2)
ASSETS			
Current Assets			
Cash and cash equivalents (Note 6)	**₱4,080,512**	₱1,669,542	₱3,947,295
Accounts receivable (Notes 7, 20 and 22)	**295,451**	207,749	1,595,629
Inventories (Note 8)	**2,668,274**	1,314,851	1,118,667
Derivative assets (Note 20)	**–**	–	904,701
Prepaid income tax (Note 24)	**–**	166,467	–
Other current assets (Note 9)	**1,343,245**	997,340	765,334
Total Current Assets	**8,387,482**	4,355,949	8,331,626
Noncurrent Assets			
Property, plant and equipment (Note 10)	**6,880,096**	6,035,174	5,399,716
Available-for-sale (AFS) financial assets (Note 11)	**975,380**	3,990,761	5,428,069
Goodwill (Note 4)	**1,208,020**	258,593	258,593
Deferred income tax assets - net (Note 24)	**11,818**	–	12,720
Deferred exploration costs and other noncurrent assets (Notes 1, 12 and 18)	**22,427,186**	14,631,528	12,970,879
Total Noncurrent Assets	**31,502,500**	24,916,056	24,069,977
TOTAL ASSETS	**₱39,889,982**	₱29,272,005	₱32,401,603
LIABILITIES AND EQUITY			
Current Liabilities			
Loans payable - current (Note 13)	**₱6,176,369**	₱1,450,000	₱350,000
Accounts payable and accrued liabilities (Note 14)	**2,321,301**	1,095,550	1,160,205
Income tax payable (Note 24)	**11,519**	–	376,006
Dividends payable (Note 25)	**460,650**	483,257	325,333
Provisions and subscriptions payable (Notes 1, 11 and 31)	**805,108**	1,589,578	317,111
Derivative liabilities (Note 20)	**–**	–	47,270
Total Current Liabilities	**9,774,947**	4,618,385	2,575,925
Noncurrent Liabilities			
Deferred income tax liabilities - net (Notes 4 and 24)	**3,916,378**	2,327,129	2,587,131
Loans payable - net of current portion (Note 13)	**55,014**	–	–
Pension obligation (Note 18)	**21,598**	44,966	108,039
Provision for losses and mine rehabilitation costs (Notes 10 and 31)	**204,791**	190,523	191,506
Total Noncurrent Liabilities	**4,197,781**	2,562,618	2,886,676
Total Liabilities	**13,972,728**	7,181,003	5,462,601
Equity Attributable to Equity Holders of the Parent Company			
Capital stock - ₱1 par value (Note 25)	**4,936,996**	4,933,027	4,929,751
Additional paid-in capital	**1,058,497**	963,867	887,290
Retained Earnings (Note 25)			
Unappropriated	**4,128,826**	13,578,086	15,980,594
Appropriated	**10,000,000**	–	–
Net unrealized gain on AFS financial assets (Notes 11 and 24)	**4,689**	601,055	2,020,940
Cumulative translation adjustments (Notes 20 and 24)	**25,116**	(41,785)	495,019
Net revaluation surplus (Note 4)	**1,611,397**	1,611,397	1,611,397
Effect of transactions with non-controlling interests (Note 2)	**45,099**	45,099	106,027
	21,810,620	21,690,746	26,031,018
Non-controlling interests (Note 25)	**4,106,634**	400,256	907,984
Total Equity	**25,917,254**	22,091,002	26,939,002
TOTAL LIABILITIES AND EQUITY	**₱39,889,982**	₱29,272,005	₱32,401,603

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2013	2012 (As restated, see Note 2)	2011 (As restated, see Note 2)
REVENUE (Notes 7, 20 and 30)			
Gold	**₱5,581,587**	₱4,946,041	₱9,294,021
Copper	**4,579,757**	3,865,704	6,091,803
Silver	**82,063**	79,571	187,893
	10,243,407	8,891,316	15,573,717
Less marketing charges	**659,536**	439,771	810,467
	9,583,871	8,451,545	14,763,250
Petroleum	**191,243**	191,003	551,568
Coal	**17,530**	48,030	1,288
Others	**9,612**	7,011	7,843
	9,802,256	8,697,589	15,323,949
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 15)	**5,457,881**	3,473,183	5,257,916
General and administrative expenses (Note 15)	**1,311,059**	1,148,291	1,038,143
Mine products taxes and royalties (Note 15)	**536,522**	454,858	854,229
Petroleum production costs	**87,895**	98,245	175,883
Handling, hauling and storage	**69,003**	59,339	63,723
Cost of coal sales	**17,770**	35,238	1,210
	7,480,130	5,269,154	7,391,104
OTHER INCOME (CHARGES)			
Insurance proceeds (Note 31)	**1,017,125**	–	–
Impairment on AFS financial assets (Note 11)	**(1,006,508)**	–	–
Padcal maintenance costs during suspension of operations (Notes 1 and 15)	**(439,590)**	(912,107)	–
Interest expense (Notes 10 and 13)	**(416,360)**	(44,355)	(36,161)
Impairment loss on deferred exploration costs and others (Notes 7, 8, 10 and 12)	**(297,585)**	(1,023,376)	(170,772)
Gain on sale of subsidiaries and AFS financial assets (Note 3 and 11)	**273,464**	–	–
Foreign exchange losses - net	**(173,972)**	(164,716)	(14,681)
Provision for rehabilitation and other costs (Notes 1 and 31)	**(161,400)**	(1,446,859)	–
Reversal of impairment of inventories (Note 8)	**62,682**	–	–
Interest income (Note 6)	**26,060**	58,201	86,017
Marked to market gains (Note 20)	**–**	307,928	–
Gain on dilution of interests in associates (Note 11)	**–**	–	523,710
Equity in net losses of associates (Note 11)	**–**	–	(44,116)
Others - net (Notes 11, 12, 20 and 31)	**(130,990)**	33,599	(156,773)
	(1,247,074)	(3,191,685)	187,224
INCOME BEFORE INCOME TAX	**1,075,052**	236,750	8,120,069

(Forward)

	Years Ended December 31		
	2013	2012 (As restated, see Note 2)	2011 (As restated, see Note 2)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	**₱255,703**	₱551,979	₱1,877,452
Deferred	**506,954**	(4,390)	450,156
	762,657	547,589	2,327,608
NET INCOME (LOSS)	**₱312,395**	(₱310,839)	₱5,792,461
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱341,932**	₱208,733	₱5,763,795
Non-controlling interests (Note 25)	**(29,537)**	(519,572)	28,666
	₱312,395	(₱310,839)	₱5,792,461
Basic Earnings Per Share (Note 27)	**₱0.069**	₱0.042	₱1.170
Diluted Earnings Per Share (Note 27)	**₱0.069**	₱0.042	₱1.169

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2013	2012 (As restated, see Note 2)	2011 (As restated, see Note 2)
NET INCOME (LOSS)	**₱312,395**	(₱310,839)	₱5,792,461
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)	**(1,620,140)**	(1,433,104)	1,601,536
Realized loss on impairment of AFS investments (Note 11)	**1,006,508**	–	–
Gain (loss) on translation of foreign subsidiaries	**210,071**	(117,795)	(20,598)
Realized loss on sale of AFS financial assets (Note 11)	**30,485**	–	–
Realized loss (gain) on fair value of hedging instruments transferred to the consolidated statements of income - net of related deferred income tax (Note 20)	–	(499,496)	574,168
	(373,076)	(2,050,395)	2,155,106
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans - net of income tax effect (Note 17)	**207,671**	2,601	(82,983)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(165,405)**	(2,047,794)	2,072,123
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱146,990**	(₱2,358,633)	₱7,864,584
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱21,275**	(₱1,745,356)	₱7,843,541
Non-controlling interests (Note 25)	**125,715**	(613,277)	21,043
	₱146,990	(₱2,358,633)	₱7,864,584

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company										
			Retained Earnings (Note 25)								
	Capital Stock (Note 25)	**Additional Paid-In Capital**	**Unappropriated**	**Appropriated**	**Net Unrealized Gain (Loss) on AFS Financial Assets** (Notes 11 and 24)	**Cumulative Translation Adjustments** (Notes 20 and 24)	**Net Revaluation Surplus** (Note 4)	**Effect of Transactions with Non-controlling Interests** (Note 2)	**Subtotal**	**Non-controlling Interests** (Note 25)	**Total**
BALANCES AT DECEMBER 31, 2010 (As previously presented)	₱4,922,131	₱812,378	₱12,716,722	₱–	₱419,404	(₱66,174)	₱1,611,397	₱106,027	₱20,521,885	₱236,085	₱20,757,970
Effect of change in accounting for employee benefits, net of tax (Note 2)	–	–	(22,054)	–	–	–	–	–	(22,054)	–	(22,054)
BALANCES AT DECEMBER 31, 2010 (As restated)	₱4,922,131	₱812,378	₱12,694,668	₱–	₱419,404	(₱66,174)	₱1,611,397	₱106,027	₱20,499,831	₱236,085	₱20,735,916
Net income	–	–	5,763,795	–	–	–	–	–	5,763,795	28,666	5,792,461
Other comprehensive income (loss):											
Items to be reclassified to profit or loss in subsequent periods:											
Movement in fair value of hedging instruments - net of related deferred income tax (Note 20)	–	–	–	–	–	574,168	–	–	574,168	–	574,168
Unrealized gain on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	–	1,601,536	–	–	–	1,601,536	–	1,601,536
Loss on translation of foreign subsidiaries	–	–	–	–	–	(12,975)	–	–	(12,975)	(7,623)	(20,598)
Items not to be reclassified to profit or loss in subsequent periods:											
Remeasurements of net defined benefit losses, net of tax (Note 18)	–	–	(82,983)	–	–	–	–	–	(82,983)	–	(82,983)
Total comprehensive income	–	–	5,680,812	–	1,601,536	561,193	–	–	7,843,541	21,043	7,864,584
Increase in paid-in capital due to exercise of stock option (Note 25)	7,620	24,947	–	–	–	–	–	–	32,567	–	32,567
Increase in additional paid-in capital due to stock option plan (Note 25)	–	49,965	–	–	–	–	–	–	49,965	–	49,965
Declaration of cash dividends and property dividends (Note 25)	–	–	(2,401,287)	–	–	–	–	–	(2,401,287)	650,856	(1,750,431)
Deemed acquisition of shares of stock	–	–	6,401	–	–	–	–	–	6,401	–	6,401
BALANCES AT DECEMBER 31, 2011 (As restated)	₱4,929,751	₱887,290	₱15,980,594	₱–	₱2,020,940	₱495,019	₱1,611,397	₱106,027	₱26,031,018	₱907,984	₱26,939,002

	Equity Attributable to Equity Holders of the Parent Company										
			Retained Earnings (Note 25)								
	Capital Stock (Note 25)	**Additional Paid-In Capital**	**Unappropriated**	**Appropriated**	**Net Unrealized Gain (Loss) on AFS Financial Assets** (Notes 11 and 24)	**Cumulative Translation Adjustments** (Notes 20 and 24)	**Net Revaluation Surplus** (Note 4)	**Effect of Transactions with Non-controlling Interests** (Note 2)	**Subtotal**	**Non-controlling Interests** (Note 25)	**Total**
BALANCES AT DECEMBER 31, 2011 (As previously presented)	₱4,929,751	₱887,290	₱16,093,059	₱–	₱2,020,940	₱495,019	₱1,611,397	₱106,027	₱26,143,483	₱907,984	₱27,051,467
Effect of change in accounting for employee benefits, net of tax (Note 2)	–	–	(112,465)	–	–	–	–	–	(112,465)	–	(112,465)
BALANCES AT DECEMBER 31, 2011 (As restated)	₱4,929,751	₱887,290	₱15,980,594	₱–	₱2,020,940	₱495,019	₱1,611,397	₱106,027	₱26,031,018	₱907,984	₱26,939,002
Net income (loss)	–	–	208,733	–	–	–	–	–	208,733	(519,572)	(310,839)
Other comprehensive income (loss):											
Items to be reclassified to profit or loss in subsequent periods:											
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	–	(1,419,885)	–	–	–	(1,419,885)	(13,219)	(1,433,104)
Movement in fair value of hedging instruments - net of related deferred income tax (Note 20)	–	–	–	–	–	(499,496)	–	–	(499,496)	–	(499,496)
Loss on translation of foreign subsidiaries	–	–	–	–	–	(37,308)	–	–	(37,308)	(80,487)	(117,795)
Items not to be reclassified to profit or loss in subsequent periods:											
Remeasurements of net defined benefit gains, net of tax	–	–	2,601	–	–	–	–	–	2,601	–	2,601
Total comprehensive income	–	–	211,334	–	(1,419,885)	(536,804)	–	–	(1,745,355)	(613,278)	(2,358,633)
Increase in paid-in capital due to exercise of stock option and others (Note 25)	3,276	55,297	–	–	–	–	–	–	58,573	–	58,573
Increase in additional paid-in capital due to stock option plan (Note 25)	–	21,280	–	–	–	–	–	–	21,280	–	21,280
Deemed acquisitions / disposals of shares of stock of non-controlling interest in subsidiaries (Note 2)	–	–	–	–	–	–	–	(60,928)	(60,928)	105,550	44,622
Declaration of cash dividends (Note 25)	–	–	(2,613,842)	–	–	–	–	–	(2,613,842)	–	(2,613,842)
BALANCES AT DECEMBER 31, 2012 (As restated)	₱4,933,027	₱963,867	₱13,578,086	₱–	₱601,055	(₱41,785)	₱1,611,397	₱45,099	₱21,690,746	₱400,256	₱22,091,002

	Equity Attributable to Equity Holders of the Parent Company										
			Retained Earnings (Note 25)								
	Capital Stock (Note 25)	**Additional Paid-In Capital**	**Unappropriated**	**Appropriated**	**Net Unrealized Gain (Loss) on AFS Financial Assets** (Notes 11 and 24)	**Cumulative Translation Adjustments** (Notes 20 and 24)	**Net Revaluation Surplus** (Note 4)	**Effect of Transactions with Non-controlling Interests** (Note 2)	**Subtotal**	**Non-controlling Interests** (Note 25)	**Total**
BALANCES AT DECEMBER 31, 2012 (As previously presented)	**₱4,933,027**	**₱963,867**	**₱13,704,164**	₱–	**₱601,055**	**(₱41,785)**	**₱1,611,397**	**₱45,099**	**₱21,816,824**	**₱400,256**	**₱22,217,080**
Effect of change in accounting for employee benefits, net of tax (Note 2)	–	–	**(126,078)**	–	–	–	–	–	**(126,078)**	–	**(126,078)**
BALANCES AT DECEMBER 31, 2012 (As restated)	**₱4,933,027**	**₱963,867**	**₱13,578,086**	₱–	**₱601,055**	**(₱41,785)**	**₱1,611,397**	**₱45,099**	**₱21,690,746**	**₱400,256**	**₱22,091,002**
Net income (loss)	–	–	**341,932**	–	–	–	–	–	**341,932**	**(29,537)**	**312,395**
Other comprehensive income (loss):											
Items to be reclassified to profit or loss in subsequent periods:											
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	–	**(1,620,140)**	–	–	–	**(1,620,140)**	–	**(1,620,140)**
Realized loss on AFS financial assets due to impairment	–	–	–	–	**1,006,508**	–	–	–	**1,006,508**	–	**1,006,508**
Realized loss on sale of AFS financial assets	–	–	–		**17,266**	–	–	–	**17,266**	**13,219**	**30,485**
Loss on translation of foreign subsidiaries	–	–	–	–	–	**66,901**	–	–	**66,901**	**143,170**	**210,071**
Items not to be reclassified to profit or loss in subsequent periods:											
Remeasurements of net defined benefit gains, net of tax	–	–	**208,808**	–	–	–	–	–	**208,808**	**(1,137)**	**207,671**
Total comprehensive income	–	–	**550,740**	–	**(596,366)**	**66,901**	–	–	**21,275**	**125,715**	**146,990**
Increase in paid-in capital due to exercise of stock option and others (Note 25)	**3,969**	**10,497**	–	–	–	–	–	–	**14,466**	–	**14,466**
Increase in additional paid-in capital due to stock option plan (Note 25)	–	**84,133**	–	–	–	–	–	–	**84,133**	–	**84,133**
Increase in minority due to acquisition of Pitkin Petroleum Plc (PPP) (Note 4)	–	–	–	–	–	–	–	–	–	**3,580,663**	**3,580,663**
Appropriation during the year	–	–	**(10,000,000)**	**₱10,000,000**	–	–	–	–	–	–	–
BALANCES AT DECEMBER 31, 2013	**₱4,936,996**	**₱1,058,497**	**₱4,128,826**	**₱10,000,000**	**₱4,689**	**₱25,116**	**₱1,611,397**	**₱45,099**	**₱21,810,620**	**₱4,106,634**	**₱25,917,254**

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

		Years Ended December 31	
	2013	2012 (As restated, see Note 2)	2011 (As restated, see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,075,052**	₱236,750	₱8,120,069
Adjustments for:			
Depletion and depreciation (Note 15)	**1,447,592**	778,995	770,289
Impairment loss on AFS financial assets (Note 11)	**1,006,508**	–	–
Interest expense (Notes 10 and 13)	**416,360**	44,355	36,161
Unrealized foreign exchange losses (gains) and others - net	**378,672**	(52,474)	(77,519)
Impairment loss on deferred exploration costs and others (Notes 7, 8, 10 and 12)	**297,934**	1,023,376	170,772
Gain on sale of subsidiaries	**(246,597)**	–	–
Provision for rehabilitation, clean up and other costs (Notes 1 and 31)	**161,400**	1,446,859	–
Stock-based compensation expense (Note 26)	**84,132**	21,280	49,965
Gain on disposal of AFS financial assets (Note 11)	**(26,867)**	–	(77)
Interest income (Note 6)	**(26,060)**	(58,201)	(86,017)
Gain on dilution of interest in an associate (Note 11)	**–**	–	(523,710)
Equity in net losses of associates (Note 11)	**–**	–	44,116
Gain on disposal of property and equipment	**–**	–	(324)
Operating income before working capital changes	**4,568,126**	3,440,940	8,503,725
Decrease (increase) in:			
Inventories	**(1,469,759)**	(392,891)	(25,242)
Accounts receivable	**(63,279)**	1,342,408	576,843
Pension assets	**(38,955)**	(82,520)	(52,219)
Other current assets	**(345,905)**	(235,659)	(78,688)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**1,216,999**	90,194	162,021
Provisions and subscriptions payable	**(933,528)**	(195,645)	(175,578)
Pension obligation	**15,278**	23,164	10,612
Cash generated from operations	**2,948,977**	3,989,991	8,921,474
Interest received	**41,757**	41,515	93,664
Interest paid	**(442,220)**	(23,645)	(16,081)
Income taxes paid	**(77,717)**	(1,094,452)	(2,358,400)
Net cash flows from operating activities	**2,470,797**	2,913,409	6,640,657
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deferred exploration costs and other noncurrent assets	**(3,778,195)**	(1,896,122)	(2,075,491)
Additions to:			
Property, plant and equipment (Note 10 and 13)	**(2,309,854)**	(2,104,626)	(1,347,344)
AFS financial assets	**–**	(20,680)	(1,716,388)
Net proceeds from sale of:			
Subsidiaries	**2,097,815**	–	–
AFS financial assets	**167,999**	–	280
Property, plant and equipment	**–**	90,288	43,461
Acquisition of additional interests in PPP (net of cash acquired):	**(629,953)**	–	–
Net cash flows used in investing activities	**(4,452,188)**	(3,931,140)	(5,095,482)

(Forward)

		Years Ended December 31	
	2013	2012 (As restated, see Note 2)	2011 (As restated, see Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of short-term loans (Note 13)	**7,769,313**	₱1,100,000	₱2,553,985
Exercise of stock options and others (Note 25)	**14,467**	103,195	32,567
Payments of:			
Short-term bank loans (Note 13)	**(3,374,935)**	–	(2,353,985)
Dividends (Note 25)	**(22,607)**	(2,455,918)	(1,632,973)
Net cash flows provided by (used in) financing activities	**4,386,238**	(1,252,723)	(1,400,406)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**6,123**	(7,299)	20,278
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,410,970**	(2,277,753)	165,047
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,669,542**	3,947,295	3,782,248
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱4,080,512**	₱1,669,542	₱3,947,295

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information, Business Operations and Authorization for Issue of the Financial Statements

Corporate Information

Philex Mining Corporation and its subsidiaries are organized into two main business groupings: the metals business under Philex Mining Corporation, and the energy and hydrocarbon business under Philex Petroleum Corporation.

Philex Mining Corporation (the Parent Company or PMC) was incorporated on July 19, 1955 in the Philippines and is listed in the Philippine Stock Exchange on November 23, 1956. Having reached the end of its 50 years corporate life, the Parent Company's Philippine Securities and Exchange Commission (SEC) registration was renewed on July 23, 2004. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary through a holding company and incorporated in the Philippines), Lascogon Mining Corporation (LMC), (a subsidiary of PGPI and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary directly by the Parent Company and through a holding company and PGPI, and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI, a wholly-owned subsidiary directly by the Parent Company and through SMECI, and incorporated in the Philippines) are all primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. LMC conducts exploration work on Taganaan, Surigao del Norte. SMMCI owns the Silangan Project covering the Boyongan and Bayugo deposits, which are under pre-feasibility study stage as of December 31, 2013.

