

# **Philex Mining Corporation and Subsidiaries**

Consolidated Financial Statements  
December 31, 2016 and 2015  
and Years Ended December 31, 2016,  
2015 and 2014

and

Independent Auditor's Report



## **INDEPENDENT AUDITOR'S REPORT**

The Stockholders and the Board of Directors  
Philex Mining Corporation

### **Report on the Audits of the Consolidated Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of Philex Mining Corporation and its subsidiaries (“the Group”) which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016, in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

#### **Basis for Opinion**

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audits of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

#### *Recoverability of Deferred Mine Exploration Costs*

The ability of the Group to recover its deferred exploration costs depends on the commercial viability of the mineral resources. The carrying values of deferred exploration costs amounted to ₱23.07 billion as at December 31, 2016, which is about 60% of the Group's consolidated total assets. The substantial amount of this account, the level of additions during the year, and the significant management judgment required when performing an impairment review are key areas of focus in our audit (see Note 13).

#### *Audit response*

We obtained an understanding of the Group's capitalization policy and tested whether the policy has been applied consistently. We obtained management's assessment on the recoverability of the deferred exploration costs and inquired into the status of these projects and their plans on operations. We inspected the licenses, permits and correspondences with regulatory agencies (see Note 34) of each exploration project to determine that the period, for which the Group has the right to explore in the specific area, has not been cancelled or has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

#### *Loss of control over PXP Energy Corporation*

On February 29, 2016, Philex Mining Corporation declared its shares of stock on PXP Energy Corporation (PXP), a subsidiary, as dividends to its shareholders as of March 15, 2016 record date, resulting to the reduction of Philex Mining Corporation's interest in PXP from about 65% to about 20%. Due to the loss of control, Philex Mining Corporation has deconsolidated PXP and accounted the remaining interest as investment in associate starting July 15, 2016. PXP is considered as a significant segment of the Group, and the accounting treatment for the transaction is complex. Therefore, we considered this as a key audit matter (see Note 33).

#### *Audit response*

We reviewed the valuation of PXP shares distributed as property dividends and performed recalculation of the gain on deconsolidation. We analyzed the transaction and examined the deconsolidation procedure. Furthermore, we assessed the adequacy of the disclosures with respect to the deconsolidation due to loss of control of a subsidiary.



### *Estimation of Ore Reserves and Resources*

The estimation of ore reserves and resources involves significant management estimates and assumptions. Reserves and resources are key inputs to depletion, depreciation, amortization and decommissioning provisions. As discussed in Note 10 to the consolidated financial statements, the Group's mining properties amounting to ₱3.57 billion as of December 31, 2016 are amortized using the units of production method. This matter is significant to our audit because the estimation of the mineable ore reserves for Padcal mine requires significant estimation from management.

### *Audit response*

We obtained an understanding of management's processes and controls in the estimation of mineable ore reserves. We evaluated the competence and objectivity of the management's specialist to perform an independent assessment of its ore reserves and resources. We reviewed the specialist's report and obtained an understanding of the nature, scope and objectives of their work and basis of the estimates including any changes in the reserves during the year. In addition, we tested the reserves and resources estimates applied to the relevant areas of the consolidated financial statements including depletion, depreciation, amortization and decommissioning provisions.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

### **Responsibilities of Management and Board of Directors (BOD) for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



The BOD is responsible for overseeing the Group's financial reporting process.

### **Auditors' Responsibilities for the Audits of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



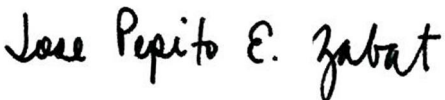
We communicate with the BOD regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-3 (Group A),

May 1, 2015, valid until April 30, 2018

Tax Identification No. 102-100-830

BIR Accreditation No. 08-001998-60-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5908781, January 3, 2017, Makati City

February 28, 2017



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Amounts in Thousands, Except Par Value Per Share)

	December 31	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	₱457,937	₱1,008,686
Accounts receivable (Note 7)	486,497	897,479
Inventories (Note 8)	2,318,850	1,886,544
Advances to a related party (Note 24)	2,193,829	–
Other current assets (Note 9)	1,437,752	1,478,748
<b>Total Current Assets</b>	<b>6,894,865</b>	<b>5,271,457</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 10)	6,735,578	6,828,052
Deferred exploration costs and other noncurrent assets (Notes 1, 13 and 18)	23,158,325	29,153,010
Available-for-sale (AFS) financial assets (Note 11)	104,615	106,687
Investment in associates (Notes 12 and 33)	1,455,876	659,408
Pension asset - net (Note 19)	312,570	263,867
Goodwill (Notes 4 and 33)	–	1,238,583
Deferred income tax assets - net (Note 25)	–	5,992
<b>Total Noncurrent Assets</b>	<b>31,766,964</b>	<b>38,255,599</b>
<b>TOTAL ASSETS</b>	<b>₱38,661,829</b>	<b>₱43,527,056</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Loans payable (Note 14)	₱3,082,640	₱3,317,730
Accounts payable and accrued liabilities (Notes 15 and 31)	1,832,661	1,904,488
Income tax payable (Note 25)	164,265	13,014
Dividends payable (Note 26)	498,129	479,652
<b>Total Current Liabilities</b>	<b>5,577,695</b>	<b>5,714,884</b>
<b>Noncurrent Liabilities</b>		
Deferred income tax liabilities - net (Notes 4 and 25)	2,957,896	3,939,160
Loans and bonds payable (Note 14)	6,592,854	6,259,063
Provision for losses and mine rehabilitation costs (Notes 10 and 31)	134,124	330,047
<b>Total Noncurrent Liabilities</b>	<b>9,684,874</b>	<b>10,528,270</b>
<b>Total Liabilities</b>	<b>15,262,569</b>	<b>16,243,154</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock - ₱1 par value (Note 26)	4,940,399	4,940,399
Additional paid-in capital	1,143,981	1,142,722
Retained earnings (Note 26)		
Unappropriated	4,442,436	5,496,271
Appropriated	10,000,000	10,000,000
Net unrealized loss on AFS financial assets (Note 11)	(3,094)	(1,022)
Equity conversion option (Note 14)	1,225,518	1,225,518
Cumulative translation adjustments	–	124,334
Net revaluation surplus (Note 4 and 33)	1,572,385	1,611,397
Effect of transactions with non-controlling interests	77,892	23,164
	<b>23,399,517</b>	<b>24,562,783</b>
<b>Non-controlling interests</b> (Note 26)	<b>(257)</b>	<b>2,721,119</b>
<b>Total Equity</b>	<b>23,399,260</b>	<b>27,283,902</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱38,661,829</b>	<b>₱43,527,056</b>