Philex Petroleum Corporation (PPC, a 64.8% owned subsidiary of the Parent Company and incorporated in the Philippines) and its subsidiaries: Forum Energy plc (FEP, 60.5% owned and registered in England and Wales) and its subsidiaries, Pitkin Petroleum Plc. (PPP, 50.3% owned and incorporated and registered in United Kingdom of Great Britain and Northern Ireland) and its subsidiaries and FEC Resources, Inc. (FEC, 51.2% owned and incorporated in Canada) are engaged primarily in oil and gas operation and exploration activities, holding participations in oil and gas production and exploration activities through their investee companies. Brixton Energy & Mining Corporation (BEMC), a wholly-owned subsidiary of PPC and incorporated in the Philippines commenced operation of its coal mine in Diplahan, Zamboanga Sibugay in November 2010 but suspended operation in December 2012. On August 23, 2013, BEMC informed the Department of Energy of the closure, abandon and management plan of PPC due to negative returns of its coal mine operations. The closure of BEMC's coal mine is expected to be completed in the first quarter of 2014.

The foregoing companies are collectively referred to as the "Group" (see Note 2) whose income is derived mainly from the Padcal Mine. Income from petroleum and coal and other sources are relatively insignificant.

The Parent Company's registered business address is Philex Building, 27 Brixton corner Fairlane Streets, Pasig City.

Executive Order (EO) 79
On July 12, 2012, EO 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 Padcal operations since the mine is covered by an existing Mineral Production Sharing Agreement (MPSA) with the government. Section 1 of EO 79, provides that mining contracts approved before the effectivity of the EO shall continue to be valid, binding, and enforceable so long as they strictly comply with existing laws, rules and regulations and the terms and conditions of their grant. The EO could, however, delay or adversely affect the conversion of the Group's mineral properties covered by Exploration Permits (EPs) or Exploration Permit Applications (EPAs) or Application for Production Sharing Agreements (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 Mines and Geosciences Bureau (MGB) has recommended with the Department of Environment and Natural Resources (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 FTAA pursuant to DENR Administrative Order (DAO) No. 2013-11.

Status of Business Operations
Padcal Mine Operations
The Parent Company has the Padcal Mine as its main source of revenue from its metals business segment. The Padcal Mine is on its 56th year of operation producing copper concentrates containing gold, copper and silver.

At around midnight of August 1, 2012, the Parent Company voluntarily suspended its operations of the Padcal Mine after tailings were accidentally discharged from the underground tunnel of Penstock A being used to drain water from Tailings Storage Facility (TSF) No. 3 of the mine. The incident followed the unabated and historically unprecedented heavy rains during the last two weeks of the preceding month from the two typhoons that brought unusual and heavy accumulation of rain water in TSF No. 3. The suspension of the mine's operations was formalized at around 8 p.m. of the following day, August 2, 2012, when the Mines and Geosciences Bureau (MGB) ordered the Padcal Mine to stop operations until such time as the safety and integrity of its tailings storage facility is assured. The discharge of tailings was fully stopped with the plugging of the sinkhole in one of the two penstocks used in the water management system of TSF no. 3 and the sealing of the underground tunnel of the affected penstock in November 2012. This has allowed the Padcal Mine to start conducting the necessary remediation and rehabilitation program (which includes the rehabilitation of TSF No. 3 and the construction of an open spillway in place of the existing penstock system for water management, and the undertaking of remediation and rehabilitation measures in the areas affected by the tailings spill) relative to the resumption of its operations. In an Order dated February 25, 2013, the PAB lifted its Cease and Desist Order dated November 28, 2012 effective for four months and imposed compliance on certain reportorial matters. On February 26, 2013, MGB lifted its suspension order and allowed the Padcal Mine to operate for a period of four months in order to undertake further remediation measures on TSF No. 3. Before the expiration of the four-month period, the Parent Company moved for a further extension of the four-month period with both the MGB and PAB, respectively. On July 5, 2013, the MGB advised the Parent Company that it is authorized to continue implementing such remediation measures in the meantime that the former is thoroughly reviewing the pertinent technical details, subject to the Mineral Industry Coordinating Council's (MICC) guidance.

On the same date, the PAB issued an Order extending the temporary lifting of the issued Cease and Desist Order issued last November 28, 2013 to allow the Parent Company to implement its Pollution Control Program.

On February 18, 2013, the Parent Company paid ₱1,034,358 Mine Waste and Tailings Fee to MGB in connection with the TSF No. 3 as provided for under DAO No. 2010-21 implementing the provisions of the Philippine Mining Act of 1995, which fee the Parent Company has provided for in the accounts as of December 31, 2012. The PAB has likewise assessed the Parent Company the amount of ₱92,800 and counting for alleged violations of the Clean Water Act of 2004, which the Parent Company has challenged and is the subject of a motion for reconsideration and supplemental motion for reconsideration pending before the PAB. Other provisions for the remediation and rehabilitation of T SF No. 3 and the areas affected by the tailings spill have also been made in the 2012 accounts.

The Parent Company implemented remedial measures that addressed the tailings spill incident in 2012 and, to its knowledge, has completed all regulatory requirements needed for the company to resume normal operations.

The Parent Company awaits the government's report and the Mining Industry Coordinating Council's (MICC's) recommendation on the status of its rehabilitation and clean-up efforts, based on the understanding of the nature of the incident and the direct and indirect interventions surrounding it. As of December 31, 2013, the motion for reconsideration and supplemental motion for reconsideration related to the Parent Company's alleged violations of the Clean Water Act of 2004, remains pending before the PAB.

The Group's ability to continue as a going concern depends on the resumption of regular operations of the Parent Company's Padcal Mine. Other than as mentioned in the preceding paragraph, the consolidated financial statements do not include any adjustment that might result from uncertainties relating to when the Parent Company would be able to resume regular operations. The effect of these uncertainties will be reported in the consolidated financial statements as they become known and estimable.

The Group continues to look for sources of funding to finance its activities and working capital requirements pending the resumption of the Parent Company's Padcal Mine operations. On October 30, 2012, the Parent Company obtained a commitment letter from First Pacific Ltd. (FPC) to provide a loan of up to a maximum of US$200,000 to finance the Silangan Project's exploration activities and the Padcal Mine's capital requirements. This loan commitment however was reduced to US$150,000 following payment of ₱2,100,000 loan to Kirtman Limited on November 8, 2013.

PGPI
PGPI operated the Bulawan mine in Negros Occidental from 1996-2002, when it was decommissioned due to unfavorable metal prices. The Bulawan mine currently has remaining resources of 23.9 million tonnes, including that of the Vista Alegre area. Exploration projects in the Vista Alegre area include the Nagtalay project and the Laburan/Skid 9 project, which are undergoing resource modelling and estimation to ascertain additional resources. PGPI currently holds 98.9% of LMC.

SMMCI
SMMCI is currently conducting the pre-feasibility study of the Silangan Project covering the Boyongan and Bayugo copper-gold deposits. Adjacent to the Bayugo deposit is the Kalayaan Project, the exploration of which is being undertaken by the Parent Company by virtue of a Farm-

in Agreement with Kalayaan Gold & Copper Resources, Inc., a subsidiary of Manila Mining Corporation.

BEMC
In January 2013, BEMC decided to undertake a detailed review of the operations and prospects of its coal mining project. The management determined that it was prudent to suspend underground mining operations at that time. On September 1, 2013, BEMC announced the closure of its coal mine in Diplahan, Zamboanga Sibugay under Coal Operating Contract 130 (COC 130). On January 9, 2014, BEMC has finalized the agreements for the assignment of COC 130 to Grace Coal Mining and Development, Inc.

FEP and its subsidiaries
FEP's principal asset is a 70% interest in Service Contract (SC) 72 which covers an area of 8,800 square kilometres in the West Philippine Sea. FEP is scheduled to accomplish its second sub-phase of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, exploration activities in the area are temporarily suspended. In addition, newly purchased casing heads to be used for its drilling activities which were scheduled during the year were sold to third parties at a price lower than its original purchase price to avoid a larger expense from further impairment of the assets. FEP incurred a loss amounting to ₱24,164 on sale of these assets recorded under 'Others - net' in the consolidated statement of income.

FEP has been granted by the Department of Energy (DOE) an extension up to August 2015 to complete its obligation under SC 72 which requires two (2) wells to be drilled at a cost estimated at US$6,000 or ₱266,370 to FEP.

In addition, FEP's SC 14C Galoc has completed its development of Galoc Phase 2 which increased the capacity of the field to produce from 4,500 barrels of oil per day (BOPD) to 12,000 BOPD. On December 4, 2013, Galoc Phases 1 and 2 started to produce oil simultaneously.

PPP
PPP is an international upstream oil and gas group, engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products with operations in the Philippines and Peru.

On July 16, 2013 and October 25, 2013, PPP completed the sale of all its interests in its wholly-owned subsidiaries, Vietnam American Exploration Company LLC (Vamex) with a 25% participating interest in Vietnam Block 07/03 and Lonsdale, Inc., respectively. The gain on sale of these subsidiaries amounted to ₱246,597. Accordingly, goodwill attributable to Vietnam Block 07/03 at time of acquisition of PPP by PPC was derecognized amounting to ₱554,178.

On September 5, 2013, SC 74 Area 5, located in the Northwest Palawan Basin, has been formally awarded to the consortium of PPP and the Philodrill Corporation (Philodrill) with operating interest of 70% and participating interest of 30%, respectively.

Recovery of Deferred Mine and Oil Exploration Costs
The Group's ability to realize its deferred mine and oil exploration costs amounting to ₱22,049,814 and ₱14,535,993 as at December 31, 2013 and 2012, respectively (see Note 12), depends on the success of exploration and development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, and the success of converting the Group's EPs or EPAs or APSAs to new mineral agreements, which cannot be

determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issue of the Financial Statements
The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 26, 2014.

2. Summary of Significant Accounting Policies and Financial Reporting Practices

Basis of Preparation
The consolidated financial statements of the Group have been prepared using the historical cost basis, except for mine products inventories that are measured at net realizable value (NRV), and for AFS financial assets and derivative financial instruments that are measured at fair value. The consolidated financial statements are presented in Philippine Peso (Peso), which is the Parent Company's functional and reporting currency, rounded to the nearest thousands, except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies as a result of new accounting standards.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Group prepared its consolidated financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the Parent Company's mine products inventories that are measured at NRV, which was permitted by the Philippine SEC. The significant accounting policies followed by the Group are disclosed below.

Changes in Accounting Policies and Disclosures
The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PAS 19, *Employee Benefits* (Revised 2011) and amendments to PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 12, *Disclosure of Interests in Other Entities*, resulted in additional disclosures in the financial statements.

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

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

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance

with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in Standard Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  The adoption of this standard did not have a significant impact on the Group's statement of financial position and performance.

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

  The adoption of this standard did not have a significant impact on the Group's statement of financial position and performance.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). While the Group has subsidiaries with material noncontrolling interests (NCI), there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Notes 3 and 25.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 19.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

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

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

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

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

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Increase (decrease) in:			
Statements of financial position			
Net defined benefit liability	**(₱90,329)**	₱180,112	₱160,664
Deferred tax assets	**(27,099)**	54,034	48,199
Retained earnings	**63,230**	(126,078)	(112,465)
Statements of income			
Mine and milling cost	**₱25,128**	₱15,346	₱9,006
General and administrative expenses	**5,267**	3,488	1,606
Padcal maintenance cost during suspension of operations	**7,090**	4,330	–
Profit before income tax	**(37,485)**	(23,164)	(10,612)
Income tax benefit	**11,246**	6,949	3,184
Profit for the year	**(₱26,239)**	(₱16,215)	(₱7,428)
Statements of comprehensive income			
Remeasurement loss (gain) on defined benefit obligation	**₱297,396**	₱3,331	(₱118,547)
Income tax effects	**(89,219)**	(999)	35,564
Other comprehensive income for the year, net of tax	**208,177**	2,332	(82,983)
Total comprehensive income for the year	**₱181,938**	(₱13,883)	(₱90,411)

The adoption did not have an impact on consolidated statement of cash flows.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the consolidated financial statements of the Group.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of the amended PAS 28 did not have a significant impact on the consolidated financial statements of the Group.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part.

  This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

Future Changes in Accounting Policies
The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective in 2014

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The Group does not expect that adoption of the amendments in PAS 19 will have material financial impact in future consolidated financial statements.

Effective subsequent to 2014

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss (FVPL). All equity financial assets are measured at fair value either through (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect

on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

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

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. The Group believes that the amendment will not have a material impact on the Group's consolidated financial statements when it becomes effective.

- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39,

if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

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

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

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

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

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

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

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*
  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

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

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

- PAS 40, *Investment Property*
  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

Summary of Significant Accounting Policies

Basis of Consolidation

Basis of consolidation starting January 1, 2010

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, directly or through the holding companies, and continue to be consolidated until the date that such control ceases. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest (NCI) even if that results in a deficit balance.

A change in the ownership interest in a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it derecognizes the carrying amounts of the assets (including goodwill) and liabilities of the subsidiary, carrying amount of any NCI (including any attributable components of OCI recorded in equity), and recognizes the fair value of the consideration received, fair value of any investment retained, and any surplus or deficit recognized in the consolidated statement of income. The Parent Company's share of components previously recognized in OCI is reclassified to profit or loss or retained earnings, as appropriate.

Basis of consolidation starting January 1, 2013

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. 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. Specifically, the Group controls an investee if and only if the Group has:

- 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 its returns.

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 arrangement 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements 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 assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Basis of consolidation prior to January 1, 2010
The above-mentioned requirements were applied on a prospective basis. The difference, however, is carried forward in certain instances from the previous basis of consolidation. Losses incurred by the Group were attributed to the NCI until the balance was reduced to nil. Any further excess losses were attributed to the Parent Company, unless the NCI had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between NCI and the equity holders of the Parent Company.

The Parent Company's subsidiaries and their respective natures of businesses are as follows:

Subsidiaries	Nature and Principal Place of Business
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines on August 28, 1996 to serve as an intermediary holding company through which its subsidiaries and the Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owns 100% of the outstanding shares of PGPI effective April 27, 2010.
Philippines Gold Mining Company B.V. (PGMC-BV)	Incorporated in The Netherlands on October 1, 1996, as previously the intermediary holding company of PGI. PGMC-BV was liquidated in 2013.
Philex Gold Inc. (PGI)	Incorporated in Canada on June 14, 1996 and owns 100% of the outstanding shares of PGPI until April 26, 2010.

(Forward)

Subsidiaries	Nature and Principal Place of Business
PGPI	Incorporated in the Philippines on August 9, 1996 as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both now on care and maintenance status since 2002. PGPI currently owns 98.9% of the outstanding shares of LMC.
LMC	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, particularly the Lascogon Project in Surigao.
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources; currently the holding company of SMMCI.
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.
PPC	Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, oil, and other sources of energy. PPC's shares are listed in the Philippine Stock Exchange.
FEP	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines. FEP's shares are listed in the Alternative Investment Market of the London Stock Exchange.
FEC	Incorporated on February 8, 1982 under the laws of Alberta, Canada primarily to engage in the business of exploration and development of oil and gas and other mineral related opportunities. FEC's shares are traded in the OTC BB of NASDAQ.
BEMC	Incorporated in the Philippines on July 19, 2005 to engage in exploration, development and utilization of energy-related resources, particularly the Brixton coal operations in Diplahan, Zamboanga Sibugay. On September 1, 2013, BEMC announced the closure of its coal mine in Diplahan, Zamboanga Sibugay.
PPP	Incorporated and registered in United Kingdom (UK) of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products. PPP registered its Philippine Branch, Pitkin Petroleum (Philippines) Plc, on March 19, 2008 and is presently engaged in the exploration of oil and gas assets in the Philippine territories.
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines on December 28, 1981 to act as a stock transfer agent and/or registrar of client corporations.
Philex Land, Inc. (PLI)	Incorporated in the Philippines on February 26, 2007 to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures.

(Forward)

Subsidiaries	Nature and Principal Place of Business
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently in dormant status.

The ownership of the Parent Company and subsidiaries over the foregoing companies in 2013 and 2012 are summarized as follows:

	Percentages of Ownership			
	2013		2012	
	Direct	**Indirect**	Direct	Indirect
PGHI	**100.0**	–	100.0	–
PGMC-BV	–	–	–	100.0
PGI	–	**100.0**	–	100.0
PGPI	–	**100.0**	–	100.0
LMC	–	**98.9**	–	98.9
SMECI	–	**0.1**	–	60.0
SMMCI	–	**95.8**	–	83.3
PPC	**64.8**	–	64.8	–
BEMC	–	**100.0**	–	100.0
FEP	–	**36.4**	–	36.4
FEC	–	**51.2**	–	51.2
LMC	–	**1.1**	–	1.1
FEP	–	**24.1**	–	24.1
PPP	–	**50.28**	–	–
SMECI	**99.9**	–	40.0	–
SMMCI	**4.2**	–	16.7	–
FSTI	**100.0**	–	100.0	–
PLI	**100.0**	–	100.0	–
PIAI	**100.0**	–	100.0	–

Infusion of additional capital of PMC in SMECI
On October 17, 2013, PMC paid ₱7,500 to SMECI for the issuance of the remaining authorized shares of SMECI consisting of 450 Class “A” shares and 300 Class “B” shares. PMC previously owns 100 shares out of the total 250 issued shares of SMECI or 40.0%. After the increase, PMC owns 850 shares out of the total 1,000 issued shares of SMECI or 85.0%.

On December 19, 2013, the Philippine SEC approved the increase in authorized capital stock of SMECI from ₱10,000, divided into six hundred (600) class “A” shares with a par value of ₱10 per share and four hundred (400) class “B” shares with a par value of ₱10,000 per share to ₱1,700,000, divided into one hundred two thousand (102,000) shares, with a par value of ₱10 per share and sixty eight thousand (68,000) class “B” shares with a par value of ₱10,000 per share. Out of the total increase in authorized capital stock of ₱1,690,000, a total of ₱990,000 divided into 99,000 Class “A” shares has been subscribed and paid by PMC in the form of cash. PMC previously owns 850 shares out of the total 1,000 issued shares of SMECI or 85.0%. After the increase, PMC owns 99,850 shares out of the total 100,000 issued shares of SMECI or 99.9%.

Acquisition of additional shares of stock in SMMCI by SMECI and PMC
On April 3, 2013, SMECI paid ₱9.90 to convert the excess additional paid-in capital of ₱0.10 to one (1) Class “B” share.

On April 16, 2013, SMECI and PMC subscribed and paid ₱18,760 for 1,121 Class "A" shares and 755 Class "B" shares and ₱3,740 for 374 Class "B" shares, respectively, for their proportionate share of ownership in SMMCI. The transaction did not affect the respective percentage ownership of PMC and SMECI to SMMCI.

On November 26, 2013, SMECI subscribed and paid ₱74,490 for 4,729 Class "A" and 2,720 Class "B" shares of SMMCI. Due to this additional subscription, the share of ownership of SMECI and PMC in SMMCI has changed from 83.3% and 16.7%, respectively, to 95.8% and 4.2%, respectively.

Acquisition of additional shares of PPP
On April 5, 2013, PPC increased its stake in PPP from 18.5% to 50.3% through acquisition of additional 46.4 million shares at US$0.75 per share for a total of US$34,800 which resulted to PPC obtaining control over PPP.

On July 16, 2013, PPP completed the sale of all its interests in Vietnam American Exploration Company LLC (Vamex), a wholly-owned subsidiary of PPP, for a total cash consideration of approximately ₱2.1 billion. Vamex has a 25% participating interest in Vietnam Block 07/03.

On September 5, 2013, SC No. 74, located in the Northwest Palawan Basin, has been formally awarded to the consortium of PPP and the Philodrill Corporation with operating interest of 70% and participating interests of 30%, respectively.

On October 25, 2013, PPP sold all of its net assets in Lonsdale, Inc., a wholly-owned subsidiary, to Sterling Projects Holdings, LLP for a purchase price of $35 effective July 31, 2013.

Infusion of additional capital in LMC
On April 24, 2012, LMC increased its authorized capital stock from ₱10,000 to ₱260,000. By virtue of such increase, PMC, through its wholly-owned subsidiary PGPI, infused additional capital of ₱150,000 in LMC. Following the capital infusion, the Parent Company increased its effective ownership in LMC from 73.4% to 99.3%.

The difference between the equity in shareholdings before and after the infusion of capital amounting to ₱34,552 was recognized as "Effect of transactions with non-controlling interests" in the equity section of the consolidated statement of financial position.

Distribution of PPC shares as property dividend
On May 16, 2011, the Parent Company declared approximately 35.2% of its ownership interest in PPC as property dividend to its shareholders. As a result of the dividend declaration, the Parent Company's ownership to PPC was reduced from 100.0% to 64.8% (see Note 25).