*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		
	2016	2015	2014
<b>REVENUE</b>			
Gold	P6,209,006	P5,669,860	P5,889,107
Copper	3,976,184	3,449,799	4,615,092
Silver and others	86,475	69,723	82,464
	<b>10,271,665</b>	9,189,382	10,586,663
Less smelting charges	893,278	836,597	849,837
	<b>9,378,387</b>	8,352,785	9,736,826
<b>COSTS AND EXPENSES (Note 16)</b>			
Production costs (including depletion and depreciation)	6,074,862	6,160,352	6,808,252
General and administrative expenses	373,123	414,255	674,395
Excise taxes and royalties	452,415	436,856	506,654
	<b>6,900,400</b>	7,011,463	7,989,301
<b>OTHER INCOME (CHARGES)</b>			
Foreign exchange losses - net (Note 21)	(145,213)	(158,697)	(56,484)
Share in net losses of associates (Note 12)	(44,572)	(13,200)	-
Interest income (Note 6)	2,081	4,085	5,182
Gain on disposal of AFS financial assets (Note 11)	-	107,088	-
Interest expense (Note 14)	-	-	(349,447)
Gain on sale of property, plant and equipment (Note 10)	-	-	764,685
Others - net (Notes 1, 13, 21 and 31)	(14,439)	5,642	(323,836)
	<b>(202,143)</b>	(55,082)	40,100
<b>INCOME BEFORE PROVISIONS FOR IMPAIRMENT LOSSES</b>	<b>2,275,844</b>	1,286,240	1,787,625
<b>PROVISIONS FOR IMPAIRMENT LOSSES - NET (Notes 12 and 13)</b>	<b>(2,504,850)</b>	-	(231,401)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>(229,006)</b>	1,286,240	1,556,224
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)</b>			
Current	586,483	245,550	421,108
Deferred	110,742	121,030	(78,626)
	<b>697,225</b>	366,580	342,482
	<b>(926,231)</b>	919,660	1,213,742
<b>INCOME (LOSS) ON DECONSOLIDATED SUBSIDIARY GROUP, NET OF TAX (Note 33)</b>			
Loss from deconsolidated subsidiary group	(29,102)	(144,025)	(510,897)
Gain from loss of control over a subsidiary group	2,522,704	-	-
	<b>2,493,602</b>	(144,025)	(510,897)
<b>NET INCOME</b>	<b>P1,567,371</b>	P775,635	P702,845
<b>Net Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	P1,589,045	P896,181	P1,005,552
Non-controlling interests (Note 26)	(21,674)	(120,546)	(302,707)
	<b>P1,567,371</b>	P775,635	P702,845
<b>Basic Earnings Per Share (Note 28)</b>	<b>P0.322</b>	P0.181	P0.204
<b>Diluted Earnings Per Share (Note 28)</b>	<b>P0.322</b>	P0.181	P0.204

See accompanying Notes to Consolidated Financial Statements.





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

	Years Ended December 31		
	2016	2015	2014
<b>NET INCOME</b>	<b>₱1,567,371</b>	<b>₱775,635</b>	<b>₱702,845</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	(2,072)	(23,023)	(68,699)
Reversal of fair value changes in AFS investment subsequently accounted for as an associate (Note 11)	-	193,099	-
Gain on translation of foreign subsidiaries	-	147,278	7,655
Realized gain on sale of AFS financial assets (Note 11)	-	(107,088)	-
Realized loss on fair value of hedging instruments transferred to the consolidated statements of income - net of related deferred income tax (Note 21)	-	(7,766)	-
Gain on fair value of derivative (Note 21)	-	-	7,766
	<b>(2,072)</b>	<b>202,500</b>	<b>(53,278)</b>
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on pension obligation plans - net of income tax effect (Note 19)	(98,319)	(22,316)	(40,054)
Income tax effect	29,496	6,695	12,016
	<b>(68,823)</b>	<b>(15,621)</b>	<b>(28,038)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>(70,895)</b>	<b>186,879</b>	<b>(81,316)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱1,496,476</b>	<b>₱962,514</b>	<b>₱621,529</b>
<b>Total Comprehensive Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	₱1,518,150	₱1,033,019	₱921,823
Non-controlling interests (Note 26)	(21,674)	(70,505)	(300,294)
	<b>₱1,496,476</b>	<b>₱962,514</b>	<b>₱621,529</b>

*See accompanying Notes to Consolidated Financial Statements.*



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014**  
**(Amounts in Thousands)**

	Equity Attributable to Equity Holders of the Parent Company											Total
	Capital Stock (Note 26)	Additional Paid-In Capital	Retained Earnings (Note 26)		Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 14)	Cumulative Translation Adjustments	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non- controlling Interests (Note 2)	Subtotal	Non- controlling Interests (Note 26)	
			Unappropriated	Appropriated								
<b>BALANCES AT DECEMBER 31, 2013</b>	₱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
Net income (loss)	-	-	1,005,552	-	-	-	-	-	-	1,005,552	(302,707)	702,845
Other comprehensive income (loss):												
<i>Items to be reclassified to profit or loss in subsequent periods:</i>												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	-	-	-	-	(68,699)	-	-	-	-	(68,699)	-	(68,699)
Gain on translation of foreign subsidiaries	-	-	-	-	-	-	4,488	-	-	4,488	3,167	7,655
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>												
Remeasurements of pension obligation, net of tax (Note 19)	-	-	(27,283)	-	-	-	-	-	-	(27,283)	(755)	(28,038)
Gain on fair value of derivative	-	-	-	-	-	-	7,766	-	-	7,766	-	7,766
Total comprehensive income	-	-	978,269	-	(68,699)	-	12,254	-	-	921,824	(300,295)	621,529
Increase in paid-in capital due to exercise of stock option (Note 27)	3,403	33,322	-	-	-	-	-	-	-	36,725	-	36,725
Increase in additional paid-in capital due to stock option plan (Note 27)	-	25,808	-	-	-	-	-	-	-	25,808	-	25,808
Sale of PXP shares	-	-	-	-	-	-	-	-	259	259	193	452
Share buyback transaction (Note 2)	-	-	-	-	-	-	-	-	(26,274)	(26,274)	(364,129)	(390,403)
Equity conversion options (Note 14)	-	-	-	-	-	1,225,518	-	-	-	1,225,518	-	1,225,518
Declaration of cash dividends (Note 26)	-	-	(395,063)	-	-	-	-	-	-	(395,063)	-	(395,063)
<b>BALANCES AT DECEMBER 31, 2014</b>	₱4,940,399	₱1,117,627	₱4,712,032	₱10,000,000	(₱64,010)	₱1,225,518	₱37,370	₱1,611,397	₱19,084	₱23,599,417	₱3,442,403	₱27,041,820



Equity Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 26)	Additional Paid-In Capital	Retained Earnings (Note 26)		Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 14)	Cumulative Translation Adjustments	Net Revaluation Surplus (Note 2)	Effect of Transactions with Non- controlling Interests (Note 2)	Subtotal	Non- controlling Interests (Note 26)	Total
			Unappropriated	Appropriated								
<b>BALANCES AT DECEMBER 31, 2014</b>	₱4,940,399	₱1,117,627	₱4,712,032	₱10,000,000	(₱64,010)	₱1,225,518	₱37,370	₱1,611,397	₱19,084	₱23,599,417	₱3,442,403	₱27,041,820
Net income (loss)	-	-	896,181	-	-	-	-	-	-	896,181	(120,546)	775,635
Other comprehensive income (loss):												
<i>Items to be reclassified to profit or loss in subsequent periods:</i>												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	-	-	-	-	(23,023)	-	-	-	-	(23,023)	-	(23,023)
Reversal of fair value changes in AFS investment subsequently accounted for as an associate (Note 11)	-	-	-	-	193,099	-	-	-	-	193,099	-	193,099
Realized gain on sale of AFS financial assets (Note 11)	-	-	-	-	(107,088)	-	-	-	-	(107,088)	-	(107,088)
Realized loss on fair value of hedging instruments	-	-	-	-	-	-	(7,766)	-	-	(7,766)	-	(7,766)
Gain on translation of foreign subsidiaries	-	-	-	-	-	-	94,730	-	-	94,730	52,548	147,278
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>												
Remeasurements of pension obligation, net of tax (Note 19)	-	-	(13,114)	-	-	-	-	-	-	(13,114)	(2,507)	(15,621)
Total comprehensive income	-	-	883,067	-	62,988	-	86,964	-	-	1,033,019	(70,505)	962,514
Increase in additional paid-in capital due to stock option plan (Note 27)	-	25,095	-	-	-	-	-	-	-	25,095	-	25,095
Share buyback transaction (Note 2)	-	-	-	-	-	-	-	-	4,080	4,080	(650,779)	(646,699)
Declaration of cash dividends (Note 26)	-	-	(98,828)	-	-	-	-	-	-	(98,828)	-	(98,828)
<b>BALANCES AT DECEMBER 31, 2015</b>	₱4,940,399	₱1,142,722	₱5,496,271	₱10,000,000	(₱1,022)	₱1,225,518	₱124,334	₱1,611,397	₱23,164	₱24,562,783	₱2,721,119	₱27,283,902