Dilution of interest in FEP
On May 26, 2010, certain directors and employees exercised their option over ordinary shares granted under FEP's 2005 Share Option Plan. As a result of the exercise of options, ownership interest of PPC and FEC in FEP decreased to 38.8% and 25.6%, respectively. The difference between the equity in shareholdings before and after the dilution of ownership was recognized in 2010 as "Effect of transactions with non-controlling interests" amounting to ₱3,266 in the equity section of the consolidated statement of financial position as a result of the dilution of interest in FEP.

On May 30, 2012, PPC's and FEC's interest in FEP were reduced to 36.4% and 24.1%, respectively, after option exercises were made over 2,185,000 ordinary shares of FEP. Shares aggregating to 700,000 and 1,000,000 were subsequently sold to Asia Link B.V. (a wholly-owned subsidiary of FPC) and Tidemark Holdings Limited (a wholly-owned subsidiary of Atok-Big Wedge Co., Inc.), respectively. The additional amount of ₱26,376 was recognized as "Effect of transactions with NCI" in 2012.

NCI
NCI represents interest in a subsidiary that is not owned, directly or indirectly, by the Parent Company. Profit or loss and each component of OCI (loss) are attributed to the equity holders of the Parent Company and to the NCI. Total comprehensive income (loss) is attributed to the equity holders of the Parent Company and to the NCI even if this results in the NCI having a deficit balance.

NCI represents the portion of profit or loss and the net assets not held by the Group. Transactions with NCI are accounted for as an equity transaction.

Investments in Associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statements of income reflect the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statements of income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the

recoverable amount of the associate and its carrying value, and then recognizes the loss as 'Share of profit of an associate in the consolidated statements of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Interest in Joint Arrangements
PFRS defines a joint arrangement as an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control.

Joint operations
A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Group recognises its:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Business Combination and Goodwill
Business combinations starting January 1, 2010
Business combinations, except for business combination between entities under common control, are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the acquirer measures the NCI in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income, or in the consolidated statement of comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

Business Combinations Prior to January 1, 2010
Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets and liabilities of the acquired business initially at fair value. If the acquirer's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the acquirer shall (a) reassess the identification and measurement of the acquiree's identifiable assets and liabilities and the measurement of the cost of the combination; and (b) recognize immediately in the consolidated statement of income any excess remaining after that reassessment.

When a business combination involves more than one exchange transaction, each exchange transaction shall be treated separately using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. This results in a step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities at each exchange transaction. The fair values of the acquiree's identifiable assets, liabilities and contingent liabilities may be different on the date of each exchange transaction. Any adjustments to those fair values relating to previously held interests of the Group is a revaluation to be accounted for as such and presented separately as part of equity. If the revaluation relates directly to an identifiable fixed asset, the revaluation will be transferred directly to retained earnings when the asset is derecognized in whole through disposal or as the asset concerned is depreciated or amortized.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill

on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

Foreign Currency Translation of Foreign Operations
Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statement of each subsidiary are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate on the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at consolidated statement of financial position date. All exchange differences are recognized in consolidated statements of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

For purposes of consolidation, the financial statements of FEP, PPP and PGI, which are expressed in US dollar amounts, the financial statements of PGMC-BV, which are expressed in Euro dollar amounts, and the financial statements of FEC, which are expressed in Cdn dollar amounts, have been translated to Peso amounts as follows:

a. assets and liabilities for each statement of financial position presented (i.e., including comparatives) are translated at the closing rate at the date of the consolidated statement of financial position;
b. income and expenses for each statement of income (i.e., including comparatives) are translated at exchange rates at the average monthly prevailing rates for the year; and
c. all resulting exchange differences are taken in the consolidated statement of comprehensive income.

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

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement 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 designated at fair value through profit or loss (FVPL), includes transaction cost.

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Financial liabilities, on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities, as appropriate. Management determines the classification of its financial assets and financial

liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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, 2013 and 2012, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value
The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. 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 financial statements 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 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 the end of each reporting period.

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

Derivatives and Hedging
The Group uses currency and commodity derivatives such as forwards, swaps and option contracts to economically hedge its exposure to fluctuations in gold and copper prices. For accounting purposes, such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives are accounted for as at FVPL, where any gains or losses arising from changes in fair value on derivatives are taken directly to consolidated statement of income, unless hedge accounting is applied.

For the purpose of hedge accounting, hedges are classified as:

a. fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or
b. cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
c. hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges
Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized in the consolidated statement of comprehensive income, while the ineffective portion is recognized in the consolidated statement of income.

Amounts taken to equity are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts recognized as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs. If the related transaction is not expected to occur, the amount is taken to the consolidated statement of income.

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2013 and 2012, the Group’s accounts receivable are included under loans and receivables (see Note 7).

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are

measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as “Net Unrealized gain on AFS financial assets.”

When the investment is disposed of, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on investments are recognized in the consolidated statement of income as “Dividend income” when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. These financial assets are classified as noncurrent assets unless the intention is to dispose of such assets within 12 months from the statement of financial position date.

Note 11 discuss the details of the Group’s AFS financial assets as of December 31, 2013 and 2012.

Other Financial Liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest 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 the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2013 and 2012, included in other financial liabilities are the Group’s accounts payable and accrued liabilities, dividends payable, subscriptions payable and loans payable (see Notes 11, 13, 14 and 25).

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is 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 each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/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.

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

Loans and receivables
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

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 the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

AFS financial assets
For AFS financial assets, the Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. 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 income is removed from equity and recognized in the consolidated statement of income.

Impairment losses on equity investments are recognized in the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Inventories

Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated at NRV. Coal inventory and materials and supplies are valued at the lower of cost and NRV.

NRV for mine products and coal inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. In the case of materials and supplies, NRV is the value of the inventories when sold at their condition at the statement of financial position date.

Costs of coal include all mining and mine-related costs and cost of purchased coal from small-scale miners. These costs are aggregated to come up with the total coal inventory cost. Unit cost is determined using the moving average method.

Cost of petroleum inventory includes share in productions costs consisting of costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Unit cost is determined using the weighted average method

Costs of materials and supplies comprise all costs of purchase and other costs incurred in bringing the materials and supplies to their present location and condition. The purchase cost is determined on a moving average basis.

Input Tax Recoverable

Input tax recoverable is stated at 10% in prior years up to January 2006 and 12% starting February 2006 of the applicable purchase cost of goods and services, net of output tax liabilities and allowance for probable losses. Input tax recoverable represents the value-added tax (VAT) paid on purchases of applicable goods and services, net of output tax liabilities, which can be recovered as tax credit against future tax liabilities of the Group upon approval by the Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depletion and depreciation and accumulated impairment in value, if any. Land is stated at cost less any accumulated impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation to that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred.

When assets are sold or retired, the cost and related accumulated depletion and depreciation, and accumulated impairment in value are removed from the accounts and any resulting gain or loss is recognized in the consolidated statement of income.

Depletion or amortization of mine, mining and oil and gas properties is calculated using the units-of-production method based on estimated recoverable reserves. Depreciation of other items of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

	No. of Years
Buildings and improvements	5 to 10
Machinery and equipment	2 to 20
Surface structures	10

Depreciation or depletion of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or depletion ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, and the date the asset is derecognized.

The estimated recoverable reserves, useful lives, and depreciation and depletion methods are reviewed periodically to ensure that the estimated recoverable reserves, periods and methods of depletion and depreciation are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

Property, plant and equipment also include the estimated costs of rehabilitating the Parent Company's Padcal Mine and BEMC's Coal Mine, for which the Group is constructively liable. These costs, included under land, buildings and improvements, are amortized using the units-of-production method based on the estimated recoverable mine reserves until the Group actually incurs these costs in the future.

Level and block development (included as part of mine and mining and oil and gas properties) and construction in progress are stated at cost, which includes the cost of construction, plant and equipment, other direct costs and borrowing costs, if any. Block development and construction in progress are not depleted nor amortized until such time as these are completed and become available for use.

Deferred Exploration Costs

Expenditures for exploration works on oil and mining properties (i.e., acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, and activities in relation to evaluating the technical feasibility and commercial viability of extracting an oil and mineral resource) are deferred as incurred and included under "Deferred exploration costs and other noncurrent assets" account in the consolidated statement of financial position. If and when recoverable reserves are determined to be present in commercially producible quantities, the deferred exploration expenditures, and subsequent oil and mine development costs are capitalized as part of the mine and mining and oil and gas properties account classified under property, plant and equipment.

A valuation allowance is provided for unrecoverable deferred oil and mine exploration costs based on the Group's assessment of the future prospects of the exploration project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful exploration and development of the area of interest, or alternatively, by its sale. If the project does not prove to be viable or when the project is abandoned, the deferred oil and mine exploration costs associated with the project and the related impairment provisions are written off. Exploration areas are considered permanently abandoned if the related permits of the exploration have expired and/or there are no definite plans for further exploration and/or development.

Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset is capitalized by the Group. The capitalization of borrowing costs: (i) commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred; (ii) is suspended during the extended periods in which active development, improvement and construction of the assets are interrupted; and (iii) ceases when substantially all the activities necessary to prepare the assets are completed.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Impairment of Noncurrent Non-financial Assets

The Group's noncurrent non-financial assets include property, plant and equipment, investments in shares of stock and other noncurrent assets. The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. If any indication exists, or when an annual impairment testing for such items is required, the Group

makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the consolidated statement of income in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each statement of financial position date as to whether there is indication that previously recognized impairment losses may no longer exist or may have decreased. If any indication exists, the recoverable amount is estimated and a previously recognized impairment loss is reversed only if there has been a change in the estimate in the assets or CGU's recoverable amount since the last impairment loss was recognized. If so, the carrying amount of the item is increased to its new recoverable amount which cannot exceed the impairment loss recognized in prior years. Such reversal is recognized in the consolidated statement of income unless the asset or CGU is carried at its revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount less any residual value on a systematic basis over its remaining estimated useful life.

Provision for Mine Rehabilitation Costs
The Group records the present value of estimated costs of legal and constructive obligations required to restore the mine site upon termination of the mine operations. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and settling ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is constructed or the ground or environment is disturbed at the mine site. When the liability is initially recognized, the present value of the estimated cost is capitalized as part of the carrying amount of the related mining assets.

Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with PAS 16, *Property, Plant and Equipment*. Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with PAS 36. If, for mature mines, the estimate for the revised mine assets net of rehabilitation provisions exceeds the recoverable value that portion of the increase is charged directly to expense.

For closed sites, changes to estimated costs are recognized immediately in profit or loss.

Capital Stock
Ordinary or common shares are classified as equity. The proceeds from the increase of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value or shares issued less any incremental

costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

Dividends on Common Shares
Cash and property dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company. Stock dividends are treated as transfers from retained earnings to capital stock.

Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings represent that portion which has been restricted and, therefore, not available for dividend declaration.

Revenue Recognition
Revenue is recognized upon delivery 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 Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from sale of mine products
Revenue from sale of mine products is measured based on shipment value price, which is based on quoted metal prices in the London Metals Exchange (LME) and weight and assay content, as adjusted for marketing charges to reflect the NRV of mine products inventory at the end of the financial reporting period. Contract terms for the Group's sale of metals (i.e. gold, silver and copper) in bullion and concentrate allow for a price adjustment based on final assay results of the metal concentrate by the customer to determine the content.

The terms of metal in concentrate sales contracts with third parties contain provisional arrangements whereby the selling price for the metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period). Mark-to-market adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement, and such adjustments are recorded as part of revenue. The period between provisional invoicing and final settlement can be between one (1) and three (3) months. Provisional shipment of ninety percent (90%) for the sale of metals is collected upon shipment, while the remaining ten percent (10%) is collected upon determination of the final shipment value on final weight and assay for metal content and prices during the applicable quotational period less deduction for smelting charges.

Revenue from sale of petroleum products
Revenue is derived from sale of petroleum to third party customers. Sale of oil is recognized at the time of delivery of the product to the purchaser. Revenue is measured, based on participating

interest of the Group, at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty.

Revenue from sale of coal
Revenue from sale of coal is recognized when the risks and rewards of ownership is transferred to the buyer, on the date of shipment to customers when the coal is loaded into the Group's or customers' loading facilities.

Interest income
Interest income is recognized as the interest accrues using the effective interest method.

Cost and Expense Recognition
Costs and expenses are recognized in the consolidated statements of income in the year they are incurred. The following specific cost and expense recognition criteria must also be met before costs and expenses are recognized:

Mining and milling costs
Mining and milling costs, which include all direct materials, power and labor costs and other costs related to the mining and milling operations, are expensed as incurred.

Mine products taxes and royalties
Mine product taxes pertain to the excise taxes paid or accrued by the Parent Company for its legal obligation arising from the production of copper concentrates. Also, the Parent Company is paying for royalties which are due to the claim owners of the land where the mine site operations were located. These mine product taxes and royalties are expensed as incurred.

Petroleum production costs
Petroleum production costs, which include all direct materials and labor costs, depletion of oil and gas properties, and other costs related to the oil and gas operations, are expensed when incurred based on the Group's participating revenue interest in the respective service contracts.

Cost of coal sales
Cost of coal sales includes costs of purchased coal and all direct materials and labor costs and other costs related to the coal production. Cost of coal sales is recognized by the Group when sales are made to customers.

General and administrative expenses
General and administrative expenses constitute the costs of administering the business and are expensed as incurred.

Handling, hauling and storage
Handling, hauling and storage expenses includes all direct expenses incurred for logistics and store room costs for mine and mining inventories. Handling, hauling and storage costs are recognized by the Group when incurred.

Retirement Benefits Costs
The net defined benefit 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 benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit 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 benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation 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 twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Share-based Payments
Certain officers and employees of the Group receive additional remuneration in the form of share-based payments of either the Parent Company, FEP or PGI, whereby equity instruments (or "equity-settled transactions") are awarded in recognition of their services.

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. Further details are given in Note 26.

The cost of equity-settled transactions, together with a corresponding increase in equity, is recognized over the period in which the performance and/or service conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date up to and until the vesting date reflects the extent to which the vesting period has expired, as well as the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statements of income charge or credit for the period represents the movement in cumulative expense recognized at the beginning and end of that period. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which awards are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. An additional expense is likewise recognized for any modification which increases the total fair value of the share-based payment arrangement or which 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 had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. If a new award, however, is substituted for the cancelled awards and designated as a replacement award, 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-Denominated Transactions and Translations
Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the statement of financial position date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchanges rates at the date when the fair value was determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss shall be recognized in the consolidated statements of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in the consolidated statement of income.

Related Party Relationships and Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, 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 entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred income tax

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

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 an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when 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 carry forward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT], and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, excess MCIT and 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 profit nor taxable profit or loss,

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at acquisition date. Deferred income tax liabilities are provided on temporary differences that arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently.

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 profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered.

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

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

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments 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 interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Basic Earnings Per Share
Basic earnings per share is computed by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted Earnings Per Share
Diluted earnings per share amounts are calculated by dividing the net income attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

Events After the Statement of Financial Position Date
Events after the statement of financial position date that provide additional information about the Group's position at the statement of financial position date (adjusting event) are reflected in the consolidated financial statements. Events after the statement of financial position date that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Operating Segment
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. For management purposes, the Group is organized into business units based on their products and services, and has three (3) reportable operating segments. Financial information on business segments is presented in Note 5. The Group operates in one geographical segment. Being the location of its current mining activities; therefore, geographical segment information is no longer presented.

3. Management's Use of Significant Judgments, Accounting Estimates and Assumptions

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

Accounting assumptions, estimates and judgments 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.

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 effects on amounts recognized in the consolidated financial statements:

Determination of the functional currency
The Parent Company and most of its local subsidiaries based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be the Philippine peso. It is the currency of the primary economic environment in which the Parent Company and most of its local subsidiaries primarily operates. FEC's functional currency is the Cdn dollar. PGMC-BV's functional currency is the Euro dollar. PGI, PPP and FEP's functional currencies are US dollar.

Recognition of Deferred Income Tax Assets
The Group reviews the carrying amounts at each end of reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The sufficiency of future taxable profits requires the use of assumptions, judgments and estimates, including future prices of metals, volume of inventories produced and, sold and amount of costs and expenses that are subjectively determined like depreciation. As at December 31, 2013 and 2012, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱476,285 and ₱681,907, respectively (see Note 24). As at December 31, 2013 and 2012, no deferred income tax assets were recognized on the following deductible temporary differences amounting to about ₱2,175,544 and ₱823,485, respectively (see Note 24), because management believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

Classification of Financial Instruments
The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statements of financial position.

The Group has no intention of selling its investments in stocks in the near term. These are being held indefinitely and may be sold in response to liquidity requirements or changes in market condition. Accordingly, the Group has classified its investments in stocks as AFS investments. The Group has no plans to dispose its AFS investments within 12 months from the end of the reporting date.

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date (see Note 19).

Determining and classifying a joint arrangement
Judgment is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- The structure of the joint arrangement - whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  a. The legal form of the separate vehicle
  b. The terms of the contractual arrangement
  c. Other facts and circumstances (when relevant)

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

As at December 31, 2013 and 2012, the Group's joint arrangement is in the form of a joint operation.

Accounting Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Measurement of Mine Products Revenue

Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine products revenue, gross of marketing charges, amounted to ₱10,243,407, ₱8,891,316 and ₱15,573,717 in 2013, 2012 and 2011, respectively (see Note 30).

Impairment of Loans and Receivables

The Group maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectibility of its loans and receivables. The Group evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Group uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts. The review is made by management on a continuing basis to identify accounts to be provided with allowance.

The Group did not assess its loans and receivables for collective impairment due to few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. The amount of loss is recognized in the consolidated statement of incomes with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱295,451 and ₱207,749 as at December 31, 2013 and 2012, respectively (see Note 7). Allowance for impairment on these financial assets as at December 31, 2013 and 2012 amounted to ₱3,193 and ₱2,397, respectively (see Note 7).

Valuation of AFS financial assets

The Group carries its quoted and unquoted AFS financial assets at fair value and at cost, respectively. Fair value measurement requires the use of accounting estimates and judgment. At initial recognition, the fair value of quoted AFS financial assets is based on its quoted price in an active market, while the fair value of unquoted AFS financial assets is based on the latest available transaction price. The amount of changes in fair value would differ if the Group utilized a different valuation methodology.

Any change in fair value of its AFS financial assets is recognized in the consolidated statements of comprehensive income. As at December 31, 2013 and 2012, the Group has net cumulative unrealized gain on its AFS financial assets amounting to ₱4,689 and ₱601,055, respectively (see Note 11). As at December 31, 2013 and 2012, the carrying value of the Group's AFS financial assets amounted to ₱975,380 and ₱3,990,761, respectively (see Note 11).

Impairment of AFS financial assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. 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 securities. The Group recognized impairment loss on investments in quoted shares amounting to ₱1,006,508 in 2013 due to significant decline in the fair value of the quoted shares below its cost. There were no impairment losses on AFS financial assets in 2012 (see Note 11). As at December 31, 2013 and 2012, the carrying value of the Group's AFS financial assets amounted to ₱975,380 and ₱3,990,761, respectively (see Note 11).

Impairment of Goodwill
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2013, 2012 and 2011, whereas the carrying value of goodwill as at December 31, 2013 and 2012 amounted to ₱1,208,020 and ₱258,593, respectively (see Note 4).

Measurement of NRV of Mine Products Inventory
The NRV of mine products inventory is the estimated sales value less costs to sell, which can be derived from such inventory based on its weight and assay for metal content, and the LME and London Bullion Metal Association for prices, which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as at December 31, 2013 and 2012 amounted to ₱1,533,883 and nil, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

Write-down of Carrying Values of Coal and Materials and Supplies Inventories
The Group carries coal and material and supplies inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence or other causes. When it is evident that the NRV is lower than its cost based on physical appearance and condition of inventories, an allowance for inventory obsolescence is provided. Additional provision for materials and inventory write-down amounted to ₱46,059, ₱53,160 and nil in 2013, 2012 and 2011, respectively. Related allowance for inventory obsolescence amounted to ₱197,474 and ₱248,261 as at December 31, 2013 and 2012, respectively. The carrying value of materials and supplies inventories amounted to ₱1,113,198 and ₱1,225,127 as at December 31, 2013 and 2012, respectively (see Note 8).

Additional provision for coal inventory write-down amounted to ₱71,312, ₱143,547 and ₱8,394 in 2013, 2012 and 2011, respectively. Related allowance for decline in coal inventory amounted to ₱223,242 and ₱151,941 as at December 31, 2013 and 2012, respectively. The carrying amount of

coal inventory amounted to nil and ₱86,856 as at December 31, 2013 and 2012, respectively (see Note 8).

Estimation of Fair Value of Identifiable Net Assets of an Acquiree in a Business Combination
The Group applies the acquisition method of accounting whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. The determination of fair values requires estimates of economic conditions and factors such as metal prices, mineral reserve, freight exchange rates and others. Transactions qualified as business combinations are discussed in Note 4.

Estimation of Useful Lives of Property, Plant and Equipment
The Group estimates the useful lives of depreciable property, plant and equipment, except for mine and mining and oil and gas properties, based on internal technical evaluation and experience. These estimated useful lives are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. For mine and mining properties which were depreciated based on units-of production, the Group estimates and periodically reviews the remaining recoverable reserves to ensure that remaining reserves are reflective of the current condition of the mine and mining and oil and gas properties. The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2 to the consolidated financial statements.

As at December 31, 2013 and 2012, net book value of property, plant and equipment amounted to ₱6,880,096 and ₱6,035,174, respectively (see Note 10).

Estimation of Recoverable Reserves
Recoverable reserves were determined using various factors or parameters such as market price of metals and global economy. These are economically mineable reserves based on the current market condition and concentration of mineral resource. The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of the mine, and for forecasting the timing of the payment of mine rehabilitation costs. On June 30, 2011, the Padcal Mine life had been extended from 2017 to 2020 due to the discovery of additional reserves per an internal geological study performed by the Parent Company's geologists.

Estimation of Provision for Mine Rehabilitation Costs
The Group recognized a liability relating to the estimated costs of mine rehabilitation. The Group assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases and changes in discount rates.

Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets, net of rehabilitation provisions exceeds, the carrying value, that portion of the increase is charged directly to the consolidated statements of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income. Provision for mine rehabilitation costs amounted to ₱20,818 and ₱18,892 as at December 31, 2013 and 2012, respectively (see Note 10).

Impairment of Non-financial Assets
The Group's non-financial assets include input tax recoverable, property, plant and equipment, investments in shares of stock, deferred mine and oil exploration costs and other current and noncurrent assets. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses amounting to ₱179,962, ₱827,172 and ₱170,772 were recognized in 2013, 2012 and 2011, respectively. As at December 31, 2013 and 2012, the carrying value of non-financial assets amounted to ₱30,509,008 and ₱21,566,374, respectively (see Notes 10, 11 and 12).

Valuation of Financial Instruments
The Group carries certain financial assets and financial liabilities (i.e., derivatives and AFS financial assets) at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, quoted equity prices), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and financial liabilities is recognized in the consolidated statements of income and in the consolidated statements of comprehensive income.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in Note 19.

Provisions for Losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each end of the reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. In 2013 and 2012, payments were made for a total of ₱1,060,528 and ₱451,550, respectively, through the Parent Company and PGPI. As at December 31, 2013 and 2012, FEP made payments to Basic Energy Corporation amounting to ₱41,050 and ₱451,550, respectively. Provisions in 2013 and 2012 amounted to ₱114,619 and ₱1,700, respectively. Total provision for losses amounted to ₱969,154 and ₱1,739,214 as at December 31, 2013 and 2012, respectively (see Note 31).

Estimation of Net Retirement Benefits Liability (Plan Assets) and Costs
The Group's net retirement benefits costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Parent Company's net retirement plan asset, which is recorded as part of "Deferred exploration costs and other noncurrent assets" amounted to ₱297,705 as at December 31, 2013. Pension obligation amounting to nil and ₱43,973 was presented as part of non-current liabilities as at December 31, 2013 and 2012, respectively (see Note 18).

SMMCI's retirement liability amounted to ₱5,975 and ₱993 as at December 31, 2013 and 2012 are presented as part of non-current liabilities (see Note 18).

PPP's retirement liability amounted to ₱15,623 and nil as at December 31, 2013 and 2012 are presented as part of non-current liabilities (see Note 18).

4. Business Combinations

Acquisition of PPP

On April 5, 2013, PPC increased its stake in PPP from 18.46% to 50.28% through acquisition of additional 46.4 million shares at US$0.75 per share which resulted to PPC obtaining control over PPP.

The goodwill of ₱1,534,168 arising from the acquisition pertains to the revenue potential the Group expects from PPP Peru Block Z-38, SC 14 Block C-2 (West Linapacan) and other Philippine blocks.

As at the acquisition date, the fair value of the net identifiable assets and liabilities of the PPP are as follows:

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
Assets		
Cash and cash equivalents	₱803,379	₱803,379
Receivables	40,916	40,916
Inventories	1,035	1,035
Deferred exploration oil and gas exploration costs	5,521,113	407,219
Property and equipment	2,801	2,801
Other noncurrent assets	6,842	6,842
	6,376,086	1,262,190
Liabilities		
Accounts payable and accrued liabilities	48,391	48,391
Deferred tax liability	1,534,168	–
	1,582,559	48,391
Total identifiable net assets	₱4,793,527	₱1,213,801
Total consideration	6,327,695	
Goodwill arising from acquisition	₱1,534,168	

The aggregate consideration follows:

	Amount
Fair value of previously held interest	₱1,313,700
Consideration transferred for additional interest acquired	1,433,332
Fair value of non-controlling interest	3,580,663
	₱6,327,695

The net assets recognized in the consolidated financial statements were based on a provisional assessment of fair values. The Group measured non-controlling interest using the fair value method.

	Amount
Consideration transferred for additional interest acquired	₱1,433,332
Less cash of acquired subsidiary	803,379
	₱629,953

Revenues and net income of the acquiree since the acquisition date amounted to ₱3,465 and ₱1,980,796, respectively. Consolidated revenue and net income of the Group had the business combination occurred on January 1, 2013 would be higher by ₱2,564 and lower by ₱34,650, respectively.

The Group also recorded additional retirement benefit liability amounting to ₱11,373 as at January 1, 2013 as a result of the business combination.

Acquisition of SMECI and SMMCI

On February 6, 2009, the Parent Company acquired the 50% effective interest of Anglo American Exploration (Philippines), Inc. (Anglo) in SMECI and SMMCI, the companies holding the Silangan Project at that time, which gave the Parent Company control over the property together with its subsidiary, PGPI, which holds the other 50%.

The final fair values of the identifiable net assets of SMECI and SMMCI as at the date of acquisition are as follows:

	SMECI		SMMCI	
	Fair Values	Carrying Values	Fair Values	Carrying Values
Assets				
Current assets	₱1,440,247	₱1,440,247	₱1,569	₱1,569
Investment	3,236,355	2,500	–	–
Land	–	–	7,510	7,510
Deferred mine exploration costs	–	–	6,977,717	1,426,007
Other noncurrent assets	–	–	3,172	3,172
	4,676,602	1,442,747	6,989,968	1,438,258
Liabilities				
Current liabilities	(1,441,241)	(1,441,241)	(1,440,233)	(1,440,233)
Deferred income tax liability	–	–	(1,665,513)	–
	(1,441,241)	(1,441,241)	(3,105,746)	(1,440,233)
Net Assets	₱3,235,361	₱1,506	₱3,884,222	(₱1,975)

The share of the Group in the foregoing fair values amounted to ₱1,942,111 while the cost of the business combination amounted to ₱1,176,114 which consisted of the cash purchase price and transaction costs incurred for the equity interests in SMECI and SMMCI. The resulting negative goodwill based on the accounting for this business combination amounted to ₱765,997.

The acquisition of SMECI and SMMCI by the Parent Company in 2009 qualified as a step acquisition and resulted in the Parent Company's step-by-step comparison of the cost of the individual investments with the Group's interest in the fair values of SMECI's and SMMCI's identifiable assets, liabilities and contingent liabilities. A revaluation surplus amounting to ₱1,572,385 was recognized in 2009 which pertains to the adjustments to the fair values of the net

assets of both SMECI and SMMCI relating to the previously held interest of the Parent Company in SMECI and SMMCI through PGPI.

Acquisition of FEP
On July 3, 2008, PPC acquired 4,004,000 shares of stock of FEP representing 13.31% of its outstanding shares for £1,922 (₱185,158). On September 23, 2008, PPC completed the purchase of additional 5,935,311 shares of FEP for £2,849 (₱251,481). These purchases of the FEP shares representing 19.73% of its issued capital stock, including the 28.42% interest of FEC, brought the total number of shares owned and controlled by the Group to 61.46%, which since then required the consolidation of FEP to the Group.

The finalized fair values of the identifiable net assets of FEP as at September 23, 2008 are as follows:

	Fair Values	Carrying Values
Assets		
Cash and cash equivalents	₱43,158	₱43,158
Receivables	29,927	29,927
Advances to subsidiaries	186,311	186,311
Inventories	3,212	3,212
Property and equipment	179,735	180,661
Investments	282	282
Deferred oil and gas exploration costs	948,811	1,897,621
Other assets	43,633	43,633
	1,435,069	2,384,805
Liabilities		
Accounts payable and accrued liabilities	12,427	12,427
Contingent liability	387,374	–
Other payables	183,817	183,817
	583,618	196,244
Net Assets	₱851,451	₱2,188,561

The acquisition of FEP by PPC in 2008 qualified as a step acquisition and resulted in the Parent Company's step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of FEP's identifiable assets, liabilities and contingent liabilities at each transaction dates. A revaluation surplus amounting to ₱39,012 was recognized which pertains to the adjustment to the fair values of the net assets of FEP relating to the previously held interest of the Parent Company in FEP through FEC. The related NCI in the net assets of FEP and its subsidiaries amounted to ₱315,188.

As of December 31, 2012, PPC's holdings in FEP aggregate to 12,953,504 shares equivalent to 36.44% of its outstanding shares [as diluted due to the increase in outstanding shares of FP after stock options exercises in 2010 and 2012 (see Note 2)] after a total of 3,014,193 shares were acquired in 2009 and 2010.

5. Segment Information

The Group is organized into business units on their products and activities and has two reportable business segments: the metals segment and the energy and hydrocarbon segment. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income (loss) for the year, earnings before interest, taxes and depreciation and depletion (EBITDA), and core net income (loss).

Net income (loss) for the year is measured consistent with consolidated net income (loss) in the consolidated statements of income. EBITDA is measured as net income excluding interest expense, interest income, provision for (benefit from) income tax, depreciation and depletion of property, plant and equipment and effects of non-recurring items.

EBITDA is not a uniform or legally defined financial measure. EBITDA is presented because the Group believes it is an important measure of its performance and liquidity. The Group relies primarily on the results in accordance with PFRS and uses EBITDA only as supplementary information.

In 2013, management reevaluated its calculation of EBITDA to exclude the effects of non-recurring items. Management believes that the revised computation of EBITDA is more useful in making decisions about resource allocation and performance assessment of its reportable segments. The EBITDA previously presented in 2012 and 2011 are then restated to effect this change.

The Group is also using core net income (loss) in evaluating total performance. Core income is the performance of business segments based on a measure of recurring profit. This measurement basis is determined as profit attributable to equity holders of the Parent Company excluding the effects of non-recurring items, net of their tax effects. Non-recurring items represent gains (losses) that, through occurrence or size, are not considered usual operating items, such as foreign exchange gains (losses), gains (losses) on derivative instruments, gains (losses) on disposal of investments, and other non-recurring gains (losses).

The following tables present revenue and profit and certain asset and liability information regarding the Group's business segments.

	December 31, 2013				
	Metals	**Energy and Hydrocarbon**	**Unallocated Corporate Balances**	**Eliminations**	**Total**
Revenue					
External customers	**₱9,583,871**	**₱208,773**	**₱9,612**	**₱–**	**₱9,802,256**
Inter-segment	–	–	–	–	–
Consolidated revenue	**₱9,583,871**	**₱208,773**	**₱9,612**	**₱–**	**₱9,802,256**

(Forward)

	December 31, 2013				
	Metals	**Energy and Hydrocarbon**	**Unallocated Corporate Balances**	**Eliminations**	**Total**
Results					
EBITDA	**₱4,209,905**	**(₱294,016)**	**₱3,641**	**₱–**	**₱3,919,530**
Interest income (expense) - net	**(395,475)**	**5,054**	**121**	**–**	**(390,300)**
Income tax benefit (expense)	**(776,484)**	**14,837**	**(1,010)**	**–**	**(762,657)**
Depreciation and depletion	**(1,442,750)**	**(4,478)**	**(364)**	**–**	**(1,447,592)**
Non-recurring items	**(1,188,626)**	**181,945**	**95**	**–**	**(1,006,586)**
Consolidated net income (loss)	**406,570**	**(96,658)**	**2,483**		**312,395**
Core net income (loss)	**₱816,409**	**₱440,927**	**₱2,418**	**₱248,585**	**₱1,508,339**
Consolidated total assets	**₱29,938,772**	**₱5,979,923**	**₱20,366**	**₱3,950,921**	**₱39,889,982**
Consolidated total liabilities	**₱10,866,323**	**₱1,213,218**	**₱4,380**	**₱1,888,807**	**₱13,972,728**
Other Segment Information					
Capital expenditures and other non-current assets	**₱5,540,200**	**₱547,801**	**₱48**	**₱–**	**₱6,088,049**
Non-cash expenses other than depletion and depreciation	**1,444,597**	**105,377**	**–**	**–**	**1,549,974**

	December 31, 2012 (As restated)				
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱8,451,545	₱239,033	₱7,011	₱–	₱8,697,589
Inter-segment	–	–	–	–	–
Consolidated revenue	₱8,451,545	₱239,033	₱7,011	₱–	₱8,697,589
Results					
EBITDA	₱3,227,837	₱65,375	₱457	₱–	₱3,293,669
Interest income (expense) - net	50,577	(36,955)	224	–	13,846
Income tax benefit (expense)	(445,737)	(101,831)	(21)	–	(547,589)
Depreciation and depletion	(708,360)	(70,259)	(376)	–	(778,995)
Non-recurring items	(1,349,008)	(942,688)	(74)	–	(2,291,770)
Consolidated net income (loss)	₱775,309	(₱1,086,358)	₱210	₱–	(₱310,839)
Core net income (loss)	₱1,910,561	(₱221,542)	₱262	₱–	₱1,689,281
Consolidated total assets	₱23,580,984	₱3,097,230	₱17,890	₱2,575,901	₱29,272,005
Consolidated total liabilities	₱4,810,049	₱1,363,888	₱883	₱1,006,183	₱7,181,003
Other Segment Information					
Capital expenditures and other non-current assets	₱3,783,569	₱396,843	₱15	₱–	₱ 4,180,427
Non-cash expenses other than depletion and depreciation	22,807	767,748	–	–	790,555

	December 31, 2011 (As restated)				
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱14,763,250	₱552,856	₱7,843	₱–	₱15,323,949
Inter-segment	–	–	–	–	–
Consolidated revenue	₱14,763,250	₱552,856	₱7,843	₱–	₱ 15,323,949
Results					
EBITDA	₱8,402,965	₱163,363	₱2,401	₱–	₱8,568,729
Interest income (expense) - net	76,453	(26,830)	233	–	49,856
Income tax benefit (expense)	(39,697)	(685)	(685)	–	(2,327,608)
Depreciation and depletion	(2,505)	(2,505)	(363)	–	(770,289)
Non-recurring items	(246,347)	518,115	5	–	271,773
Consolidated net income (loss)	₱5,178,424	₱612,446	₱1,591	₱–	₱5,792,461
Core net income (loss)	₱5,368,797	₱190,597	₱1,588	₱–	₱5,560,982
Consolidated total assets	₱32,257,537	₱5,538,045	₱18,209	(₱5,412,188)	₱32,401,603
Consolidated total liabilities	₱9,990,611	₱1,879,446	₱1,430	(₱6,408,886)	₱5,462,601
Other Segment Information					
Capital expenditures and other non-current assets	₱2,756,660	₱451,941	₱–	₱–	₱ 3,208,601
Investments in shares of stocks	1,104,775	1,104,775	–	(4,030,823)	–
Equity in net losses of associates	–	(44,116)	–	–	(44,116)
Non-cash expenses other than depletion and depreciation	(150)	–	–	–	(150)

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2013, 2012 and 2011.

	2013	2012 (As restated)	2011 (As restated)
Core net income	**₱1,508,339**	₱1,689,281	₱5,560,982
Non-recurring gains (losses):			
Insurance proceeds	**406,850**	–	–
Gain on sale of assets	**97,747**	–	401
Provision for rehabilitation costs and others	**(161,400)**	(1,446,859)	
Foreign exchange losses	**(180,062)**	(167,761)	(14,681)
Net Provision for write down of asset	**(303,419)**	(497,154)	(137,489)
Provision for impairment of AFS investments	**(1,006,508)**	–	–
Marked to market gain on derivative instruments	**–**	307,928	–
Clean- up costs	**–**	(21,657)	–
Gain (loss) on dilution of interest in associate	**–**	–	523,710

(Forward)

	2013	2012 (As restated)	2011 (As restated)
Provision for losses	**₱–**	₱–	(₱66,854)
Net tax effect of aforementioned adjustments	**(19,615)**	344,955	(102,274)
Net income attributable to equity holders of the Parent Company	**341,932**	208,733	5,763,795
Net income attributable to NCI	**(29,537)**	(519,572)	28,666
Consolidated net income (loss)	**₱312,395**	(₱310,839)	₱5,792,461

Core net income per share is computed as follows:

	2013	2012 (As restated)	2011 (As restated)
Core net income	**₱1,508,339**	₱1,689,281	₱5,560,982
Divided by weighted average number of common shares outstanding during year	**4,933,657,951**	4,932,216,253	4,926,583,729
Core net income per share	**₱0.306**	₱0.342	₱1.129

Sales of the Parent Company are made to Pan Pacific Metals (Pan Pacific), which is covered by a Long-term Gold and Copper Concentrates Sales Agreement (see Note 30), and to Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) for the remaining ore produce. Gross revenue from Pan Pacific and LD Metals for the year ended December 31, 2013 and 2012 are presented below:

	2013	2012	2011
LD Metals	**₱5,961,458**	₱4,428,747	₱10,219,215
Pan Pacific	**2,606,474**	4,047,513	5,654,565
	₱8,567,932	₱8,476,260	₱15,873,780

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	**₱3,616**	₱4,031
Cash with banks	**703,854**	552,030
Short-term deposits	**3,373,042**	1,113,481
	₱4,080,512	₱1,669,542

Cash with banks and short-term deposits earn interest at bank deposit rates. Short-term deposits are made for varying periods, usually of up to three months depending on the cash requirements of the Group. Interest income arising from cash with banks and short-term deposits amounted to ₱26,060, ₱58,201 and in ₱86,017 in 2013, 2012 and 2011, respectively.

7. Accounts Receivable

Accounts receivable consist of:

	2013	2012
Trade	**₱100,908**	₱133,565
Accrued interest	**3,591**	19,287
Others	**194,145**	57,294
	298,644	210,146
Less allowance for impairment losses	**3,193**	2,397
	₱295,451	₱207,749

The Parent Company's trade receivables arise from shipments of copper concentrates which are initially paid based on 90% of their provisional value, currently within one week from shipment date. The 10% final balance does not bear any interest until final settlement, which usually takes around three months from shipment date.

Accrued interest receivables arise from the Group's short-term deposits. Other receivables include advances to officers and employees, and other non-trade receivables.

The following table is a rollforward analysis of the allowance for impairment losses recognized on accounts receivable:

	2013	2012
January 1		
Trade	**₱689**	₱592
Others	**1,708**	1,708
Provisions during the year		
Trade	**–**	97
Others	**2,429**	–
Reversals during the year		
Trade	**(266)**	–
Others	**(1,367)**	–
December 31	**₱3,193**	₱2,397

The impaired receivables were specifically identified as at December 31, 2013 and 2012.

8. Inventories

Inventories consist of:

	2013	2012
Mine products - at NRV	**₱1,533,883**	₱–
Coal - at NRV	**–**	86,856
Petroleum - at cost	**21,193**	2,868
Materials and supplies:		
On hand - at NRV	**1,052,311**	1,128,294
In transit - at cost	**60,887**	96,833
	₱2,668,274	₱1,314,851

As at December 31, 2013 and 2012, the cost of materials and supplies inventories on hand amounted to ₱1,249,785 and ₱1,376,555, respectively. As at December 31, 2013 and 2012, the Group's coal inventory at cost amounted to ₱223,242 and ₱238,797, respectively.

The following table is a rollforward analysis of the allowance for impairment losses recognized on coal and materials and supplies inventories:

	2013	2012
January 1		
Coal	**₱151,941**	₱8,394
Materials and supplies	**248,261**	195,101
Provisions during the year		
Coal	**71,313**	143,547
Materials and supplies	**46,059**	53,160
Reversals during the year		
Materials and supplies	**(62,682)**	–
Write-off during the year		
Materials and supplies	**(34,164)**	–
Coal	**(12)**	
December 31	**₱420,716**	₱400,202

Additional provision for coal inventories which is related to BEMC's closure in 2013 is included in the "Impairment loss on deferred exploration cost and others" account in the consolidated statements of income due to its non-recurring nature.

Materials and supplies recognized as expense amounted to ₱1,656,530, ₱1,148,044 and ₱1,629,511, for the years ended December 31, 2013, 2012 and 2011 respectively (see Note 15).