Equity Attributable to Equity Holders of the Parent Company												
	Capital Stock (Note 26)	Additional Paid-In Capital	Retained Earnings (Note 26)		Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 14)	Cumulative Translation Adjustments	Net Revaluation Surplus (Notes 4 and 33)	Effect of Transactions with Non- controlling Interests (Note 2)	Subtotal	Non- controlling Interests (Note 26)	Total
			Unappropriated	Appropriated								
<b>BALANCES AT DECEMBER 31, 2015</b>	<b>₱4,940,399</b>	<b>₱1,142,722</b>	<b>₱5,496,271</b>	<b>₱10,000,000</b>	<b>(₱1,022)</b>	<b>₱1,225,518</b>	<b>₱124,334</b>	<b>₱1,611,397</b>	<b>₱23,164</b>	<b>₱24,562,783</b>	<b>₱2,721,119</b>	<b>₱27,283,902</b>
Net income (loss)	-	-	1,589,045	-	-	-	-	-	-	1,589,045	(21,674)	1,567,371
Other comprehensive income (loss):												
<i>Items to be reclassified to profit or loss in subsequent periods:</i>												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	-	-	-	-	(2,072)	-	-	-	-	(2,072)	-	(2,072)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>												
Remeasurements of pension obligation, net of tax (Note 19)	-	-	(68,823)	-	-	-	-	-	-	(68,823)	-	(68,823)
Total comprehensive income	-	-	1,520,222	-	(2,072)	-	-	-	-	1,518,150	(21,674)	1,496,476
Increase in additional paid-in capital due to stock option plan (Note 27)	-	1,259	-	-	-	-	-	-	-	1,259	-	1,259
Deconsolidation of a subsidiary group (Note 33)	-	-	121,946	-	-	-	(124,334)	(39,012)	54,728	13,328	(2,699,702)	(2,686,374)
Declaration of dividends (Note 26)	-	-	(2,696,003)	-	-	-	-	-	-	(2,696,003)	-	(2,696,003)
<b>BALANCES AT DECEMBER 31, 2016</b>	<b>₱4,940,399</b>	<b>₱1,143,981</b>	<b>₱4,442,436</b>	<b>₱10,000,000</b>	<b>(₱3,094)</b>	<b>₱1,225,518</b>	<b>₱-</b>	<b>₱1,572,385</b>	<b>₱77,892</b>	<b>₱23,399,517</b>	<b>(₱257)</b>	<b>₱23,399,260</b>

See accompanying Notes to Consolidated Financial Statements.



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax from continuing operations	(₱229,006)	₱1,286,240	₱1,556,224
Loss before income tax from discontinued operations (Note 33)	2,464,064	(144,009)	(501,942)
Income before income tax	2,235,058	1,142,231	1,054,282
Adjustments for:			
Depletion and depreciation (Note 18)	1,481,405	1,568,431	1,690,556
Gain on loss of control over a subsidiary (Note 33)	(2,522,704)	–	–
Gain on disposal of AFS financial assets (Note 11)	–	(107,088)	–
Impairment losses on deferred exploration costs and other assets - net (Notes 12 and 13)	2,504,850	–	231,401
Share-based compensation expense (Note 27)	1,259	25,095	25,808
Share in net losses of associates (Note 12)	44,572	13,200	–
Interest income (Note 6)	(3,980)	(11,529)	(16,952)
Interest expense (Note 14)	–	–	354,461
Gain on sale of property, plant and equipment (Note 10)	–	–	(764,685)
Reorganization costs (Note 31)	–	–	394,154
Movement in pension assets - net	(48,703)	32,942	(79,383)
Unrealized foreign exchange losses and others - net	268,353	199,964	98,778
Operating income before working capital changes	3,960,110	2,863,246	2,988,420
Decrease (increase) in:			
Accounts receivable	295,002	156,711	(761,700)
Inventories	(441,350)	(28,324)	810,054
Other current assets	50,760	(102,007)	(33,496)
Decrease in:			
Accounts payable and accrued liabilities	(55,086)	(685,502)	(834,052)
Cash generated from operations	3,809,436	2,204,124	2,169,226
Interest received	3,973	13,497	18,574
Interest paid	(631,374)	(512,719)	(352,474)
Income taxes paid	(435,232)	(279,975)	(385,680)
Net cash flows from operating activities	2,746,803	1,424,927	1,449,646
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in deferred exploration costs and other noncurrent assets	(356,576)	(2,628,256)	(3,138,805)
Additions to property, plant and equipment (Note 10)	(1,735,034)	(1,389,710)	(2,353,691)
Net proceeds from sale of:			
Property, plant and equipment	33,287	–	764,685
AFS financial assets	–	297,462	–
Share buyback of Pitkin (Note 1)	–	(646,699)	(395,734)
Cash from deconsolidated subsidiary group (Note 33)	(606,585)	–	–
Net cash flows used in investing activities	(2,664,908)	(4,367,203)	(5,123,545)

(Forward)



	<b>Years Ended December 31</b>		
	<b>2016</b>	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from:			
Availment of short-term loans (Note 14)	<b>₱236,190</b>	₱3,015,505	₱2,928,378
Exercise of stock options and others (Note 27)	-	-	36,725
Issuance of bonds - net of transaction costs	-	-	7,162,000
Payments of:			
Short-term bank loans (Note 14)	<b>(638,518)</b>	(4,191,825)	(4,880,022)
Long-term loans	-	-	(55,014)
Dividends (Note 26)	<b>(235,139)</b>	(107,994)	(366,894)
Net cash flows from (used in) financing activities	<b>(637,467)</b>	(1,284,314)	4,825,173
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>4,823</b>	3,384	106
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(550,749)</b>	(4,223,206)	1,151,380
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,008,686</b>	5,231,892	4,080,512
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱457,937</b>	₱1,008,686	₱5,231,892

*See accompanying Notes to Consolidated Financial Statements.*



## **PHILEX MINING CORPORATION AND SUBSIDIARIES**

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

**(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)**

#### **1. Corporate Information, Business Operations and Authorization for Issuance of the Financial Statements**

##### Corporate Information

Philex Mining Corporation and its subsidiaries (collectively referred to as “the Group”) are organized into two main business groupings: the mining and metals business under Philex Mining Corporation (the Parent Company or PMC), and the energy and hydrocarbon business under PXP Energy Corporation “PXP” (formerly Philex Petroleum Corporation), but not until July 15, 2016, where PXP and its subsidiaries ceased to be subsidiaries as a result of loss on control through property dividend declaration (see Notes 26 and 33). Thus, as at December 31, 2016, the Group’s mining and metals business remains as its only business segment.

Philex Mining Corporation 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 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 incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI, a wholly-owned subsidiary 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 in Taganaan, Surigao del Norte. SMMCI owns the Silangan Project covering the Boyongan and Bayugo deposits.

PXP Energy Corporation (a 64.7% owned subsidiary of the Parent Company until July 15, 2016 and incorporated in the Philippines) and its subsidiaries: Forum Energy Plc (FEP, 58.9% owned and registered in England and Wales) and its subsidiaries, Pitkin Petroleum Plc. (PPP, 53.4% owned and incorporated and registered in United Kingdom of Great Britain and Northern Ireland) and its subsidiaries, and FEC Resources, Inc. (FEC, 54.99% 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. On July 15, 2016, the Parent Company’s ownership interest over PXP was reduced to 19.8% as a result of property dividend (see Notes 26 and 33).

The Group’s 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 2<sup>nd</sup> floor LaunchPad, Reliance cor Sheridan Streets, Mandaluyong City, Metro Manila.