9. Other Current Assets

Other current assets consist of:

	2013	2012
Input tax recoverable - net	**₱1,201,726**	₱899,672
Prepaid expenses and others	**141,519**	97,668
	₱1,343,245	₱997,340

The following table is a rollforward analysis of the allowance for impairment losses recognized on input tax recoverable:

	2013	2012
January 1	**₱99,392**	₱171,034
Provisions	–	3,653
Reversals and write-offs	–	(75,295)
December 31	**₱99,392**	₱99,392

10. Property, Plant and Equipment

Property, plant and equipment consist of:

	December 31, 2013						
	Mine, Mining and Oil and Gas Properties	**Land, Buildings and Improvements***	**Machinery And Equipment**	**Surface Structures**	**Construction in Progress**	**Non-operating Property and Equipment at Bulawan Mine**	**Total**
Cost:							
January 1	**₱9,000,304**	**₱239,945**	**₱7,671,416**	**₱135,944**	**₱795,469**	**₱2,197,683**	**₱20,040,761**
Additions	**633,376**	**5,513**	**710,809**	**206**	**961,045**	**–**	**2,310,949**
Acquisition of subsidiary	**–**	**–**	**35,161**	**–**	**–**	**–**	**35,161**
Disposals	**–**	**(3,538)**	**(1,111,252)**	**(730)**	**–**	**–**	**(1,115,520)**
Reclassifications (see Note 32)	**1,073,959**	**86,328**	**133,347**	**(5,261)**	**(1,242,188)**	**–**	**46,185**
Effect of CTA	**(27,362)**	**–**	**(3,150)**	**–**	**–**	**–**	**(30,512)**
December 31	**10,680,277**	**328,248**	**7,436,331**	**130,159**	**514,326**	**2,197,683**	**21,287,024**
Accumulated Depletion and Depreciation:							
January 1	**6,413,990**	**228,563**	**5,034,991**	**129,600**	**760**	**2,197,683**	**14,005,587**
Depletion and depreciation for the year (Notes 17 and 32)	**812,891**	**4,335**	**698,102**	**231**	**–**	**–**	**1,515,559**
Acquisition of subsidiary	**–**	**–**	**32,360**	**–**	**–**	**–**	**32,360**
Disposals	**–**	**(3,187)**	**(1,106,987)**	**(729)**	**–**	**–**	**(1,110,903)**
Impairment (Note 1)	**18,290**	**–**	**954**	**206**	**–**	**–**	**19,450**
Reversal of impairment	**–**	**–**	**(34,739)**	**–**	**–**	**–**	**(34,739)**
Reclassifications (see Note 32)	**–**	**–**	**–**	**760**	**(760)**	**–**	**–**
Effect of CTA	**(17,548)**	**–**	**(2,838)**	**–**	**–**	**–**	**(20,386)**
December 31	**7,227,623**	**229,711**	**4,621,843**	**130,068**	**–**	**2,197,683**	**14,406,928**
Net Book Values	**₱3,452,654**	**₱98,537**	**₱2,814,488**	**₱91**	**₱514,326**	**₱–**	**₱6,880,096**

**Cost of land amounts to ₱2,053. This also includes capitalized costs of mine rehabilitation of ₱18,130 and related accumulated amortization of ₱18,130.*

	December 31, 2012						
	Mine, Mining and Oil and Gas Properties	Land, Buildings and Improvements*	Machinery And Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost:							
January 1	₱8,411,329	₱239,945	₱6,945,112	₱163,372	₱86,868	₱2,197,683	₱18,044,309
Additions	612,666	–	769,183	3,970	718,807	–	2,104,626
Disposals	(74,049)	–	(32,298)	–	–	–	(106,347)
Reclassifications (see Note 32)	65,680	–	(10,250)	(31,398)	(10,206)	–	13,826
Effect of CTA	(15,322)	–	(331)	–	–	–	(15,653)
December 31	9,000,304	239,945	7,671,416	135,944	795,469	2,197,683	20,040,761
Accumulated Depletion and Depreciation:							
January 1	5,897,552	226,507	4,226,610	96,241	–	2,197,683	12,644,593
Depletion and depreciation for the year (Notes 17 and 32)	324,493	2,056	614,638	4,792	–	–	945,979
Disposals	(11,107)	–	(4,952)	–	–	–	(16,059)
Impairment (Note 1)	204,088	–	200,873	28,567	760	–	434,288
Effect of CTA	(1,036)	–	(2,178)	–	–	–	(3,214)
December 31	6,413,990	228,563	5,034,991	129,600	760	2,197,683	14,005,587
Net Book Values	₱2,586,314	₱11,382	₱2,636,425	₱6,344	₱794,709	₱–	₱6,035,174

**Cost of land amounts to ₱2,053. This also includes capitalized costs of mine rehabilitation of ₱18,130 and related accumulated amortization of ₱18,130.*

Mine and mining properties as at December 31, 2013 and 2012 include mine development costs of the 782 Meter Level and 798 Meter Level project amounting to ₱2,130,265 and ₱1,816,640 respectively. In 2011, the estimated mine life of the Parent Company's Padcal Mine was extended until 2020, or an additional three years from the original estimated mine life of until 2017. Correspondingly, the extension in mine life was considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost of machineries and equipment used in exploration projects amounting to ₱67,967, ₱166,984 and ₱172,549 in 2013, 2012 and 2011, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to nil as at December 31, 2013 and 2012. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2021 up to 2030, discounted using the Parent Company's historical average borrowing rate of 10% per annum. The provision for mine rehabilitation costs amounted to ₱19,865 and ₱18,892 as at December 31, 2013 and 2012, respectively.

In 2012, BEMC recognized an impairment loss on its mining properties, machinery and equipment, surface structures, and construction in progress related to the coal property in Zamboanga Sibugay amounting to ₱434,288 reducing the carrying value of BEMC's property and equipment to nil as at December 31, 2013 and 2012.

Included in the mine and mining properties is the present value of the BEMC's mine rehabilitation costs amounting to nil as at December 31, 2013 and 2012. Discount rate of 14% was used to compute the present value of mine rehabilitation costs as at December 31, 2010. Accretion of interest totaled ₱120, ₱105 and ₱91 in 2013, 2012 and 2011, respectively. Accordingly, the provision for mine rehabilitation costs of BEMC amounted to ₱953 and ₱833 as at December 31, 2013 and 2012, respectively.

Non-operating property and equipment in the Bulawan mine pertains to PGPI's fully-depreciated property and exploration equipment that are presently not in use. These assets do not qualify as assets held for sale under PFRS 5 and are thus retained as property, plant and equipment.

11. **Investments**

AFS Financial Assets

The Group's AFS financial assets consist of the following:

	2013	2012
Investments in quoted shares of stock of:		
Lepanto Consolidated Mining Company (Lepanto)	**₱672,608**	₱2,169,704
Indophil Resources NL (Indophil)	**190,375**	307,317
PERC	–	168,230
Philippine Realty & Holdings Corporation (PRHC)	**29,956**	30,315
Other quoted equity investments	**9,747**	10,861
	902,686	2,686,427

(Forward)

	2013	2012
Investments in unquoted shares of stock of:		
Pacific Global One Aviation	**₱37,500**	₱37,500
Philippine Associated Smelting and Refining Corporation	**14,055**	14,055
PPP	**–**	1,231,440
Other unquoted equity investments	**21,139**	21,339
	72,694	1,304,334
	₱975,380	₱3,990,761

AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are neither readily available nor is there an alternative basis of deriving a reliable valuation at the end of the reporting period.

As at December 31, 2013 and 2012, the cumulative increase in value of AFS financial assets amounted to ₱4,689 and ₱601,055, respectively as at December 31, 2013 and 2012, respectively. These changes in fair values in the same amounts have been recognized and shown as "Net unrealized gain on AFS financial assets" account in the equity section of the consolidated statements of financial position and are also shown in the consolidated statements of comprehensive income.

In 2013, the Company recognized impairment loss on quoted AFS investments in Lepanto and Indophil amounting to ₱1,006,508 due to a significant decline in the fair value of the quoted shares below its cost.

The following table shows the movement of the "Net unrealized Gain on AFS financial assets" account (including attributable to NCI of nil and ₱13,219 in 2013 and 2012, respectively):

	2013	2012
January 1	**₱587,836**	₱2,020,940
Net increase (decrease) in fair value of AFS financial assets	**(1,620,140)**	(1,375,522)
Loss transferred in consolidated statements of income due to impairment	**1,006,508**	–
Loss transferred in consolidated statements of income	**30,485**	–
Loss due to foreign exchange rate changes	**–**	(57,582)
December 31	**₱4,689**	₱587,836

Investment in PPP
On April 5, 2013, PPC increased its stake in PPP from 18.46% to 50.28% through acquisition of additional 46.4 million shares at US$0.75 per share which resulted in PPC obtaining control over PPP. The related investment account in PPP by PPC was reclassified as investment in subsidiary and eliminated during consolidation.

Investment in PERC
The Group's investment in shares of stock of PERC is carried at fair value with cumulative changes in fair value presented as part of "Unrealized gain on AFS financial asset" in the equity section of the consolidated statements of financial position.

On February 21, 2013, the Company sold all of its investment in PERC for ₱167,999. Gain on sale of PERC shares amounted to ₱26,867 which was recognized in the consolidated statements of income.

Subscriptions Payable
Subscriptions payable which is included as part of "Provisions and subscription payable" in the consolidated statements of financial position is related to the investments in shares of stock of PRHC and Philodrill amounting to ₱21,995 in both years.

12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

	2013	2012 (As restated)
Deferred mine exploration costs	**₱18,359,454**	₱14,726,242
Less allowance for impairment losses	**1,288,123**	1,048,811
	17,071,331	13,677,431
Deferred oil exploration costs	**5,421,457**	1,301,536
Less allowance for impairment losses	**442,974**	442,974
	4,978,483	858,562
Others	**377,372**	142,970
Less allowance for impairment losses	–	47,435
	377,372	95,535
	₱22,427,186	₱14,631,528

The following table is a rollforward analysis of the allowance for impairment losses recognized on deferred exploration cost and other noncurrent assets:

	2013	2012
January 1		
Deferred mine exploration cost	**₱1,048,811**	₱1,048,829
Deferred oil exploration cost	**442,974**	54,343
Others	**47,435**	47,435
Provisions during the year		
Deferred mine exploration cost	**242,686**	–
Deferred oil exploration cost	–	388,631
Reversals during the year		
Others	**(47,435)**	–
Write-off during the year		
Deferred mine exploration cost	**(3,374)**	(18)
December 31	**₱1,731,097**	₱1,539,220

Deferred Mine and Oil Exploration Costs

a. Deferred mine and oil exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas that can be produced in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable. Allowances recognized for the year are included

under "Impairment loss on deferred exploration costs and others" in the consolidated statements of income.

b. PPP , PPC and FEP, through its subsidiaries, has various participating interests in petroleum service contracts as follows:

	Participating Interest		
Service Contract	PPP	PPC	FEP
SC 6 (Cadlao Block)	–	1.65%	–
SC 6A (Octon Block)	70.00%	1.66%	1.67%
SC 6B (Bonita Block)	–	–	7.03%
SC 14 (Tara PA)	–	–	10.00%
SC 14 Block A (Nido)	–	–	8.47%
SC 14 Block B (Matinloc)	–	–	12.41%
SC 14 Block B-1 (North Matinloc)	–	–	19.46%
SC 14 Block C (Galoc)	–	–	2.28%
SC 14 Block C-2 (West Linapacan)	29.15%	–	2.28%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	66.67%
SC 53 (Mindoro)	35.00%	–	–
SC 72 (Reed Bank)	–	–	70.00%
SC 74 Area 5 (Northwest Palawan)	70.00%	–	–
SC 75 Area 4 (Northwest Palawan)	–	50.00%	–
Peru Block XXVIII	100.00%	–	–
Peru Block Z-38	25.00%	–	–

SC 6A (Octon Block)
The SC covers an area of 1,080 square kilometres and was entered into by the DOE and the original second parties to the contract on September 1, 1973. In July 2011, PPP acquired 70% interest and operatorship of the block by carrying all costs of Phase 1 of the work program which involved acquisition, processing, and interpretation of 500-kilometer 3D seismic data. PPP shall also have the right but not the obligation to proceed and carry the costs of Phases 2 and 3 upon notification of the other farmors.

SC 14 Block C (Galoc)
On September 10, 2012, the Galoc JV approved the Final Investment Decision (FID) for Phase 2 development of the Galoc Field starting first half of 2013. On June 4, 2013, drilling of two additional production wells commenced and was completed on October 23, 2013. On December 4, 2013, Galoc Phase 2 started to produce oil and is expected to increase field production from the average 4,500 BOPD to around 12,000 BOPD.

The total project cost, including drilling and development, is approximately US$188,000, of which FEP's share is US$4,278 (2.27575%).

On December 21, 2012, FEP and Galoc Production Company (GPC) entered into a loan facility with BNP Paribas to provide a total of US$40 million project financing for the Galoc Field's Phase 2 development. Total amount drawn and still outstanding as at the end of the reporting period amounted to US$2,477 or ₱110,033 (see Note 13). The remaining balance will be funded from FEP's existing cash resources.

SC 14 Block C-2 (West Linapacan)
West Linapacan is located in 300 to 350 metres of water, approximately 60 kilometres offshore from Palawan Island in SC 14 Block C2 in the Northwest Palawan Basin, Philippines. It comprises two main oil bearing structures - West Linapacan A and B - and several seismic leads. The SC was entered into in December 17, 1975 between the Petroleum Board and the original second parties to the contract. PPP had a 58.30% interest in this SC pursuant to a Farm-In Agreement approved by the DOE on September 11, 2008. However, on February 7, 2011, PPP concluded a farm-out agreement whereby it transferred 29.15% participating interest to RMA (HK) Limited in exchange for being carried through the drilling and testing of the West Linapacan A appraisal/development well. The farm-out agreement was approved by the DOE on July 4, 2011. The viability of redeveloping the West Linapacan oil field is currently being evaluated.

SC 40 (North Cebu)
In 2012, FEP commissioned a resource assessment study to be undertaken by Petroleum Geo-Services (PGS) Reservoir Consultants, an independent competent person. The results of the study, which was received in 2013, downgraded previously identified leads and prospects within SC 40. An important factor in this assessment was that third parties had experienced a dry hole in drilling efforts within the Central Tañon Straits which significantly reduced the likelihood of the existence of a commercially viable hydrocarbon deposit in this region. In light of this report and applying appropriate caution, the carrying value of the investment in SC40 has been impaired by ₱388,631 which is included in ‘Impairment loss on deferred exploration costs and others’ in the consolidated statement of income in 2012. Carrying value as at December 31, 2012 reflects the potential of a number of smaller onshore locations within SC 40.

SC 53 (Mindoro)
SC 53 measures 6,600 square kilometres and is mostly located in onshore Mindoro Island. It is adjacent to the petroliferous North Palawan Basin where almost all of the producing oil and gas wells in the Philippines are found. The SC was entered into in July 8, 2005 between Government of the Republic of the Philippines through the DOE and Laxmi Organic Industries Ltd. On September 5, 2007, PPP executed a farm-in agreement with the existing partners of SC 53. The agreement was subsequently approved by the DOE on June 11, 2008. On April 4, 2011, PPP executed a farm-out agreement whereby it transferred 35% of its participating interest to the farmee in exchange for being carried through the drilling, testing and completing of the Progreso-2 well and the acquisition, processing and interpretation of 2D onshore and offshore seismic data. The farm-out agreement was approved by the DOE on July 4, 2011.

SC 72 (Reed Bank)
SC 72 was awarded on February 15, 2010. It covers an area of 8,800 square kilometers and contains the Sampaguita Gas Discovery which has the potential to contain In-Place Contingent Resources of 2.6 trillion cubic feet (TCF) as reported by Weatherford Petroleum Consultants (Weatherford) in 2012.

Based on the study, In-Place Prospective Resources totalling 5.4 TCF is expected to be drilled in the area. The results of the study were used to define the location of two wells, to be named Sampaguita-4 and Sampaguita-5, which if successfully drilled, would be expected to increase the amount of potentially recoverable resources. The drilling of two wells is part of the work programme of FEP for the second-sub-phase of SC 72 which was supposed to be accomplished by August 2013. However, FEP was unable to commence the drilling programme because of maritime disputes between the Philippine and Chinese governments. The DOE has granted FEP an extension from August 2014 up to August 2015 on the grounds of force majeure to allow the completion of obligations under the SC.

In the meantime, FEP recognizes its ongoing commitment to the project by continuously undertaking studies to discover the field's potential. In October 2013, CGG Mumbai (CGG) completed the reprocessing of 700 line-km of vintage 2D seismic data in Reed Bank. CGG earlier completed the reprocessing of the 2011-acquired 2D data totaling 2,200 line-km.

SC 74 Area 5 (Northwest Palawan)
In September 2013, PPP, in consortium with Philodrill, acquired acreage covering Area 5 North West (NW) Palawan Basin in a competitive bid under the Fourth Philippine Energy Contracting Round (PECR4), with operating interest of 70% and participating interest of 30%, respectively. It covers an area of 4,240 square kilometers and is located in shallow waters of the NW Palawan area.

SC 75 Area 4 (Northwest Palawan)
On January 3, 2014, the duly executed copy of Petroleum SC 75 was granted to the bid group comprising PPC, Philippine National Oil Company Exploration Corporation and PERC with operating interest of 50%, participating interests of 35% and 15%, respectively. It covers an area of 6,160 square kilometers in the NW Palawan Basin which was referred to as Area 4 in PECR4.

Peru Block XXVIII
Block XXVIII was awarded to PPP in October 2010. It covers an area of 3,143 square kilometres located in the eastern portion of the productive Sechura Basin. As at December 31, 2013, the project is in its 2nd phase of exploration which involves several geological and geophysical studies such as gradiometry and magnetometry.

Peru Block Z-38
In April 2007, Block Z-38 was awarded to PPP. Farm-out agreement has been made by PPP in which it resulted to Karoon Gas Australia Ltd. obtaining operating interest of seventy-five percent (75%). It covers an area of 4,875 square kilometers and is located in the Tumbes Basin offshore NW Peru.

Award of SC for Area 4
On February 14, 2013, the Parent Company received a letter from the DOE stating the joint bid of PPC (Operator), PNOC Exploration Corporation and PERC has won the bidding for Area 4 Northwest Palawan Basin that was offered in the PERC4 for Petroleum.

Others

a. "Others" primarily pertain to materials and supplies that are being used in operations over a period of more than one year.

b. Included in "Others" are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (RA) No. 7942, otherwise known as "The Philippine Mining Act of 1995." The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad Mines, and for research in the social, technical and preventive aspects of their rehabilitation. As at December 31, 2013 and 2012, the Parent Company's MRF amounted to ₱5,988 and ₱5,790, while PGPI's MRF amounted to ₱6,730 and ₱6,642, respectively.

c. Included also in "Others" is the Parent Company's net retirement plan asset amounting to ₱297,705 (see Note 18). The Parent Company's retirement liability amounting to ₱43,973 as at December 31, 2012 was recorded under "Pension obligation" account.

13. **Loans Payable**

	2013	2012
Current		
Related Party		
Asia Link B.V.	**₱2,219,750**	₱–
Kirtman Limited	**665,925**	1,100,000
Maxella Limited	**665,925**	–
Bank loans		
Banco de Oro (BDO)	**987,900**	100,000
Philippine National Bank (PNB)	**887,900**	–
Bank of the Philippine Islands (BPI)	**693,950**	250,000
BNP Paribas - current portion	**55,019**	–
Total current loans	**6,176,369**	1,450,000
Noncurrent		
BNP Paribas - net of current portion	**55,014**	–
	₱6,231,383	₱1,450,000

Kirtman Limited Loan
On November 9, 2012, the Parent Company entered into an unsecured Term Loan Facility Agreement (the 1st Loan Agreement) with Kirtman Limited (a subsidiary of FPC), a related party, amounting to a maximum of ₱2,100,000 maturing 364 days after the Agreement date. The interest rate of the loan is set at 5% per annum. Initial drawdown of ₱1,100,000 was made on November 13, 2012. On January 14, 2013, the Parent Company availed of the ₱1,000,000 balance of the facility. The proceeds of the loan were used to fund the capital expenditures of Silangan Project and working capital requirements of the Group.

On March 12, 2013, the Parent Company entered into a second Term Loan Facility Agreement (the 2nd Loan Agreement) with Kirtman Limited amounting to a maximum of US$25,000 maturing 364 days after the 2nd Loan Agreement date. The interest rate of the loan is set at 5% per annum. Initial drawdown of US$15,000 was made on March 18, 2013.

Both loans contain a pre-termination clause which allows the Parent Company to pay all outstanding drawdown before maturity date.

On November 8, 2013, the Parent Company fully paid the ₱2,100,000 loan from Kirtman Limited.

Maxella Limited Loan
On March 12, 2013, the Parent Company entered into a Term Loan Facility Agreement (the 3rd Loan Agreement) with Maxella Limited (a subsidiary of FPC), a related party, amounting to a maximum of US$25,000 maturing 364 days after the 3rd Loan Agreement date. The interest rate of the loan is set at 5% per annum. Initial drawdown of US$15,000 was made on March 18, 2013. The loan also contains a pre-termination clause which allows the Parent Company to pay all outstanding drawdown before maturity date.