##### Status of Business Operations - Mining and Metals

###### *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 60th year of operation producing copper concentrates containing gold, copper and silver.



On August 27, 2014, the Parent Company received an order from Mines and Geosciences Bureau (MGB) for the permanent lifting of the cease-and-desist order as the result of the Parent Company's compliance to its environmental obligations, such as payments of required fees, the carrying out of immediate remediation measures, and the submission of proof on the safety and integrity of its tailings dam.

This followed the Parent Company's voluntary suspension of Padcal Mine operations after the Tailings Storage Facility (TSF) No. 3 incident in the mine arising from unabated and historically unprecedented heavy rains during the last two weeks of July 2012 from the two typhoons that brought unusual and heavy accumulation of rain water in TSF No. 3. The sealing of the underground tunnel in November 2012 allowed Padcal Mine to start conducting the necessary remediation and rehabilitation program (which included 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.

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 Department Administrative Order (DAO) No. 2010-21 implementing the provisions of the Philippine Mining Act of 1995. In an Order dated February 25, 2013, the Pollution Adjudication Board (PAB) lifted its Cease and Desist Order dated November 28, 2012 effective for four months and imposed compliance on certain reportorial matters. On July 5, 2013, the MGB advised the Parent Company that it was authorized to continue implementing such remediation measures in the meantime that the former was 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.

The Group continues to look for sources of funding to finance its exploration activities and working capital requirements. On December 18, 2014, SMECI and PMC (co-issuer) have issued convertible bonds amounting to ₱7,200,000. The proceeds of the bonds were intended primarily to finance SMMCI's exploration activities and payment of its advances from the Parent Company (see Note 14).

#### *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 includes the Nagtalay project and the Laburan/Skid 9 project, which have completed the geological modeling and preliminary resource estimation. PGPI is now looking for possible joint venture partners to explore further and operate the Bulawan and Vista Alegre projects. PGPI currently holds 98.9% of LMC.

#### *SMMCI*

SMMCI is currently conducting the definitive feasibility study of the Silangan Project covered by Mineral Production Sharing Agreement (MPSA) 149-99-XIII following completion of its pre-feasibility study in late 2014. The Declaration of Mining Project Feasibility (DMPF) for underground mining operations was approved in April 2015. The Environmental Compliance Certificate (ECC) of Silangan Project has been amended to change the operation of mine from underground mining to surface mining was approved in May 2016. Correspondingly, the Amended Mining Project Feasibility Study in connection with the approved DMPF was approved in April 2016 but received in May 2016. Adjacent to the Silangan deposits 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 (MMC) (see Note 29).

Status of Business Operations - Energy and Hydrocarbon

*PXP and its subsidiaries*

PXP was a Parent Company's subsidiary until July 2016 when it was deconsolidated following its distribution as a property dividend (Notes 26 and 33).

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

Service Contract	Participating Interest		
	Pitkin	PXP	FEP
SC 6 (Cadlao Block)	–	1.65%	–
SC 6A (Octon Block)	–	5.56% <sup>1</sup>	5.56% <sup>1</sup>
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) <sup>1</sup>	–	–	9.10%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100.00%
SC 53 (Mindoro)	–	–	–
SC 72 (Reed Bank)	–	–	70.00%
SC 74 (Linapacan) <sup>2</sup>	–	70.00%	–
SC 75 Area 4 (Northwest Palawan)	–	50.00%	–
Peru Block Z-38	25.00%	–	–

<sup>1</sup> On October 24, 2016, the DOE has approved the Purchase and Sale Agreement (PSA) and Deed of Assignment (DOA) dated April 27, 2016 transferring the 70% interest of Pitkin Petroleum (Philippines) Plc to Mindoro-Palawan Oil and Gas, Inc. (MPOGI).

<sup>2</sup> On April 25, 2016, the DOE has approved the PSA and DOA dated February 24, 2016 transferring the 70% interest and operatorship of Pitkin Petroleum (Philippines) Plc to PXP.

*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 kilometers 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 as at December 31, 2015.

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 in December 2013.

*PPP*

Pitkin 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. Pitkin's principal asset is 25% interest in Peru Block Z-38.



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

#### *PXP*

On April 5, 2013, PXP increased its shareholding in Pitkin Petroleum Plc (Pitkin) from 18.46% to 50.28% through subscription of 10,000,000 new ordinary shares and purchase of 36,405,000 shares from existing shareholders at US\$0.75 per share. The transaction led to PXP obtaining control over Pitkin. Pitkin was incorporated and registered in the United Kingdom (UK) of Great Britain and Northern Ireland on April 6, 2005.

On July 2, 2014, PXP surrendered 2,000,000 of its shares held in Pitkin following the latter's tender offer to buy back 11,972,500 shares equivalent to 8.55% of all shares outstanding as of that date for a consideration of US\$1 per share. Pitkin received a total of 11,099,000 shares surrendered from its existing shareholders. The share buyback transaction caused an increase in PXP's ownership in Pitkin from 50.3% to 53.1% as at July 2, 2014.

In May 2015, PPP tendered another offer to buy back its outstanding shares. PXP and the non-controlling interests surrendered 21,373,000 shares and 19,499,500 shares, respectively. Following this transaction, PXP's interest in PPP has increased from 53.1% to 53.4%.

On July 15, 2016, PXP and its subsidiaries ceased to be subsidiaries of the Parent Company. The Parent Company lost its control through declaration of its PXP shares as property dividend (see Notes 26 and 33).

#### Recovery of Deferred Mine and Oil Exploration Costs

The Group's ability to realize its deferred mine and oil exploration costs with carrying value amounting to ₱23,072,040 and ₱28,963,295 as at December 31, 2016 and 2015, respectively (see Note 13), 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 Issuance of the Consolidated Financial Statements

The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 28, 2017.

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## **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.



### 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 pronouncements, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures, Investment Entities: Applying the Consolidation Exception*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

These amendments are not applicable to the Group since none of the entities within the Group is an investment entity nor does the Group have investment entity associates or joint ventures.

- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral



account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Group is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements, Disclosure Initiative*

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

These amendments do not have any impact to the Group.

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

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

These amendments are applied prospectively and do not have any impact to the Group, given that the Group has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.



The amendments are applied retrospectively and do not have any impact on the Group as the Group does not have any bearer plants.

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

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

These amendments do not have any impact on the Group's consolidated financial statements.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.



- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.



*Effective beginning on or after January 1, 2018*

- *Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its consolidated financial statements.

- *Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The Group is currently assessing the impact of adopting this standard.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.



- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

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

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective





basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

*Effective beginning on or after January 1, 2019*

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

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

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

*Deferred effectivity*

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



## Summary of Significant Accounting Policies

### Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expenses in two statements: a statement displaying components of profit or loss in the consolidated statement of income and a second statement beginning with profit or loss and displaying components of other comprehensive income (OCI) in the consolidated statement of comprehensive income.

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2016 and 2015. 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.

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

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. In 2015, PGPI was acquired and 100% owned by the Parent Company. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both 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.
PXP*	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. PXP’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 shares were delisted in the Alternative Investment Market of the London Stock Exchange in 2015.
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.
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.  On January 6, 2014, BEMC has finalized the agreement for the assignment of COC 130 to Grace Coal Mining and Development Inc. (GCMDI). On May 12, 2015, the DOE has approved the assignment completing the transfer of COC 130 from BEMC to GCMDI.
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. The company is currently in dormant status.



Subsidiaries	Nature and Principal Place of Business
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. The company is currently in dormant status.
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.
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 owned 100% of the outstanding shares of PGPI effective April 27, 2010. In 2015, PGHI sold 100% of its ownership in PGPI to the Parent Company.
Philex Gold Inc. (PGI)**	Incorporated in Canada on June 14, 1996 and owned 100% of the outstanding shares of PGPI until April 26, 2010.