Asia Link B.V. Loan
On March 12, 2013, the Parent Company entered into a Term Loan Facility Agreement (the 4th Loan Agreement) with Asia Link B.V., a related party, for up to a maximum of US$100,000. Initial drawdown of US$50,000 at the interest rate of 5% per annum was made on April 12, 2013.

Interest expense on the Term Loan Facility Agreements with Kirtman Limited, Maxella Limited and Asia Link B.V amounted to ₱374,765 and ₱21,000 for 2013 and 2012, respectively.

BDO Loans

On April 25, 2013, PMC assumed the liability for the settlement of the ₱100,000 loan from BDO of BEMC at the interest rate of 4% subject to repricing. After a series of renewals during the year, the maturity of the loan was extended to January 20, 2014. The loan was consequently renewed upon maturity for an additional 85 days until April 15, 2014 under the same terms.

On November 6, 2013, the Parent Company obtained unsecured short-term loans from BDO amounting to US$20,000. The loan carries 2.5% interest per annum and will mature on February 4, 2014. The loan was also renewed upon maturity for an additional 90 days until May 5, 2014 under the same terms.

BPI Loans

On January 14, 2013 and February 18, 2013, PMC assumed the liability for the settlement of the ₱150,000 and ₱100,000 loans with BPI, previously payable by BEMC. The interest rates of the notes are at 4% per annum but subject to repricing every 30 days based on the prevailing interest rate at the date of repricing. The related interest is payable every 30 days. After a series of renewals, the maturity of the ₱150,000 and ₱100,000 loans from BPI was extended to January 30, 2014 and February 14, 2014, respectively. Interest was increased to 4.5% per annum for both loans. The maturity dates of both loans were extended through another renewal under the increased interest rate until March 3, 2014 and March 28, 2014, respectively.

On April 2, 2013, the Parent Company obtained an unsecured short-term loan from BPI amounting to US$10,000. The loan carries 2.375% interest per annum but subject to repricing every 30 days and will mature on July 1, 2013. After a series of renewals, the maturity of the US$10,000 BPI loan was extended and paid on September 12, 2013.

On November 6, 2013, the Parent Company obtained an unsecured short-term loan from BPI amounting to US$10,000. The loan carries 2.5% interest per annum and will mature on February 6, 2014. The loan was also renewed upon maturity for an additional 45 days or until March 21, 2014 under the same terms.

PNB Loans

The Parent Company also obtained a short-term loan on April 2, 2013 from PNB amounting to US$17,500 guaranteed by the Parent Company's ore concentrate shipment number 691 to Pan Pacific. The loan carries 2.5% fixed interest rate per annum and will mature on May 10, 2013 or upon receipt of payment from Pan Pacific, whichever comes earlier. The loan was fully settled on May 6, 2013.

On April 2, 2013, the Parent Company obtained an unsecured short-term loan from PNB amounting to US$2,500. The loan carries 2.5% interest per annum but subject to repricing every 30 days, respectively, and will mature on July 1, 2013. The US$2,500 loan from PNB was fully paid on July 1, 2013.

On November 6, 2013, the Parent Company obtained unsecured short-term loans from PNB amounting to US$20,000. The loan carries 2.5% interest per annum and will mature on February 4, 2014. The loan was renewed upon maturity for an additional 90 days or until May 5, 2014 under the same terms.

Interest expense on the bank loans amounted to ₱37,676, ₱14,361 and ₱13,918 for the 2013, 2012 and 2011 respectively.

BNP Paribas Loan
On December 21, 2012, FEP, together with GPC, entered into a $40 million loan facility with BNP Paribas for the purpose of financing the development activities of SC 14 C's Galoc Phase II. Five drawdowns were made during the year. Total amount drawn and still outstanding as at the end of the period amounted to US$2.48 million or ₱110,033. As at December 31, 2013, current and noncurrent portions of the loan amounted to ₱55,019 and ₱55,014, respectively. Interest expense capitalized as part of property and equipment relating to the loan amounted to ₱1,095 as at December 31, 2013. In the same year, facility fees and finance charges amounted to ₱7,100 and ₱7,890, respectively. The facility fees and finance charges are recorded under 'Interest expense' in the consolidated statements of comprehensive income.

The loan is secured by 500,000,006 shares of FEP representing 100% capital stock of the company.

Interest on the loan is set at 6% plus London Interbank Offered Rate (LIBOR) rate per annum as at December 31, 2013. It shall decrease to 5.5% plus LIBOR rate per annum once all stipulations in the loan facility agreement have been met.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2013	2012
Trade	**₱1,331,320**	₱431,260
Accrued expenses	**675,338**	372,205
Accrued royalties and excise taxes	**129,233**	71,713
Withholding taxes	**99,975**	28,269
Refundable retention fee	**13,270**	35,468
Accrued interest	**–**	24,765
Other nontrade liabilities	**72,165**	131,870
	₱2,321,301	₱1,095,550

Trade payables are non-interest bearing and are generally settled within 30-60 day terms. Accrued expenses consist of accrued operating and administrative expenses, contracted and outside services. Other nontrade liabilities include payroll-related liabilities.

15. **Costs and Expenses**

Costs and expenses include the following:

	2013	2012 (As restated)	2011 (As restated)
Mining and milling costs:			
Materials and supplies	**₱1,580,141**	₱978,683	₱1,612,583
Communications, light and water	**1,291,863**	907,070	1,276,766
Personnel (Note 16)	**862,676**	665,939	1,026,596
Depletion and depreciation (Notes 10 and 17)	**1,339,139**	552,783	749,423
Contracted services	**232,155**	286,561	446,534
Others	**151,907**	82,147	146,014
	₱5,457,881	₱3,473,183	₱5,257,916
General and administrative expenses:			
Personnel (Note 16)	**₱550,866**	₱437,122	₱334,751
Contracted services	**236,400**	201,143	172,019
Taxes and licenses	**60,592**	66,735	151,567
Travel and transportation	**48,101**	59,246	58,799
Repairs and maintenance	**27,999**	20,956	20,974
Depreciation (Notes 10 and 17)	**22,562**	26,330	20,866
Communications, light and water	**18,738**	17,165	14,489
Donations	**6,875**	29,450	21,551
Business meetings	**4,279**	6,519	9,379
Office supplies	**3,821**	5,209	11,289
Exploration supplies	**1,908**	8,947	5,639
Others	**328,918**	269,469	216,820
	₱1,311,059	₱1,148,291	₱1,038,143
Mine products taxes and royalties:			
Royalties	**₱343,548**	₱295,590	₱544,841
Excise taxes	**192,974**	159,268	309,388
	₱536,522	₱454,858	₱854,229

Other general and administrative expenses include security, janitorial and other outside services, and general miscellaneous expenses.

Starting August 1, 2012, the Company suspended its operations at the Padcal Mine after tailings were accidentally discharged from the underground tunnel of Penstock A being used to drain water from TSF No. 3 of the mine. Maintenance costs incurred during the suspension of operations of the Padcal Mine until March 7, 2013 are as follows:

	2013	2012 (As restated)
Padcal maintenance costs:		
Personnel (Notes 16 and 18)	**₱126,313**	₱187,919
Depreciation (Notes 10 and 17)	**85,891**	199,882
Materials and supplies	**70,660**	155,205
Communications, light and water	**67,213**	151,362
Contracted services	**60,580**	117,755
Others	**28,933**	99,984
	₱439,590	₱912,107

16. **Personnel Cost**

Details of personnel costs are as follows:

	2013	2012 (As restated)	2011 (As restated)
Mining and milling costs:			
Salaries and wages	**₱576,940**	₱404,962	₱601,884
Employee benefits	**228,047**	210,760	378,054
Pension costs (Note 18)	**57,689**	50,217	46,658
	862,676	665,939	1,026,596
General and administrative expenses:			
Salaries and wages	**323,714**	246,679	182,617
Employee benefits	**211,304**	179,677	144,399
Pension costs (Note 18)	**15,848**	10,766	7,735
	550,866	437,122	334,751
Padcal maintenance costs:			
Salaries and wages	**73,398**	114,275	–
Employee benefits	**36,637**	59,474	–
Pension costs (Note 18)	**16,278**	14,170	–
	126,313	187,919	–
	₱1,539,855	₱1,290,980	₱1,361,347

17. **Depreciation**

Details of depreciation expense are as follows:

	2013	2012	2011
Mining and milling costs	**₱1,339,139**	₱552,783	₱749,423
General and administrative	**22,562**	26,330	20,866
Padcal maintenance costs	**85,891**	199,882	–
	₱1,447,592	₱778,995	₱770,289

18. **Retirement Benefits**

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 employees retirement benefit under the collective bargaining and other agreements shall not be less than provided under the law. The law does not require minimum funding of the plan.

<u>Parent Company Retirement Fund</u>
The Parent Company has a funded, noncontributory, defined benefits retirement plan covering all of its regular employees. The pension funds are being administered and managed through the Retirement Gratuity Plan of Philex Mining Corporation, with Bank of Commerce (BC) and BDO as Trustee. The retirement plan provides for retirement, separation, disability and death benefits to its members.

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 employees retirement benefit under the collective bargaining and other agreements shall not be less than provided under the law. The law does not require minimum funding of the plan.

Changes in the net defined benefit liability (asset) of funded funds of the Parent Company are as follows:

2013											
		Net benefit cost in charged to statement of income				**Remeasurements in other comprehensive income**					
	January 1, 2013	**Current service cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2013**
Present value of defined benefit obligation	**₱1,418,115**	**₱88,819**	**₱49,395**	**₱138,214**	**(₱145,263)**	**₱–**	**(₱33,906)**	**(₱238,322)**	**(₱272,228)**	**₱–**	**₱1,138,838**
Fair value of plan assets	**(1,374,142)**	**–**	**(52,303)**	**(52,303)**	**116,397**	**(30,495)**	**–**	**–**	**(30,495)**	**(96,000)**	**(1,436,543)**
	₱43,973			**₱85,911**	**(₱28,866)**	**(₱30,495)**	**(₱33,906)**	**(₱238,322)**	**(₱302,723)**	**(₱96,000)**	**(₱297,705)**

2012											
		Net benefit cost in charged to statement of income				Remeasurements in other comprehensive income					
	January 1, 2012	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2012
Present value of defined benefit obligation	₱1,307,421	₱76,396	₱56,513	₱132,909	(₱127,253)	₱–	₱25,765	₱79,273	₱105,038	₱–	₱1,418,115
Fair value of plan assets	(1,199,523)	–	(58,041)	(58,041)	88,744	(109,322)	–	–	(109,322)	(96,000)	(1,374,142)
	₱107,898			₱74,868	(₱38,509)	(₱109,322)	₱25,765	₱79,273	(₱4,284)	(₱96,000)	₱43,973

	2011										
		Net benefit cost in charged to statement of income				Remeasurements in other comprehensive income					
	January 1, 2011	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2011
Present value of defined benefit obligation	₱1,085,575	₱59,003	₱47,522	₱106,525	(₱49,440)	₱–	₱69,506	₱95,255	₱164,761	₱–	₱1,307,421
Fair value of plan assets	(1,054,479)	–	(52,271)	(52,271)	49,440	(46,213)	–	–	(46,213)	(96,000)	(1,199,523)
	₱31,096			(₱54,254)	–	(₱46,213)	₱69,506	₱95,255	(₱118,548)	(₱96,000)	₱107,898

The fair value of net plan assets of the Parent Company by each classes as at the end of the reporting period are as follows:

	2013	2012
Assets		
Cash and cash equivalents	**₱154,040**	₱88,608
Receivables	**12,639**	20,829
Investment in debt securities	**144,423**	968,659
Investment in equity securities	**1,112,738**	296,393
Other investments	**13,551**	495
	1,437,391	1,374,984
Liabilities		
Accrued trust fees payables	**848**	842
	₱1,436,543	₱1,374,142

The cost of defined benefit pension plans as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2013	2012
Discount rate	**3.20%**	4.32%
Salary increase rate	**5.00%**	10.00%

The overall expected rate of return of assets is determined based on market expectation prevailing on that date, applicable to the period over which the obligation is expected to be settled.

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

	Increase (decrease)	Effect on defined benefit obligation
Discount rates	1.00%	(₱1,079,177)
	(1.00%)	1,202,472
Salary increase rate	1.00%	₱1,191,848
	(1.00%)	(1,088,079)

Shown below is the maturity analysis of the Company's undiscounted benefit payments:

	Expected benefit payments
Less than one year	₱66,501
More than one year to five years	338,545
More than five years to ten years	1,489,731

The average duration of the defined benefit obligation at the end of the reporting period is 5 years.

The Parent Company's actuarial funding requirement in 2013 is nil, however, the intention is to continue regular contributions to the fund. The Parent Company expects to make a total contribution of ₱96,000 to its defined benefit pension plan in 2014.

Pension expense from the defined benefit retirement plan is actuarially determined using the projected unit credit method. The latest actuarial valuation report was made as at December 31, 2013.

SMMCI Retirement Fund

SMMCI has unfunded, noncontributory defined benefit retirement plan covering its regular and full-time employees. The Company also provides additional post employment healthcare benefits to certain senior employees in the Philippines.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2013	2012
Discount rates	**5.42%**	6.14%
Future salary increases	**10.00%**	10.00%
Turnover rate	**3.12%**	3.12%

Changes in the defined benefit liability of SMMCI are as follows:

	2013	2012
January 1	**₱993**	₱140
Current service cost	**1,295**	275
Interest cost	**46**	10
Subtotal	**1,341**	285
Remeasurements in other comprehensive income:		
Experience adjustments	**2,950**	417
Actuarial changes from changes in financial assumptions	**691**	151
Subtotal	**3,641**	568
December 31	**₱5,975**	₱993

The net retirement liability as at the end of the reporting period amounted to ₱5,975 and ₱993 as at December 31, 2013 and 2012, respectively.

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

	2013	
	Increase (decrease)	Present Value of Obligation
Discount rates	1.00%	(₱930)
	(1.00%)	1,170
Future salary increases	1.00%	1,074
	(1.00%)	(881)
Turnover rate	1.14%	(451)
	(1.00%)	471

The average duration of the defined benefit obligation at the end of the reporting period is 20.4 years and 22.5 years in 2013 and 2012, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013	2012
Less than 1 year	**₱–**	₱–
More than 1 year to 5 years	**12,411**	1,512
More than 5 years to 10 years	**23,461**	5,356
More than 10 years to 15 years	**12,012**	4,853
More than 15 years to 20 years	**72,619**	13,658
More than 20 years	**293,338**	123,785

PPP Retirement Fund

PPP has an unfunded, noncontributory defined benefit retirement plan covering its regular and full-time employees.

The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension and post-employment medical benefit obligations for the defined benefit plans are shown below:

	2013	2012
Discount rates	**3.25%**	4.75%
Future salary increases	**5.00%**	5.00%

Changes in the defined benefit liability of PPP as at December 31, 2013 are as follows:

	2013
January 1	₱–
Effect of business combination (Note 4)	11,373
Current service cost	2,023
Interest cost	540
Subtotal	2,563
Remeasurements in other comprehensive income:	
Experience adjustments	494
Actuarial changes from changes in financial assumptions	1,193
Subtotal	1,687
December 31	₱15,623

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

	2013	
	Increase (decrease)	Present Value of Obligation
Discount rates	1.00%	(₱14,815)
	(1.00%)	16,527
Future salary increases	1.00%	(16,502)
	(1.00%)	14,821

Shown below is the maturity analysis of the undiscounted benefit payments:

	2013
Less than 1 year	₱–
More than 1 year to 5 years	18,586
More than 5 years to 10 years	10,135

19. **Financial Instruments**

Fair Values of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, short-term bank loan, accounts payable and accrued liabilities, dividends payable and subscriptions payable, approximate their fair values because of their short-term nature. Quoted AFS financial assets are carried at fair value based on the quoted values of the securities. Unquoted AFS financial assets are carried at book value since fair value cannot be readily determined based on observable market data.

The fair value measurement of the quoted financial assets is categorized as under Level 1 under fair value hierarchy.

20. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies
The Group's principal financial instruments, other than derivatives, comprise mainly of cash and cash equivalents, accounts receivable, AFS financial assets, short-term bank loan and accounts payable and accrued liabilities. The main purpose of these financial instruments is to provide financing for the Group's operations and capital intensive projects.

The BOD is mainly responsible for the overall risk management and approval of the risk strategies and principles of the Group. On June 29, 2011, the BOD approved its formalized hedging policy in relation to entering into commodity derivatives in order to manage its financial performance.

Financial Risks
The main risks arising from the Group's financial instruments are credit and concentration risks, liquidity risk and market risk. The market risk exposure of the Group can be further classified to foreign currency risk, interest rate risk, equity price risk and commodity price risk. The BOD reviews and approves the policies for managing these risks and they are summarized as follows:

Credit and Concentration Risks
Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual mineral products sales are committed to Pan Pacific with whom the Parent Company has a long-term sales agreement. This agreement is effective until the end of the Padcal Mine life currently declared at 2020. The balance of the Parent Company's annual mineral products sales is with Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) which is covered by a long-term sales agreement up to January 31, 2013 and several short-term agreements for 25,000 DMT representing the 40% excess production from June 2013 to May 2014..

Credit risk may also arise from the Group's other financial assets, which comprise of cash and cash equivalents. The Group's exposure to credit risk could arise from default of the counterparty, having a maximum exposure equal to the carrying amount of these instruments.

The table below summarizes the Group's exposure to credit risk for the components of the consolidated statements of financial position as of December 31, 2013, 2012 and 2011:

	2013	2012
Cash and cash equivalents:		
Cash with banks	**₱703,854**	₱552,030
Short-term deposits	**3,373,042**	1,113,481
Accounts receivable:		
Trade	**100,485**	132,876
Accrued interest	**3,591**	19,287
Others	**191,375**	55,586
Gross maximum credit risk exposure	**₱4,372,347**	₱1,873,260

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2013 and 2012 based on the Group's credit evaluation process:

	December 31, 2013			
	Neither Past Due nor Impaired		**Past Due and Individually**	
	High-Grade	**Standard**	**Impaired**	**Total**
Cash and cash equivalents:				
Cash with banks	**₱703,854**	**₱–**	**₱–**	**₱703,854**
Short-term deposits	**3,373,042**	**–**	**–**	**3,373,042**
Accounts receivable:				
Trade	**100,485**	**–**	**423**	**100,908**
Accrued interest	**3,591**	**–**	**–**	**3,591**
Others	**191,375**	**–**	**2,770**	**194,145**
Total	**₱4,372,347**	**₱–**	**₱3,193**	**₱4,375,540**

	December 31, 2012			
	Neither Past Due nor Impaired		Past Due and Individually	
	High-Grade	Standard	Impaired	Total
Cash and cash equivalents:				
Cash with banks	₱552,030	₱–	₱–	₱552,030
Short-term deposits	1,113,481	–	–	1,113,481
Accounts receivable:				
Trade	132,876	–	689	133,565
Accrued interest	19,287	–	–	19,287
Others	55,586	–	1,708	57,294
Total	₱1,873,260	₱–	₱2,397	₱1,875,657

Credit quality of cash and cash equivalents and accounts receivable are based on the nature of the counterparty and the Group's evaluation process.

High-grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience.

The Group has no past due but not impaired financial assets as at December 31, 2013 and 2012.

Liquidity Risk
Liquidity risk is the risk where the Group becomes unable to meet its obligations when they fall due under normal and stress circumstances. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group addresses liquidity concerns primarily through cash flows from operations and short-term borrowings, if necessary.

The tables below summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contracted undiscounted repayment obligations (including interest) as at December 31, 2013 and 2012, respectively:

	December 31, 2013			
	On Demand	**Within 1 Year**	**More than 1 Year**	**Total**
Loans and receivables:				
Cash and cash equivalents	**₱4,080,512**	**₱–**	**₱–**	**₱4,080,512**
Accounts receivable:				
Trade	**–**	**100,485**	**–**	**100,485**
Others	**–**	**191,375**	**–**	**191,375**
AFS financial assets:				
Quoted equity investments	**902,686**	**–**	**–**	**902,686**
Unquoted equity investments	**72,694**	**–**	**–**	**72,694**
Total undiscounted financial assets	**₱5,055,892**	**₱291,860**	**₱–**	**₱5,347,752**

	December 31, 2012			
	On Demand	Within 1 Year	More than 1 Year	Total
Loans payable - current:				
Principal	₱–	₱6,176,369	₱–	₱6,176,369
Interest	–	352,018	–	352,018
Loans payable – noncurrent:				
Principal	–	–	55,014	55,014
Interest	–	–	3,455	3,455
Accounts payable and accrued liabilities	–	2,092,093	–	2,092,093
Dividends payable	460,650	–	–	460,650
Subscriptions payable	21,995	–	–	21,995
Total undiscounted financial liabilities	₱482,645	₱8,620,480	₱58,469	₱9,161,594

	December 31, 2012			
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables:				
Cash and cash equivalents	₱1,669,542	₱–	₱–	₱1,669,542
Accounts receivable:				
Trade	–	132,876	–	132,876
Others	–	74,873	–	74,873
AFS financial assets:				
Quoted equity investments	2,686,427	–	–	2,686,427
Unquoted equity investments	1,304,334	–	–	1,304,334
Total undiscounted financial assets	₱5,660,303	₱207,749	₱–	₱5,868,052
Short-term loans:				
Principal	₱–	₱1,450,000	₱–	₱1,450,000
Interest	–	71,742	–	71,742
Accounts payable and accrued liabilities	–	995,568	–	995,568
Dividends payable	483,257	–	–	483,257
Subscriptions payable	21,995	–	–	21,995
Total undiscounted financial liabilities	₱505,252	₱2,517,310	₱–	₱3,022,562

<u>Market Risks</u>

Foreign Currency Risk
Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency. All of the Parent Company's sales are denominated in US dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US dollar-denominated cash and cash equivalents, and trade receivables. For the years ended December 31, 2013, 2012 and 2011, the Group recognized net foreign exchange losses of ₱173,972, ₱164,716 and ₱14,681, respectively, arising from the translation of these foreign currency-denominated financial instruments.

As the need arises, the Group enters into structured currency derivatives to cushion the effect of foreign currency fluctuations.

The following tables summarize the impact on income before income tax of reasonably possible changes in the exchange rates of US dollar against the Peso. The reasonable movement in exchange rates was determined using 1-year historical data.

Year Ended December 31, 2013	
US$ Appreciate (Depreciate)	**Effect on Income before Income Tax**
9%	**(₱212,367)**
(9%)	**212,367**

Year Ended December 31, 2012	
US$ Appreciate (Depreciate)	Effect on Income before Income Tax
6%	₱56,888
(6%)	(56,888)

There were no outstanding dollar derivatives as of December 31, 2013 and 2012.

As of December 31, 2011, there were outstanding dollar derivatives designated as cash flow hedges wherein fair value changes are reported under equity. The following table summarizes the impact on equity of reasonably possible changes in the exchange rates of US dollar against the Peso.

Year Ended December 31, 2011	
US$ Appreciate (Depreciate)	Effect on Equity
6%	(₱214,619)
(6%)	177,757

Interest Rate Risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. The Group's exposure to the risk in changes in market interest rates relates primarily to BEMC's short-term loans in 2012 which was transferred to PMC in 2013 and other bank loans availed of the Parent Company.

The Group relies on budgeting and forecasting techniques to address cash flow concerns. The Group also keeps its interest rate risk at a minimum by not borrowing when cash is available or by prepaying, to the extent possible, interest-bearing debt using operating cash flows.

The following table illustrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's 2013, 2012 and 2011 income before income tax. The change in market interest rates is based on the annualized volatility of the 6-month benchmark rate:

Year Ended December 31, 2013	
Change in Market Rate of Interest	**Effect on Income before Income Tax**
Decrease by 1.0%	**₱26,798**
Decrease by 0.5%	**13,399**
Increase by 1.0%	**(26,798)**
Increase by 0.5%	**(13,399)**

Year Ended December 31, 2012	
Change in Market Rate of Interest	Effect on Income before Income Tax
Decrease by 1.0%	₱3,500
Decrease by 0.5%	1,750
Increase by 1.0%	(3,500)
Increase by 0.5%	(1,750)

Year Ended December 31, 2011	
Change in Market Rate of Interest	Effect on Income before Income Tax
Decrease by 1.0%	₱3,500
Decrease by 0.5%	1,750
Increase by 1.0%	(3,500)
Increase by 0.5%	(1,750)

There is no other impact on the Group's equity other than those affecting consolidated statements of income.

Equity Price Risk

Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company and PPC, which are classified in the consolidated statements of financial position as AFS financial assets (see Note 11). As of December 31, 2013 and 2012, investments in quoted shares totaling ₱902,686 and ₱2,686,427 represent 2.26% and 9.18% of the total assets of the Group, respectively. Reasonable possible changes were based on an evaluation of data statistics using 1-year historical stock price data.

The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as AFS financial assets as at December 31, 2013 and 2012 that could be brought by changes in equity indices with all other variables held constant are as follows:

December 31, 2013

Currency	**Change in Quoted Prices of Investments Carried at Fair Value**	**Effect on Equity**
Australian dollar (AU$)	**Increase by 25%**	**₱1,937**
	Decrease by 49%	**(3,797)**
Peso	**Increase by 67%**	**219,406**
	Increase by 34%	**438,811**
	Decrease by 67%	**(219,406)**
	Decrease by 34%	**(438,811)**

December 31, 2012

Currency	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Australian dollar (AU$)	Increase by 25%	₱1,828
	Decrease by 49%	(3,582)
Peso	Increase by 22%	523,404
	Increase by 44%	1,046,808
	Decrease by 22%	(523,404)
	Decrease by 44%	(1,046,808)

Commodity Price Risk
The Parent Company's mine products revenues are valued based on international commodity quotations (i.e., primarily on the LME and London Bullion Metal Association quotes) over which the Parent Company has no significant influence or control. This exposes the Group's results of operations to commodity price volatilities that may significantly impact its cash inflows. The Parent Company enters into derivative transactions as a means to mitigate the risk of fluctuations in the market prices of its mine products.

The following table shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Company as at December 31, 2013. The change in metal prices is based on 1-year historical price movements.

December 31, 2013

Change in Metal Prices	Effect on Income before Income Tax
Gold:	
Increase by 22%	₱177,183
Decrease by 22%	(177,183)
Copper:	
Increase by 30%	136,305
Decrease by 30%	(136,305)

There were no outstanding gold and copper derivatives as at December 31, 2013 and 2012.

Derivative Financial Instruments
There were no outstanding derivative financial instruments as at December 31, 2013 and 2012.

Unwinding of Derivative Contracts
In August 2012, the Parent Company pre-terminated all outstanding derivative financial instruments prompted by the suspension of Padcal operations which could no longer deliver the underlying production supposed to be covered by the hedged volumes for the rest of the year. Fair value gains amounting to ₱307,928 were realized in the consolidated statements of income.

Gold Derivatives
During 2012, the Parent Company has entered into gold forward and collar contracts to hedge the Parent Company's position to possibly decreasing gold prices. These contracts have a total notional amount of 35,200 ounces and were designated as cash flow hedges.

There were no outstanding gold derivatives as at December 31, 2013 and 2012.

Copper Derivatives
During 2012, the Parent Company entered into copper forward contracts to hedge against volatile copper prices. These contracts have a total notional amount of 10,110 dry metric tons (DMT) consisting of 5,120 DMT, which were designated as cash flow hedges and 4,990 DMT, which were not designated as cash flow hedges.

There were no outstanding copper derivatives as of December 31, 2013 and 2012.

Dollar Forwards and Collars
During 2012, the Parent Company entered into dollar collar contracts at an average put strike of ₱42.83 and average call strike of ₱44.63. These contracts have a total notional amount of US$72 million and were designated as cash flow hedges.

There were no outstanding dollar forwards and collars as at December 31, 2013 and 2012.

Embedded Derivatives
As at December 31, 2013, 2012 and 2011, the Parent Company had embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Note 30). Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated statements of financial position. The Parent Company determines mark-to-market prices using the forward price for quotational periods after statements of financial position date stipulated in the contract. The effect of these fair value adjustments arising from embedded derivatives amounted to a loss of ₱65,037 as at December 31, 2013 and ₱469 as at December 31, 2012, respectively, which were included under revenue and adjusted against receivables.

Fair Value Changes on Derivatives
Fair value changes of derivatives that are not designated as accounting hedges flow directly to the consolidated statements of income, while those which are designated as accounting hedges go to equity. Realized gains and losses on settlement are adjusted to the related revenue accounts.

The details of the net changes in the fair values of all derivative instruments as at December 31, 2013 and 2012 are as follows:

	2013	2012
January 1	**₱–**	₱857,431
Premiums paid	**–**	–
Net changes in fair values of derivatives:		
Designated as accounting hedges	**–**	(280,584)
Not designated as accounting hedges	**–**	115,826
	–	692,673
Fair value of settled instruments	**–**	(692,673)
December 31	**₱–**	₱–

In 2012, fair value of settled instruments includes fair value gains from derivatives designated as accounting hedges, copper derivatives not designated as accounting hedge, and unwound deals amounting to ₱384,745, ₱20,740, and ₱287,188, respectively.

Hedge Effectiveness of Cash Flow Hedges
Below is a rollforward of the Parent Company's cumulative translation adjustments (CTA) on cash flow hedges for the years ended December 31, 2013 and 2012:

	2013	2012
January 1	**₱–**	₱499,496
Changes in fair value of cash flow hedges	**–**	(280,584)
Transferred to consolidated statements of income	**–**	(432,982)
Tax effects of items taken directly to or transferred from equity	**–**	214,070
December 31	**₱–**	₱–

21. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources, ensuring that the Group complies with externally imposed capital requirements, if any, and considering changes in economic conditions and the risk characteristics of the Group's activities. No significant changes have been made in the objectives, policies and processes of the Group from the previous years.

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

	2013	2012
Capital stock	**₱4,936,996**	₱4,933,027
Additional paid-in capital	**1,058,497**	963,867
Retained earnings:		
Unappropriated	**4,128,826**	13,578,086
Appropriated	**10,000,000**	–
	₱20,124,319	₱19,474,980

22. Foreign Currency-Denominated Monetary Assets and Liabilities

The Group's foreign currency-denominated monetary assets and liabilities as at December 31, 2013 and 2012 follow:

	2013		2012	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Assets				
Cash and cash equivalents	**$90,577**	**₱4,021,166**	$20,450	₱839,473
Trade receivables	**–**	**–**	2,647	108,659
	90,577	**4,021,166**	23,097	948,132
Liabilities				
Accounts payable	**11,251**	**499,488**	–	–
Bank loan	**52,477**	**2,329,716**	–	–
Related party loans	**80,000**	**3,551,600**	–	–
	143,728	**6,380,804**	–	–
Net Assets (Liabilities)	**($53,151)**	**(₱2,359,638)**	$23,097	₱948,132

The exchange rates of the Peso to US dollar were ₱44.40 to US$1 as at December 31, 2013 and ₱41.05 to US$1 as at December 31, 2012.

23. Related Party Transactions

Companies within the Group in the regular conduct of business, enters into transactions with related parties which consists of advances, loans, reimbursement of expenses, regular banking transactions, leases and management and administrative service agreements.

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

	Year	Amount / Volume	Outstanding Balance	Terms	Conditions
Loans from: increase (decrease)					
Kirtman Limited	**2013**	**₱–**	**₱–**	Payable in 364 days	Unsecured,
(Peso)	2012	₱1,100,000	₱1,100,000	at interest rate of 5%	no impairment
Kirtman Limited	**2013**	**US$15,000**	**US$15,000**	Payable in 364 days	Unsecured,
(Dollar)	2012	US$–	US$–	at interest rate of 5%	no impairment
Maxella Limited	**2013**	**US$15,000**	**US$15,000**	Payable in 364 days	Unsecured,
	2012	US$–	US$–	at interest rate of 5%	no impairment
Asia Pacific	**2013**	**US$50,000**	**US$50,000**	Payable in 364 days	Unsecured,
	2012	US$–	US$–	at interest rate of 5%	no impairment

a. Related party transactions involving loans from subsidiaries of FPC are disclosed under Note 13.

Compensations of Key Management Personnel
Compensations of the members of key management personnel follow:

	2013	2012	2011
Short-term employee benefits	**₱100,521**	₱151,299	₱108,119
Pension costs	**7,719**	4,316	3,383
Share-based payments	**–**	–	396
	₱108,240	₱155,615	₱111,898

24. Income Taxes

a. The components of the Group's net deferred income tax assets (liabilities) are as follows:

	2013	2012 (As restated)
Deferred income tax assets on:		
Provision for losses and others	**₱182,848**	₱421,176
Unrealized foreign exchange losses - net	**145,758**	59,300
Unamortized past service costs	**68,175**	76,315
Accumulated accretion of interest on provision for mine rehabilitation costs	**5,959**	5,418
Retirement liability	**1,793**	13,490
Allowances for:		
Unrecoverable deferred mine and oil exploration costs	**24,159**	14,286
Disallowable claims receivable	**24,095**	24,095
Materials and supplies obsolescence	**23,497**	42,301
Probable losses on other noncurrent assets	**–**	14,231
Doubtful accounts	**–**	410
Total deferred income tax assets	**476,284**	681,907
Deferred income tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	**(2,614,940)**	(1,665,513)
Accelerated depreciation	**(1,346,174)**	(1,227,020)
Mine inventory at year-end	**(195,662)**	–
Gain on dilution on interest	**(126,615)**	–
Net retirement plan assets	**(89,311)**	–
Unrealized foreign exchange gain	**(8,141)**	(14,566)
Unrealized gain on AFS financial assets	**–**	(101,937)
Total deferred income tax liabilities	**(4,380,843)**	(3,009,036)
Net deferred income tax liabilities	**(₱3,904,560)**	(₱2,327,129)

b. A reconciliation of the Group's provision for income tax computed at the statutory income tax rates based on income before income tax to the provision for income tax is as follows:

	2013	2012	2011
Provision for income tax computed at the statutory income tax rates	**₱322,516**	₱71,025	₱2,436,021
Additions to (reductions in) income tax resulting from:			
Unrecognized DTA, NOLCO and excess MCIT	**406,144**	161,647	(181,753)
Nondeductible expenses and non-taxable income - net	**35,906**	309,992	6,942
Stock-based compensation expense	**₱25,240**	₱6,384	₱14,990
Dividend income	**–**	(1,777)	(1,769)
Interest income already subjected to final tax	**(7,818)**	(17,460)	(25,805)
Effect of difference in tax rates and others - net	**(19,331)**	17,778	78,982
Provision for income tax	**₱762,657**	₱547,589	₱2,327,608

c. Deferred income tax assets amounting to ₱3,403,608 and ₱2,051,549 as at December 31, 2013 and 2012, respectively, were not recognized because the Group believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

d. As at December 31, 2013, significant respective NOLCO and MCIT of the Parent Company's subsidiaries for which no deferred income taxes were recognized are as follows:

PPC and subsidiaries:
As at December 31, 2013, the PPC and subsidiaries' NOLCO that can be claimed as deduction from future taxable income and excess MCIT that can be deducted against income tax due are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2011	2014	₱105,222	₱2
2012	2015	76,440	292
2013	2016	109,821	1,022
		₱291,483	₱1,316

The following are the movements of the PPC and subsidiaries' NOLCO and excess MCIT for the years ended December 31, 2013 and 2012:

	NOLCO		Excess MCIT	
	2013	2012	**2013**	2012
Beginning balance	**₱264,422**	₱207,999	**₱533**	₱241
Additions	**109,821**	76,440	**1,022**	292
Applications	**(14,781)**	–	**–**	–
Expirations	**(67,979)**	(20,017)	**(239)**	–
Ending balance	**₱291,483**	₱264,422	**₱1,316**	₱533

SMMCI

As at December 31, 2013, SMMCI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2011	2014	₱19,668	₱–
2012	2015	33,388	3
2013	2016	24,187	–
		₱77,243	₱3

The following are the movements of the Company's NOLCO and excess MCIT for the years ended December 31:

	NOLCO		Excess MCIT	
	2013	2012	**2013**	2012
At January 1	**₱53,927**	₱21,607	**₱3**	₱–
Additions	**24,187**	33,388	**–**	3
Expirations	**(871)**	(1,068)	**–**	–
At December 31	**₱77,243**	₱53,927	**₱3**	₱3

PGPI

As at December 31, 2013, PGPI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2011	2014	₱36,494	₱6
2012	2015	35,339	24
2013	2016	92,882	22
		₱164,715	₱52

The following are the movements in NOLCO and excess MCIT for the years ended December 31:

	NOLCO		Excess MCIT	
	2013	2012	**2013**	2012
Beginning balance	**₱153,470**	₱178,252	**₱30**	₱6
Additions	**92,882**	35,339	**22**	24
Expirations	**(81,637)**	(60,121)	**–**	–
Ending balance	**₱164,715**	₱153,470	**₱52**	₱30

25. **Equity**

Capital Stock
The details of the Parent Company's capital stock follow:

	Number of Shares	
	2013	2012
Authorized common stock - ₱1 par value	**8,000,000,000**	8,000,000,000
Issued, outstanding and fully paid:		
January 1	**4,933,026,818**	4,929,750,743
Issuance during the year	**3,969,250**	3,276,075
December 31	**4,936,996,068**	4,933,026,818

Below is a summary of the capital stock movement of the Parent Company:

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
1956	November 26, 1956	60,000,000	20,590,250
1957			30,539,750
1958			107,035
1959			1,442,500
1960	September 12, 1960	30,000,000	10,997,397
1961			1,238,500
1962			9,737,294
1963	December 16, 1993	90,000,000*	103,258,378
1964	March 6, 1964	220,000,000	65,339,520
1965			61,546,755
1966			60,959,182
1969	September 22, 1969	600,000,000	182,878,280
1970			274,317,420
1971	August 20, 1971	1,000,000,000	411,476,131
1973		4,000,000,000****	2,623,160,332
1974			1,543,035,476
1978			540,062,420
1981	August 4, 1981	5,000,000,000	1,485,171,655
1983			742,006,977
1985			815,707,473
1986			3,923,841,215
1987	August 14, 1987	9,000,000,000	3,867,787,326
1989	July 11, 1989	20,000,000,000	5,028,123,524
1990	June 27, 1990	(38,000,000,000)**	(20,549,744,536)
1991			375,852,233
1992			162,869,258
1993			179,156,183
1995			403,849
1997			985,928,483
1999	May 23, 1997	3,000,000,000	–
2007			10,781,250

(Forward)

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
2008			912,279,662
2009	May 22, 2009	3,000,000,000	1,019,753,789
2010			21,525,999
2011			7,619,783
2012			3,276,075
2013			3,969,250
		8,000,000,000	**4,936,996,068**

*This is the result of the change of par value from ₱0.10 to ₱0.05.
**This is the result of the change in par value from ₱0.05 to ₱1.00.
***Information on issue/offer price on public offering not available or information not applicable since the shares were not issued in relation to a public offering.
****Information on date of approval not available.

As at December 31, 2013 and 2012, the Parent Company's total stockholders is 44,533 and 44,742, respectively.

Retained Earnings
Retained earnings consist of the following:

	2013	2012 (As restated)
Retained earnings:		
Unappropriated	**₱4,000,400**	₱13,658,468
Appropriated	**10,000,000**	–
Cumulative actuarial gains (losses)	**128,426**	(80,382)
Ending balance	**₱14,128,826**	₱13,578,086

On February 23 and July 27, 2011, the Parent Company's BOD authorized the declaration of cash dividends amounting to ₱787,844 and ₱690,001 (or ₱0.16 and ₱0.14 per share, respectively), in favor of all stockholders of record as at March 10 and August 10, 2011, respectively.

On May 16, 2011, the Parent Company's BOD authorized the declaration of property dividends composed of shares of stock of PPC at the ratio of one share for every 8 shares of the Parent Company and cash in the amount of ₱0.052 per share (or ₱256,156) to all stockholders of record of the Parent Company as at June 8, 2011. US based shareholders received, in lieu of PPC shares, cash in the amount of ₱0.96 (or ₱16,430) per PPC share. It was approved by SEC on August 25, 2011. The declaration of property dividends was accounted for as equity transaction which resulted to reduction of ownership interest by the Parent Company and increase in NCI amounting to ₱650,856.

On February 29, 2012, the BOD of the Parent Company approved the declaration of cash dividends amounting to a ₱2,071,217 to all stockholders of record as at March 15, 2012 (total of ₱0.42 per share) comprising of ₱0.14 per share regular dividend and ₱0.28 per share special dividend for a full year payout at 50%.

On July 25, 2012, the BOD of the Parent Company approved the declaration of cash dividends amounting to ₱542,625 to all stockholders of record as at August 8, 2012 at ₱0.11 per share.

On December 13, 2013, the Parent Company's BOD approved the appropriation of ₱10,000,000 of the unappropriated retained earnings for purposes of mine development and construction of the Silangan Project from 2016 to 2018.

On February 26, 2014, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.05 per share regular dividend to all stockholders at record date of March 12, 2014.

The Parent Company's retained earnings available for dividend distribution amounted to ₱2,758,063 and ₱13,278,847 as at December 31, 2013 and 2012, respectively.

NCI

NCI consist of the following:

	Percentage of Ownership		Amount	
	2013	2012	**2013**	2012
NCI on net assets of:				
PPC	**35.2%**	35.2%	**₱609,915**	₱587,773
BEMC	**35.2%**	35.2%	**(256,318)**	(207,652)
FEC	**66.8%**	66.8%	**114,407**	119,087
FEP and its subsidiaries	**68.4%**	66.3%	**(104,876)**	(98,792)
PPP and its subsidiaries	**67.4%**	–	**3,743,683**	–
LMC	**0.7%**	0.7%	**(177)**	(160)
			₱4,106,634	400,256

Transactions with NCI are disclosed in Note 2.