\*Deconsolidated subsidiaries on July 15, 2016. See Notes 26 and 33.

\*\*Dissolution took place in January 2016.

Also included as part of the Parent Company's subsidiaries are those intermediary entities which are basically holding companies established for the operating entities mentioned above. The following are the intermediary entities of the Group: Forum Philippine Holdings Limited (FPHL), Forum FEI Limited (FFEIL), Pitkin Peru LLC (PPR), Pitkin Petroleum Peru 2 LLC (PP2) and Pitkin Petroleum Peru 3 LLC (PP3). On July 15, 2016, PXP and its subsidiaries ceased to be a subsidiary of the Parent Company. PMC lost its control through declaration of its shares in a property dividend (see Notes 26 and 33).

The ownership of the Parent Company and subsidiaries over the foregoing companies in 2016 and 2015 are summarized as follows:

	Percentages of Ownership			
	2016		2015	
	Direct	Indirect	Direct	Indirect
PGHI	100.0	—	100.0	—
PGI	—	—	—	100.0
PGPI	—	—	—	—
LMC	—	—	—	—
PGPI	100.0	—	100.0	—
LMC	—	98.9	—	98.9
PXP	19.8	—	64.7	—
BEMC	—	—	—	100.0
FEP and subsidiaries	—	—	—	58.9
FEC	—	—	—	55.0
LMC	—	—	—	1.1
FEP	—	—	—	18.4
PPP	—	—	—	53.4
SMECI	100.0	—	100.0	—
SMMCI	—	100.0	—	100.0
FSTI	100.0	—	100.0	—
PLI	100.0	—	100.0	—
PIAI	100.0	—	100.0	—



*Sale of PXP shares*

In 2015, PMC sold 839,100 share of PXP to third parties. The resulting sale of share decreased the ownership of the Parent Company in PXP from 64.8% to 64.7%.

*Infusion of additional capital of PMC in SMECI*

On February 3, 2015, by virtue of SMECI's BOD and by the vote of the stockholders representing at least two-thirds of the outstanding capital stock, SMECI's Articles of Incorporation were amended to increase its authorized capital stock from 170,000 shares with par value of ₱10,000 per share to 1,000,000 shares also with a par value of ₱10,000 per share. On February 10, 2015, PMC subscribed 500,000 shares out of the 830,000 new shares for an aggregate price of ₱7,207,500.

*Acquisition of additional shares of PPP*

On July 2, 2014, PXP surrendered 2,000,000 of its shares held in PPP following the latter's tender offer to buy back 11,972,500 shares equivalent to 8.55% of all shares outstanding as of that date for a consideration of US\$1 per share. PPP received a total of 11,099,000 shares surrendered from its existing shareholders. The share buyback transaction resulted to an increase in PXP's ownership in PPP from 50.3% to 53.1%.

In May 2015, PPP tendered another offer to buy back its outstanding shares. PXP and the non-controlling interests surrendered 21,373,000 shares and 19,499,500 shares, respectively. Following this transaction, PXP's interest in PPP has increased from 53.1% to 53.4%.

*Acquisition of additional investment in FEP*

In June and November 2015, PXP purchased additional investment from the non-controlling shareholders of FEP. The transaction resulted in increase in ownership of PXP over FEP from 36.4% to 48.8%.

*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.

On July 15, 2016, PXP and its subsidiaries ceased to be subsidiaries of the Parent Company. The Parent Company lost its control through declaration of its shares in PXP as property dividend (see Notes 26 and 33).

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 recognizes 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, 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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. 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 Cash Generating Unit (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.

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 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 has been allocated to 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 in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

#### Foreign Currency Translation of Foreign Operations

The Group's consolidated financial statements are presented in Philippine Peso, which is also the Parent Company's functional currency. Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency. The Group has elected to recognize the translation adjustment that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. 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 the end of the reporting period. All exchange differences are recognized in the consolidated statement 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 FEL and Pitkin, which are expressed in United States (US) dollar amounts, and the financial statements of FEC, which are expressed in Canadian (Cdn) dollar amounts, have been translated to Peso amounts as follows:

- a. assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of the consolidated statement of financial position
- b. income and expenses in the statement of income are translated at exchange rates at the average monthly prevailing rates for the year
- c. all resulting exchange differences in other 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 trade date.

##### *Initial recognition and classification of financial instruments*

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those 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, 2016 and 2015, 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.





*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 consolidated statement of financial position date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2016 and 2015, the Group's cash and cash equivalents, accounts receivable and advances to a related party are included under loans and receivables.

*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 (loss) 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 consolidated statement of financial position date.

Note 11 discuss the details of the Group's AFS financial assets as of December 31, 2016 and 2015.



#### 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, 2016 and 2015, included in other financial liabilities are the Group's accounts payable and accrued liabilities, dividends payable, and loans and bonds payable.

#### Debt Issuance Costs

Debt issuance costs are amortized using effective interest rate method and unamortized debt issuance costs are included in the measurement of the related carrying value of the debt in the consolidated statement of financial position. When loan is repaid, the related unamortized debt issuance costs at the date of repayment are charged in the consolidated statement of income.

#### Impairment of Financial Assets

The Group assesses at each consolidated 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 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 consolidated 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 20% 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 and petroleum 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 consolidated 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 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	10 to 40
Building 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, deferred mine exploration costs, 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated statement of financial position date are dealt with as an event after the consolidated 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 London Bullion Metal Association (LBMA) 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 concentrates and bullion allow for a price adjustment based on final assay results of the metal content by the customer.

The terms of metal in copper concentrates sales contracts with third parties contain provisional arrangements whereby the selling price for the metal 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. Ninety percent (90%) of the provisional shipment value is collected within a week from shipment date, 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 statement 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:

#### *Production costs*

Production costs, which include all direct materials, power and labor costs, handling, hauling and storage, and other costs related to the mining and milling operations, and all direct expenses incurred for logistics and store room costs for mine and mining inventories, are expensed as incurred.



*Excise taxes and royalties*

Excise taxes pertain to the 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 excise 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.

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 consolidated 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 OCI in the period in which they arise. Remeasurements are not reclassified to consolidated 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 or FEP, 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 27.

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 consolidated 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 statement 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.

#### 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 consolidated 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 statement 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 consolidated statement of financial position date that provide additional information about the Group's position at the consolidated statement of financial position date (adjusting event) are reflected in the consolidated financial statements. Events after the consolidated 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.

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**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 Canadian 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, 2016 and 2015, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱322,023 and ₱306,335, respectively (see Note 25). As at December 31, 2016 and 2015, no deferred income tax assets were recognized on the following deductible temporary differences amounting to about ₱2,730,995 and ₱2,655,280, respectively (see Note 25), 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. 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 20).

#### *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, 2015, the Group's joint arrangement is in the form of a joint operation. As at December 31, 2016, the Group has no joint arrangement as a result of loss of control over PXP and its subsidiaries (see Notes 26 and 33).

#### 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 smelting charges, amounted to ₱10,271,665, ₱9,189,382 and ₱10,586,663 in 2016, 2015 and 2014, respectively.

#### *Impairment of Loans and Receivables*

The Group maintains an allowance for doubtful accounts at a level that management considers adequate to provide for potential uncollectability 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 collectability 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 statements of income 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 ₱3,123,522 and ₱1,769,486 as at December 31, 2016 and 2015, respectively (see Note 21). Allowance for impairment on these financial assets amounted to ₱1,747, as at December 31, 2016 and 2015 (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, 2016 and 2015, the Group has net cumulative unrealized loss on its AFS financial assets amounting to ₱3,094 and ₱1,022, respectively (see Note 11). As at December 31, 2016 and 2015, the carrying value of the Group's AFS financial assets amounted to ₱104,615 and ₱106,687, 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 20% 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. As at December 31, 2016 and 2015, the carrying value of the Group's AFS financial assets amounted to ₱104,615 and ₱106,687, respectively (see Note 11). No impairment loss was recognized in 2016, 2015 and 2014.

#### *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 2016, 2015 and 2014, whereas the carrying value of goodwill as at December 31, 2016 and 2015 amounted to nil and ₱1,238,583, respectively (see Notes 1, 4 and 33).

#### *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 LBMA 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, 2016 and 2015 amounted to ₱1,059,280 and ₱543,228, 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. Related allowance for inventory obsolescence on materials and supplies amounted to ₱100,126 and ₱116,185 as at December 31, 2016 and 2015, respectively. The carrying value of materials and supplies inventories amounted to ₱1,259,570 and ₱1,334,272 as at December 31, 2016 and 2015, respectively (see Note 8). Additional provision for



materials and supplies obsolescence amounted to ₱30,000 and nil in 2016 and 2015, respectively (see Note 8).

Related allowance for decline in coal inventory and materials and supplies derecognized during the year amounted to ₱220,083 and ₱46,059, respectively. The carrying amount of coal inventory amounted to nil as at December 31, 2016 and 2015 (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, 2016 and 2015, net book value of property, plant and equipment amounted to ₱6,735,578 and ₱6,828,052 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. On March 20, 2015, the Padcal Mine life has been extended once again from 2020 to 2022. The extension of mine life is due to the additional reserves from the mineral resources delineated below the current mining level.

As at December 31, 2016 and 2015, the carrying value of the mine and mining properties of the Parent Company amounted to ₱3,574,005 and ₱3,109,995, respectively net of related accumulated depletion amounting to ₱9,415,853 and ₱8,655,590, respectively.

*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 the net rehabilitation provisions of revised mine assets for mature mines exceed 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 ₱129,234 and ₱134,898 as at December 31, 2016 and 2015, respectively (see Note 10).

#### *Impairment of Non-financial Assets*

The Group's non-financial assets include input tax recoverable, property, plant and equipment, deferred mine and oil exploration costs, other noncurrent asset, net pension asset, and investment in associates. 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 ₱2,504,850, nil and ₱231,401 were recognized in 2016, 2015 and 2014, respectively. As at December 31, 2016 and 2015, the carrying value of non-financial assets amounted to ₱33,017,307 and ₱38,270,648, respectively (see Notes 9, 10, 12, 13 and 19).

#### *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 20.

#### *Convertible Bonds*

The Group's convertible bonds, treated as a compound financial instrument, are separated into liability and equity components based on the terms of the contract. On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized (see Note 14).

#### *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 (see Note 31).

*Estimation of Net Pension Obligations (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 excess retirement plan asset amounted to ₱328,118 and ₱285,835 as at December 31, 2016 and 2015, respectively (see Note 19). SMMCI's retirement liability amounted to ₱15,548 and ₱21,968 as at December 31, 2016 and 2015, respectively (see Note 19).

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**4. Business Combinations**

*Acquisition of SMECI and SMMCI*

On February 6, 2009, the Parent Company acquired control over SMECI and SMMCI from Anglo American Exploration (Philippines), Inc. which qualified as a step acquisition. Due to the transaction, a revaluation surplus amounting to ₱1,572,385 was recognized.

Business combinations of a subsidiary group until July 15, 2016 are as follows:

*Acquisition of PPP*

On April 5, 2013, PXP 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 PXP 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
<b>Assets</b>		
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	1,262,192
<b>Liabilities</b>		
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	
<b>Goodwill arising from acquisition</b>	₱1,534,168	



The fair values of deferred oil and gas exploration costs recognized as at December 31, 2013 financial statements were based on a provisional assessment of their fair value while the Group sought for the final results of independent valuations for the assets. The valuation is based on discounted cash flows for each of the project subject to uncertainty which involves significant judgments on many variables that cannot be precisely assessed at reporting date.

During 2014, results of studies from third party oil and gas consultants and competent persons were obtained by each of the respective operators of the projects which enabled the Group to perform and update the discounted cash flows. As a result of these assessment, an increase in carrying amount of Peru exploration assets by ₱393,399 occurred while assets in the Philippines decreased by the same amount. These adjustments, however, did not have any material effect on goodwill, deferred tax assets or liabilities, impairment losses and foreign currency exchange gains or losses as at December 31, 2014.

In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at the 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 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
	<u>₱6,327,695</u>

The Group measured NCI using the fair value method.

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

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 control over SMECI and SMMCI from Anglo American Exploration (Philippines), Inc. which qualified as a step acquisition. Due to the transaction, a revaluation surplus amounting to ₱1,572,385 was recognized.

#### *Acquisition of FEP*

On July 3, 2008, PXP acquired control over FEP through a transaction which qualified as a step acquisition. 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.



*Acquisition of BEMC and FEC*

On September 24, 2010, PMC transferred all of its investment in shares of stock in BEMC and FEC to PXP. This qualified as a business combination under common control. The acquisitions resulted to an increase in equity reserves and non-controlling interests amounting ₱40,588 and ₱303,525, respectively, as at the date of business combinations. Goodwill arising from the business combination amounted to ₱258,593.

*Goodwill*

As at December 31, 2016 and 2015, the goodwill resulting from business combinations amounting to nil and ₱1,238,583, respectively, are allocated to the Group's cash-generating units namely: SC 14 C1 Galoc Oil Field, SC 14 A&B Nido-Matinloc, SC 72 Reed Bank and Peru Z38. The Group performed its annual impairment test in 2015.

The recoverable amount of the CGUs were determined based on a value in use calculation using cash flow projections from financial budgets covering the expected life of the oil and gas fields. Based on its analysis, management concluded that the goodwill is recoverable. The calculation of the value in use for the CGUs incorporates the following key assumptions: a) oil prices which are estimated with reference to external market forecasts; b) volume of resources and reserves which are based on resources and reserves report prepared by third party; c) capital expenditure and production and operating costs which are based on the Group's historical experience and latest life of well models; and d) discount rate of 10%. The management believes that key assumptions used in determining the recoverable amount at reasonable possible changes would not cause the CGUs carrying amount to exceed its recoverable amount.

In 2016, goodwill was derecognized as a result of loss of control over PXP and its subsidiaries (see Notes 26 and 33).

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**5. Segment Information**

The Group is organized into business units on their products and activities and has two reportable business segments: the mining and metals segment, and the energy and hydrocarbon segment until July 15, 2016 when the deconsolidation of the energy and hydrocarbon took place. 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.



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, 2016					
	Metals	Energy and Hydrocarbon*	Unallocated Corporate Balances	Eliminations	Total
<b>Revenue</b>					
External customers	₱9,378,387	₱-	₱-	₱-	₱9,378,387
<b>Consolidated revenue</b>	<b>₱9,378,387</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱9,378,387</b>
<b>Results</b>					
EBITDA	₱3,429,066	(₱30,840)	₱979	₱455,020	₱3,854,225
Interest income – net	1,997	1,899	84	-	3,980
Income tax benefit	(697,224)	436	-	-	(696,788)
Depreciation and depletion	(1,481,405)	-	-	-	(1,481,405)
Non-recurring items	(112,044)	(597)	-	-	(112,641)
<b>Consolidated net income (loss)</b>	<b>₱1,140,390</b>	<b>(₱29,102)</b>	<b>₱1,063</b>	<b>₱455,020</b>	<b>₱1,567,371</b>
<b>Core net income (loss)</b>	<b>₱1,665,195</b>	<b>(₱7,567)</b>	<b>(₱224)</b>	<b>₱-</b>	<b>₱1,657,404</b>
<b>Consolidated total assets</b>	<b>₱41,860,372</b>	<b>₱-</b>	<b>₱9,129</b>	<b>(₱3,207,672)</b>	<b>₱38,661,829</b>
<b>Consolidated total liabilities</b>	<b>₱13,735,121</b>	<b>₱-</b>	<b>₱443</b>	<b>₱1,527,005</b>	<b>₱15,262,569</b>
<b>Other Segment Information:</b>					
Capital expenditures and other non-current assets	₱2,091,610	₱-	₱-	₱-	₱2,091,610

\*January 1 to July 15, 2016.