Financial information of subsidiaries that have material non-controlling interests are provided below:

Income (loss) allocated to material NCI:

	2013	2012
PPP and its subsidiaries	**₱1,335,395**	₱–
PPC	**7,293**	(32,237)

Other comprehensive income (loss) allocated to material NCI:

	2013	2012
PPP and its subsidiaries	**₱88,613**	₱–
PPC	**10,734**	(13,218)

The summarized financial information of these subsidiaries are provided below:

Statements of comprehensive income as of December 31, 2013:

	PPP	PPC
Revenue	₱3,465	₱–
Cost of sales	(2,494)	–
General and administrative expenses	(143,061)	(28,322)
Other income (charges)	2,122,886	41,181
Interest expense	–	–
Income (loss) before tax	1,980,796	12,859
Provision for (benefit from) income tax	–	7,854
Net income	1,980,796	20,713
Other comprehensive income (loss)	(1,686)	30,485
Total comprehensive income	₱1,979,110	₱51,198
Attributable to non-controlling interests	₱1,334,259	₱18,027

Statements of comprehensive income as of December 31, 2012:

	PPP	PPC
Revenue	₱–	₱–
Cost of sales	–	–
General and administrative expenses	–	(27,014)
Other charges	–	609
Interest expense	–	–
Loss before tax	–	(26,405)
Provision for income tax	–	(65,152)
Net loss	–	(91,557)
Other comprehensive loss	–	(37,541)
Total comprehensive loss	₱–	(₱129,098)
Attributable to non-controlling interests	₱–	(₱45,455)

Statements of financial position as at December 31, 2013:

	PPP	PPC
Current assets	₱2,581,170	₱20,460
Noncurrent assets	790,023	4,328,903
Current liabilities	(54,327)	(2,590,288)
Noncurrent liabilities	(15,623)	(113,555)
Total equity	₱3,301,243	₱1,645,520
Attributable to:		
Equity holders of the Parent Company	₱1,075,640	₱1,066,132
Non-controlling interests	2,225,603	579,388

Statements of financial position as at December 31, 2012:

	PPP	PPC
Current assets	₱–	₱8,433
Noncurrent assets	–	2,307,044
Current liabilities	–	(623,556)
Noncurrent liabilities	–	(97,599)
Total equity	₱–	₱1,594,322
Attributable to:		
Equity holders of the Parent Company	₱–	₱1,032,961
Non-controlling interests	–	561,361

Statements of cash flows as of December 31, 2013:

Activities	PPP	PPC
Operating	(₱194,886)	(₱694,294)
Investing	1,824,363	(1,265,347)
Financing	332,985	1,967,948
Effect of exchange rate changes on cash	–	21
Net increase (decrease) in cash and cash equivalents	₱1,962,462	₱8,328

Statements of cash flows as of December 31, 2012:

Activities	PPP	PPC
Operating	₱–	(₱28,634)
Investing	–	1,833
Financing	–	14,565
	–	(132)
Net increase (decrease) in cash and cash equivalents	₱–	(₱12,368)

26. Share-based Payments

2006 Parent Company Stock Option Plan (SOP)

On June 23, 2006, the Parent Company's stockholders approved and ratified the stock option plan of the Parent Company as approved by the Parent Company's BOD on March 31, 2006. Among the salient terms and features of the stock option plan are as follows:

i) Participants: directors, officers, managers and key consultants of the Company and its significantly-owned subsidiaries;
ii) Number of shares: up to 3% of the Company's issued and outstanding shares;
iii) Term: Five years from adoption date;
iv) Exercise price: Average stock price during the last 20 trading days prior to the date of grant multiplied by a factor of 0.8, but in no case below par value; and
v) Vesting period: Up to 16.67% in six months from grant date; up to 33.33% in 1 year from grant date; up to 50% in 1.5 years from grant date; up to 66.67% in 2 years from grant date; up to 83.35% in 2.5 years from grant date; and up to 100% in 3 years from grant date.

On March 8, 2007, the stock option plan was approved by the Philippine SEC.

A total of two confirmed new grants for 15,000,000 shares were awarded on June 24 and December 7, 2009.

For the year ended December 31, 2010, three confirmed new grants were endorsed. A total of 9,950,000 shares were awarded on May 25, September 28 and November 23, 2010.

On January 5, 2011, a new stock option grant was given following the terms of the approved plan. A total of 6,000,000 options were awarded vesting every 6 months up to January 5, 2014.The Company uses the Customized Binomial Lattice Model to compute for the fair value of the options together with the following assumptions:

	January 5, 2011
Spot price per share	₱15.40
Time to maturity	5 years
Volatility*	54.57%
Dividend yield	1.93%
Suboptimal exercise behavior multiple	1.5
Forfeiture rate	2%

	2010		
	May 25	September 28	November 23
Spot price per share	₱11.00	₱14.88	₱14.00
Time to maturity	5 years	5 years	5 years
Volatility*	54.57%	55.09%	54.98%
Dividend yield	2.69%	2.00%	2.12%
Suboptimal exercise behavior multiple	1.5	1.5	1.5
Forfeiture rate	2%	2%	2%

**Volatility is calculated using historical stock prices and their corresponding logarithmic returns.*

The following table shows the movements in 2013 and 2012 of the 2006 Parent Company SOP:

	Number of Options		Weighted Average Exercise Price	
	2013	2012	**2013**	2012
January 1	**12,970,650**	19,251,075	**₱8.99**	₱6.32
Exercised	**(3,969,250)**	(3,276,075)	**3.64**	6.71
Forfeited	–	(3,004,350)	–	11.26
December 31	**9,001,400**	12,970,650	**₱11.35**	₱8.99

The number of unexercised vested stock options as at December 31, 2013 and 2012 are 7,981,400 and 8,287,400, respectively.

2011 Parent Company SOP

On April 27, 2011, the BOD approved the 2011 SOP of the Company, which was concurrently approved by the shareholders on June 29, 2011. Among the salient terms and features of the stock option plan are as follows:

i) Option Grant Date is the date on which option is awarded under the Parent Company 2011 SOP, provided such award is subsequently accepted by eligible participant.
ii) The vesting percentage and vesting schedule of the options granted under the 2011 Parent Company SOP shall be determined by the Compensation Committee of the Board.
iii) 246,334,118 shares representing 5% of the Parent Company's outstanding capital stock shall be initially reserve for exercise of options to be granted.

iv) The exercise price for the options granted under the 2011 Parent Company SOP shall be determined by the Compensation Committee of the Board but shall not be lower than the highest of: (i) the closing price of the shares on PSE on the Option Grant Date, (ii) the average closing price of the shares on the PSE for the 5 business days on which dealings in the shares are made immediately preceding the Option Grant Date; and (iii) the par value of shares.
v) Any amendments to the 2011 Parent Company SOP shall be deemed adopted and made effective upon approval by shareholders owning at least two-thirds of the outstanding capital stock of the Parent Company and, to the extent legally necessary, by the SEC.

On March 5, 2013, the Parent Company received the SEC resolution approving the 2011 SOP.

The Parent Company granted 40,410,000 options under the 2011 SOP.

The Parent Company uses the Customized Binomial Lattice Model to compute for the fair value of the options together with the following assumptions:

Spot price per share	₱17.50
Exercise price per share	₱24.05
Time to maturity	7 years
Risk-free rate	3.3435%
Volatility*	49.8731%
Dividend yield	1.0031%

**Volatility is calculated using historical stock prices and their corresponding logarithmic returns.*

The following table shows the movements in 2013 of the 2011 Parent Company SOP of PMC:

	Number of Options	Weighted Average Exercise Price
	2013	2013
January 1	40,410,000	₱24.05
Forfeited	(10,500,000)	24.05
December 31	29,910,000	₱24.05

The number of unexercised vested stock options as at December 31, 2013 amounted to 14,955,000.

The total share-based compensation expense for the 2006 and 2011 SOP in 2013 and 2012 amounted to ₱84,132 and ₱21,280, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital as at December 31, 2013 and 2012 amounted to ₱216,875 and ₱195,595, respectively.

<u>FEP Stock Option Plan</u>
On August 1, 2005, FEP implemented a Share Option Plan (the Plan) with three sub-plans (the sub-plan). Under the terms of the Plan, FEP can issue up to 16% of its issued stocks.

The following share options outstanding in respect of FEP's ordinary shares with their corresponding weighted average exercise prices for the year ended December 31, 2013, 2012 and 2011 are as follows:

	Number of Options		Weighted Average Exercise Price	
	2013	2012	**2013**	2012
January 1	–	2,195,000	**₱–**	£0.31 ($0.50)
Exercised	–	(2,185,000)	–	–
Cancelled	–	(10,000)	–	–
December 31	–	–	**₱–**	£0.31 ($0.50)

The options in issue represent 41% of the total permissible options per terms of the Plan and are exercisable at a price lower that its market value.

The fair values of awards granted under the Plan has been calculated using the Black Scholes model that takes into account factors specific to share incentive plans such as the vesting periods of the Plan, the expected dividend yield on FEP's shares and expected early exercise of share options.

Grant Date	August 1, 2005	December 6, 2006	December 19, 2010
Share price at grant date	£1.12 ($2.19)	£0.73 ($1.39)	£0.25 ($0.38)
Exercise price	£1.12 ($2.19)	£0.73 ($1.39)	£0.31 ($0.46)
Fair value of options	£0.35 ($0.51)	£0.31 ($0.45)	£0.13 ($0.20)
Volatility*	25%	40%	40%
Option life	10 years	5 years	10 years
Risk-free investment risk	4.5%	5%	4%

** Volatility has been based on the annualized volatility of the FEP's shares since its flotation on the AIM market.*

27. Basic/Diluted Earnings Per Share

Basic earnings per share are computed as follows:

	2013	2012	2011
Net income attributable to equity holders of the Parent Company	**₱341,932**	₱208,733	₱5,763,795
Divided by weighted average number of common shares outstanding during year	**4,933,657,951**	4,932,216,253	4,926,583,729
Basic earnings per share	**₱0.069**	₱0.042	₱1.170

Diluted earnings per share amounts are calculated as follows:

	2013	2012	2011
Net income attributable to equity holders of the Parent Company	**₱341,932**	₱208,733	₱5,763,795
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	**4,933,657,951**	4,938,632,314	4,932,287,397
Diluted earnings per share	**₱0.069**	₱0.042	₱1.169
Weighted average number of common shares for basic earnings per share	**4,933,657,951**	4,932,216,253	4,926,583,729
Effect of exercise of stock options	–	6,416,061	5,703,668
Weighted average number of common shares adjusted for the effect of exercise of stock options	**4,933,657,951**	4,938,632,314	4,932,287,397

The Parent Company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2013 and 2012 (see Note 26). The assumed exercise of these stock options would have resulted in additional 6,416,061 and 5,703,668 common shares in 2012 and 2011, respectively. The stock options outstanding as at December 31, 2013 are anti-dilutive.

28. Farm-in Agreement with Manila Mining Corporation (MMC)

On May 11, 2011, the Parent Company entered into a farm-in agreement with MMC and to acquire up to 60% of the outstanding capital stock of Kalayaan Copper Gold Resources, Inc. (Kalayaan), a wholly owned subsidiary of MMC. The Parent Company purchased from MMC 125,000 shares of Kalayaan representing 5% of the outstanding capital stock for US$25,000 or ₱1,071,521. Further, the Parent Company will subscribe to additional 3,437,500 shares of Kalayaan, representing 55% of outstanding capital stock, subject to the condition that the Parent Company will fulfill the subscription services within the earlier of 3 years following the execution of the agreement or expiry of the term of the exploration permit.

Upon acquisition of 5% stake over Kalayaan, MMC, under the Operating Agreement, grants the Parent Company exclusive, irrevocable and unconditional rights:

a. To conduct exploration and pre-development;
b. To perform all activities necessary to complete a final feasibility study for the project; and,
c. To possess and/or exercise all of Kalayaan's surface rights, to exercise, utilize and enjoy all the rights, benefits, privileges, and perform all the obligations of Kalayaan under and in relation to the exploration permit and the mineral rights, provided that Kalayaan shall remain liable for all accrued obligations under the exploration permit as at the date of the agreement.

The transaction was recorded by allocating the US$25,000 to Investment in AFS pertaining to the 5% interest in Kalayaan and to the exploration rights acquired. The acquisition cost is then allocated by valuing the investment in AFS at ₱100 and the deferred exploration cost at ₱1,071,421.

As at December 31, 2013, the Company is undergoing discussions with MMC to revise, and consequently, extend the term of the farm-in agreement on the Kalayaan Project.

29. Joint Ventures with Anglo

In order to accelerate exploration, the Parent Company and PGPI entered into separate joint ventures with Anglo covering the Parent Company's Baguio District and PGPI's Surigao del Norte mineral tenements, respectively. Shareholders agreements were executed on September 2, 1999, pursuant to which Anglo is to fund all exploration costs up to feasibility studies, if warranted, in return for equity in the tenements. Minimum annual expenditures totaling US$8,000 for the Baguio District and US$2,200 for the Surigao del Norte tenements over a five-year period are required for the respective joint ventures to continue, failing of which would revert the tenements at no cost to the Parent Company or to PGPI.

The exploration work of Anglo led to the discovery of the Boyongan copper-gold deposit in August 2000. In 2001, Anglo exceeded the US$2,200 threshold of expenditures and earned a 40% equity interest in the Surigao del Norte tenements, now referred to as the Silangan Project. If the project is carried through to the completion of a bankable feasibility study at Anglo's cost, Anglo would be entitled to additional 30% equity interest in the project, which will bring its equity interest to 70%, and to manage mine development and operations. Anglo would provide full guarantees for non-recourse project financing while PGPI would need to raise its pro-rata share of the equity.

On April 10, 2000 and December 29, 1999, final government approval of the Parent Company and PGPI's respective mining tenements in the form of MPSA were granted. For the Surigao del Norte joint venture, SMECI (60% owned by PGPI and 40% owned by Anglo) and SMMCI (then wholly-owned by SMECI) were organized in 1999 and 2000, respectively. In 2000, the Parent Company and PGPI transferred their respective rights and interest in the MPSAs to SMMCI. All costs incurred by the Parent Company and PGPI arising from their acquisition of ownership interests in SMECI, respectively, were reimbursed by Anglo. SMECI started to be consolidated in 2009.

In December 2001, Anglo purchased from PGPI an effective 10% equity interest in SMMCI for US$20,000, plus additional payments of up to US$5,000 should there be an increase in metal content of the deposit or from any subsequent discovery within the surrounding tenements on the basis of feasibility studies. Benefits from subsequent discovery of minerals by SMMCI that will increase the value of its shares will inure to Anglo. Conversely, the risk of decrease in the value of SMMCI shares will be suffered by Anglo.

Anglo completed its pre-feasibility study of the Boyongan deposit in December 2007 which concluded that a mining operation based on the currently defined resources, proposed mining and processing methods, assumed long-term copper and gold prices, and estimated capital and operating costs would not provide an acceptable rate of the return on the project investment. The Parent Company, however, had differing points of view from Anglo on a number of assumptions and conclusions made in the feasibility study. The Parent Company thus asserted its position that

given the results of the study, as provided for under the terms of the joint venture agreements, Anglo should return the Boyongan property to the Parent Company, which Anglo contested.

Anglo claimed that other mineralized centers have been discovered in the vicinity, currently then the subject of intensive exploration and delineation drilling program which Anglo wanted to continue throughout 2008. Anglo also reported that there was geologic evidence for two additional porphyry copper-gold targets within two kilometers of Boyongan which Anglo planned to test. These recent discoveries and their impact were not included in the Boyongan pre-feasibility study.

On September 25, 2008, the BOD approved the Parent Company to pursue the acquisition of the 50% equity interest over the Silangan Project through SMECI and SMMCI from Anglo. The acquisition, which was consummated on February 6, 2009, was executed through a share and asset purchase agreement for a total consideration of US$55,000 (or ₱2,619,375) broken down as follows: US$24,695 (or ₱1,176,114) for the shares, US$43 (or ₱2,020) for the project properties, US$27,053 (or ₱1,288,416) for the receivables and US$3,209 (or ₱152,825) for the payment of loans of Anglo to the joint venture companies. This acquisition effectively gave the Parent Company, together with PGPI, which currently owns the other 50% interest, control over the property.

On December 7, 2011, the Parent Company entered into an agreement with Anglo and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Parent Company agreed to buy and Anglo agreed to sell all Anglo's rights, interests and obligations in MECI for US$25. In addition, AAEPI agreed with the Parent Company that all of its rights interests and title in and to its receivable to MECI will be assigned to the Parent Company for a consideration amounting to US$175. The purchase of share and assignment of receivable will become effective and legally enforceable only upon fulfillment of the closing obligations. As at December 31, 2013, the closing obligations are not yet fulfilled.

30. Long-term Gold and Copper Concentrates Sales Agreement

On March 11, 2004, the Parent Company entered into a Long-term Gold and Copper Concentrates Sales Agreement (Sales Agreement) with Pan Pacific covering the copper concentrates produced at the Padcal Mine (Concentrates) pursuant to which the Parent Company shall sell its concentrate production to Pan Pacific in diminishing proportion from 75% of the Padcal Mine's total concentrate production for contract year 2004 to as follows:

a. Contract Year 2011 (starting on April 1, 2011 and ending on March 31, 2012), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the treatment and refining charges for copper shall be negotiated by the parties in good faith during the Contract Year 2011.

b. Contract Year 2012 (starting April 1, 2012 and ending on March 31, 2013), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the treatment and refining charges for copper shall be negotiated by the parties in good faith during the Contract Year 2012.

c. Contract Year 2013 (starting April 1, 2013 and ending on March 31, 2014), approximately 60% of the total Concentrates production during each Contract Year, for which the the treatment and refining charges for copper shall be negotiated by the parties in good faith during the Contract Year 2013.

The Sales Agreement shall be effective until the date of the closure of the Padcal Mine, unless terminated earlier in accordance with the terms. Further, if the Parent Company or its affiliate, as defined in the Sales Agreement, develops other mines which produce sulfide floatation copper concentrates, then the Parent Company or its affiliates shall discuss the sale of such copper concentrates with Pan Pacific before offering to sell to others.

31. **Other Matters**

a. The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and the Group's legal counsel reassess their estimates on an annual basis to consider new relevant information. The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

b. On February 8, 2013, the Company entered into a Settlement, Release and Policy Buy Back Agreement with Chartis Philippines Insurance, Inc. (Chartis) for the compromise settlement of the Company's insurance claim under its Pollution Legal Liability Select Policy covering the Padcal Mine. The claims pertain to the discharge of tailings from TSF NO. 3 of the mine in 2012. Under the terms of the agreement, Chartis shall pay the Company within 15 days the amount of US$25,000 (or ₱1,017,125) in full settlement of the claims. The Company received the full settlement from Chartis on February 12, 2013. The consideration received was recorded under "Insurance proceeds" account under "Other income (charges)" in the parent company statements of income. Of the insurance proceeds, 60% was reflected under core net income as this amount represented claims against business interruption and part of normal operations while the remaining 40% was considered non-recurring representing claims against pollution.

c. On February 18, 2013, the Parent Company paid the ₱1,034,358 tailings fee to the MGB in connection to the discharge of tailings from TSF No. 3 which the Parent Company accrued as at December 31, 2012.

d. On May 10, 2011, FEP and BEC signed a settlement agreement in relation to disputes relating to BEC's share in the historical cost recoveries arising from certain service contracts in the NW Palawan area pursuant to the SPA executed by FEP and BEC on April 3, 2006. If the terms and conditions of the settlement agreement are met, FEP will make a cash payment to BEC of US$650 (₱28,204), and cause the conveyance of (a) 50% of FEPCO participating interests in certain service contracts; and (b) 50% of the related recoverable costs, subject to the approval of DOE. The settlement agreement will become executory upon the satisfaction of certain conditions present, such as the approval by the consortium participants and the DOE, and the final consent award from the Arbitration Tribunal.

e. In June 2012, a compromise agreement was entered into between FEP and BEC which finalized the terms of payment and total consideration for the purchase amounting to US$12,000. As at December 31, 2013 and 2012, FEP made payments to BEC amounting to ₱41,050 and ₱451,550, respectively, which fully extinguished the liability.

32. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing activities of the Group are as follows:

a. In 2013 and 2012, total depreciation expense that was capitalized as part of deferred mine exploration costs by PMC, SMMCI and PGPI amounted to ₱67,967 and ₱166,984, respectively.

b. In 2012, FEP transferred the balance of deferred oil exploration costs relating to Libertad block amounting to ₱50,212 to property, plant and equipment upon start of commercial production of Libertad gas fields.

33. Events After the End of Reporting Period

Assignment of BEMC Coal Operating Contract
On January 6, 2014, BEMC has finalized the agreements for the assignment of COC 130 to Grace Coal Mining and Development, Inc.

Local Business Tax Issue
On February 5, 2014, the Parent Company received a letter from certain municipalities in Benguet province containing a copy of joint municipal resolution on the manner of sharing in the alleged business tax impositions and assessment assessed against the Parent Company. The management believes that the issues will be resolved in favor of the Parent Company.

Dividend declaration
On February 26, 2014, the BOD of the Parent Company approved the dividend declaration of ₱0.05 per share payable on March 24, 2014.