December 31, 2015					
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
<b>Revenue</b>					
External customers	₱8,352,785	₱172,250	₱-	₱-	₱8,525,035
<b>Consolidated revenue</b>	<b>₱8,352,785</b>	<b>₱172,250</b>	<b>₱-</b>	<b>₱-</b>	<b>₱8,525,035</b>
<b>Results</b>					
EBITDA	₱3,379,577	(₱132,367)	₱204	(₱468,561)	₱2,778,853
Interest income (expense) – net	4,085	7,444	-	-	11,529
Income tax benefit	(366,580)	(16)	-	-	(366,596)
Depreciation and depletion	(1,563,972)	(4,175)	(284)	-	(1,568,431)
Non-recurring items	(64,809)	(14,911)	-	-	(79,720)
<b>Consolidated net income (loss)</b>	<b>₱1,388,301</b>	<b>(₱144,025)</b>	<b>(₱80)</b>	<b>(₱468,561)</b>	<b>₱775,635</b>
<b>Core net income (loss)</b>	<b>₱939,930</b>	<b>(₱34,893)</b>	<b>₱205</b>	<b>₱-</b>	<b>₱905,242</b>
<b>Consolidated total assets</b>	<b>₱39,469,736</b>	<b>₱4,057,188</b>	<b>₱132</b>	<b>₱-</b>	<b>₱43,527,056</b>
<b>Consolidated total liabilities</b>	<b>₱14,924,608</b>	<b>₱1,317,339</b>	<b>₱1,207</b>	<b>₱-</b>	<b>₱16,243,154</b>
<b>Other Segment Information:</b>					
Capital expenditures and other non-current assets	₱3,844,397	₱214,787	₱-	₱-	₱4,059,184
Non-cash expenses other than depletion and depreciation	173,828	362,354	-	41,187	577,369



December 31, 2014					
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
<b>Revenue</b>					
External customers	₱9,736,826	₱311,414	₱4,303	₱-	₱10,052,543
Consolidated revenue	₱9,736,826	₱311,414	₱4,303	₱-	₱10,052,543
<b>Results</b>					
EBITDA	₱3,498,322	(₱115,803)	(₱4,004)	₱15,639	₱3,394,154
Interest income – net	(344,319)	6,756	54	-	(337,509)
Income tax benefit (expense)	(342,507)	(8,955)	25	-	(351,437)
Depreciation and depletion	(1,686,827)	(3,428)	(301)	-	(1,690,556)
Non-recurring items	82,634	(389,467)	12	(4,986)	(311,807)
Consolidated net income (loss)	₱1,207,303	(₱510,897)	(₱4,214)	₱10,653	₱702,845
Core net income (loss)	₱1,233,573	(₱103,557)	(₱8,223)	₱-	₱1,121,793
Consolidated total assets	₱36,654,743	₱4,988,051	₱9,631	₱2,987,923	₱44,640,348
Consolidated total liabilities	₱14,540,661	₱1,133,774	₱1,876	₱1,922,217	₱17,598,528
<b>Other Segment Information:</b>					
Capital expenditures and other non-current assets	₱5,434,637	₱396,384	₱-	₱-	₱5,831,021
Non-cash expenses other than depletion and depreciation	720,859	338,403	-	-	1,059,262

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Core net income	<b>₱1,657,404</b>	₱905,242	₱1,121,793
Non-recurring gains (losses):			
Foreign exchange losses and others	<b>(145,040)</b>	(157,095)	(56,505)
Gain on sale of assets	-	107,088	764,685
Net tax effect of aforementioned adjustments	<b>43,512</b>	43,168	(94,208)
Provisions for impairment of assets – net	<b>(2,504,850)</b>	(2,222)	(336,059)
Gain from loss of control over a subsidiary group	<b>2,538,019</b>	-	-
Reorganization costs	-	-	(394,154)
Net income attributable to equity holders of the Parent Company	<b>1,589,045</b>	896,181	1,005,552
Net income attributable to NCI (Note 26)	<b>(21,674)</b>	(120,546)	(302,707)
Consolidated net income	<b>₱1,567,371</b>	₱775,635	₱702,845

Core net income per share is computed as follows:

	2016	2015	2014
Core net income	<b>₱1,657,404</b>	₱905,242	₱1,121,793
Divided by weighted average number of common shares outstanding during year (Note 28)	<b>4,940,399,068</b>	4,940,399,068	4,938,577,039
Core net income per share	<b>₱0.335</b>	₱0.183	₱0.227





Sales of the Parent Company are made to Pan Pacific Copper Co., Ltd. (Pan Pacific), which is covered by a Sales Agreement (signed on March 11, 2004), and to Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) for the remaining copper concentrates. Gross revenue, excluding provisional pricing adjustments, from Pan Pacific and LD Metals for the year ended December 31, 2016, 2015 and 2014 are presented below:

	2016	2015	2014
LD Metals	<b>₱3,287,548</b>	₱6,109,840	₱8,336,374
Pan Pacific	<b>6,377,937</b>	3,128,525	3,179,773
	<b>₱9,665,485</b>	₱9,238,365	₱11,516,147

## 6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2016	2015
Cash on hand	<b>₱2,208</b>	₱2,370
Cash with banks	<b>272,345</b>	693,894
Short-term deposits	<b>183,384</b>	312,422
	<b>₱457,937</b>	₱1,008,686

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 ₱2,081, ₱4,085 and in ₱5,182 in 2016, 2015 and 2014, respectively.

## 7. Accounts Receivable

Accounts receivable consist of:

	2016	2015
Trade	<b>₱411,795</b>	₱701,328
Others	<b>76,449</b>	197,898
	<b>488,244</b>	899,226
Less allowance for impairment losses	<b>1,747</b>	1,747
	<b>₱486,497</b>	₱897,479

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 for Pan Pacific or after a month for LD Metals. The Group has US dollar (US\$) accounts receivable amounting to US\$7,838 and US\$13,194 as at December 31, 2016 and 2015, respectively (see Note 23).

Accrued interest receivables arise from the Group's short-term deposits. Other receivables include advances to officers and employees, and other non-trade receivables. Advances from officers and employees are non-interest bearing cash advances for business-related expenditures that are subject to liquidation. Other non-trade receivables are non-interest bearing and are generally collectible on demand.



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

	2016	2015
January 1		
Others	<b>₱1,747</b>	₱2,613
Reversals during the year		
Others	-	(866)
<b>December 31</b>	<b>₱1,747</b>	<b>₱1,747</b>

The impaired receivables were specifically identified as at December 31, 2016 and 2015.

## 8. Inventories

Inventories consist of:

	2016	2015
Mine products - at NRV	<b>₱1,059,280</b>	₱543,228
Petroleum - at NRV	-	9,044
Materials and supplies:		
On hand - at NRV	<b>1,195,456</b>	1,291,969
In transit - at cost	<b>64,114</b>	42,303
	<b>₱2,318,850</b>	<b>₱1,886,544</b>

As at December 31, 2016 and 2015, the cost of materials and supplies inventories on hand amounted to ₱1,259,570 and ₱1,334,272 respectively.

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

	2016	2015
January 1		
Coal	<b>₱220,083</b>	₱220,083
Materials and supplies	<b>116,185</b>	116,185
Provisions during the year		
Coal	-	-
Materials and supplies	<b>30,000</b>	-
Derecognition during the year		
Coal	<b>(220,083)</b>	-
Materials and supplies	<b>(46,059)</b>	-
<b>December 31</b>	<b>₱100,126</b>	<b>₱336,268</b>

Provision for coal inventories which is related to BEMC's closure in 2013 is included in the "Loss from deconsolidated subsidiary group" account in the consolidated statements of income as a result of Parent Company's loss of control over PXP (see Notes 26 and 33).

Materials and supplies recognized as expense amounted to ₱1,640,583, ₱1,557,628 and ₱1,785,909 in 2016, 2015 and 2014, respectively (see Note 16).



## 9. Other Current Assets

Other current assets consist of:

	2016	2015
Input tax recoverable - net	P1,354,958	P1,366,311
Prepaid expenses and others	82,794	112,437
	<b>P1,437,752</b>	<b>P1,478,748</b>

Allowance for impairment loss on input tax amounted to P56,474 and P99,433 as at December 31, 2016 and 2015.

## 10. Property, Plant and Equipment

Property, plant and equipment consist of:

December 31, 2016							
	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
<b>Cost:</b>							
January 1	P12,637,305	P459,279	P8,701,320	P188,675	P343,693	P2,088,913	P24,419,185
Additions	1,224,273	161,457	516,371	2,155	90,013	-	1,994,269
Disposals	-	(4,715)	(609,301)	-	-	-	(614,016)
Reclassifications	-	140,720	-	-	(140,720)	-	-
Effect of deconsolidation due to loss of control (Note 33)	(814,518)	-	(33,181)	-	-	-	(847,699)
<b>December 31</b>	<b>13,047,060</b>	<b>756,741</b>	<b>8,575,209</b>	<b>190,830</b>	<b>292,986</b>	<b>2,088,913</b>	<b>24,951,739</b>
<b>Accumulated Depletion and Depreciation:</b>							
January 1	9,196,340	241,071	5,917,698	147,111	-	2,088,913	17,591,133
Depletion and depreciation for the year (Note 18)	760,263	41,949	900,170	11,136	-	-	1,713,518
Disposals	-	(4,715)	(575,581)	-	-	-	(580,296)
Effect of deconsolidation due to loss of control (Note 33)	(476,994)	-	(31,200)	-	-	-	(508,194)
<b>December 31</b>	<b>9,479,609</b>	<b>278,305</b>	<b>6,211,087</b>	<b>158,247</b>	<b>-</b>	<b>2,088,913</b>	<b>18,216,161</b>
<b>Net Book Values</b>	<b>P3,567,451</b>	<b>P478,436</b>	<b>P2,364,122</b>	<b>P32,583</b>	<b>P292,986</b>	<b>P-</b>	<b>P6,735,578</b>

\*Cost of land amounts to P2,053. This also includes capitalized costs of mine rehabilitation of P18,130 and related accumulated amortization of P18,130.

December 31, 2015							
	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
<b>Cost:</b>							
January 1	P11,706,548	P413,492	P8,403,607	P186,358	P502,187	P2,085,073	P23,297,265
Additions	481,968	87,857	655,715	2,317	258,472	3,840	1,490,169
Disposals	-	(42,070)	(361,854)	-	-	-	(403,924)
Reclassifications	416,966	-	-	-	(416,966)	-	-
Effect of CTA	31,823	-	3,852	-	-	-	35,675
<b>December 31</b>	<b>12,637,305</b>	<b>459,279</b>	<b>8,701,320</b>	<b>188,675</b>	<b>343,693</b>	<b>2,088,913</b>	<b>24,419,185</b>
<b>Accumulated Depletion and Depreciation:</b>							
January 1	8,316,034	254,055	5,369,828	133,363	-	2,085,073	16,158,353
Depletion and depreciation for the year (Note 18)	865,214	29,086	906,400	13,748	-	3,840	1,818,288
Disposals	-	(42,070)	(361,854)	-	-	-	(403,924)
Effect of CTA	15,092	-	3,324	-	-	-	18,416
<b>December 31</b>	<b>9,196,340</b>	<b>241,071</b>	<b>5,917,698</b>	<b>147,111</b>	<b>-</b>	<b>2,088,913</b>	<b>17,591,133</b>
<b>Net Book Values</b>	<b>P3,440,965</b>	<b>P218,208</b>	<b>P2,783,622</b>	<b>P41,564</b>	<b>P343,693</b>	<b>P-</b>	<b>P6,828,052</b>

\*Cost of land amounts to P2,053. This also includes capitalized costs of mine rehabilitation of P18,130 and related accumulated amortization of P18,130.



Mine and mining properties as at December 31, 2016 and 2015 include mine development costs of the 908 Meter Level, 782 Meter Level and 798 Meter Level project amounting to ₱7,213,316 and ₱6,692,789, 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. In 2015, with the discovery of additional resources, the estimated mine life of the Padcal Mine was again extended for an additional two years until 2022. Correspondingly, the extensions in mine life were considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱232,061, ₱254,032 and ₱321,336 in 2016, 2015 and 2014, 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 from 2023 up to 2030, discounted at a rate of 2.79%. In 2015, the Parent Company performed a reassessment of its provision for mine rehabilitation costs which increased the liability and related asset by ₱100,459. Accretion of interest totaled ₱3,510 and ₱3,414 in 2016 and 2015, respectively.

The Group's provision for mine rehabilitation costs amounted to ₱129,434 and ₱134,898 as at December 31, 2016 and 2015, 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.

On July 17, 2014, the Parent Company sold its property located in Pasig City for a total amount of ₱777,445. Total gain of ₱764,685 was recognized in the consolidated statements of income after the related necessary taxes and expenses. Subsequently in September 2016, the Parent Company acquired building and improvements amounting to ₱161,457 which is now the Parent Company's registered business office.

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## 11. Available-for-sale (AFS) Financial Assets

### AFS Financial Assets

The Group's AFS financial assets consist of quoted and unquoted investment in share of stock as follows:

	2016	2015
Investments in quoted shares	<b>₱31,924</b>	₱33,975
Investments in unquoted shares of stock	<b>72,691</b>	72,712
	<b>₱104,615</b>	₱106,687

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.



On February 3, 2015, the Parent Company sold its investment in quoted shares in Indophil for a consideration of ₱297,462. The transaction resulted in a gain amounting to ₱107,088 recorded under “Other income (charges)” on the consolidated statements of income.

Investment in Lepanto is reclassified as investment in an associate in 2015 (see Note 12).

As at December 31, 2016 and 2015, the cumulative change in value of AFS financial assets amounted to a decrease of ₱3,094 and ₱1,022, respectively. These changes in fair values in the same amounts have been recognized and shown as “Net unrealized gain (loss) 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.

The following table shows the movement of the “Net unrealized loss on AFS financial assets” account:

	2016	2015
January 1	(₱1,022)	(₱64,010)
Decrease in fair value of AFS financial assets	(2,072)	(23,023)
Reversal of fair value changes in AFS investment subsequently accounted for as an associate (Note 12)	–	193,099
Realized gain on sale of AFS financial assets	–	(107,088)
<b>December 31</b>	<b>(₱3,094)</b>	<b>(₱1,022)</b>

## 12. Investment in Associates

	2016	2015
Lepanto	₱626,038	₱659,408
PXP (Note 33)	1,050,131	–
	1,676,169	659,408
Less allowance for impairment loss	220,293	–
	<b>₱1,455,876</b>	<b>₱659,408</b>

### Lepanto

The Parent Company entered into a Joint Voting Agreement (the Agreement) with another Lepanto shareholder to jointly vote their share on all matters affecting their right on Lepanto for five years from the effectivity of the Agreement. By virtue of the Agreement, the shareholding and board representation of the combined interest of PMC and the other Lepanto shareholder resulted in significant influence over Lepanto.

Lepanto is involved on the exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by products. Lepanto is listed on the Philippine Stock Exchange (PSE). The Group’s interest in Lepanto is accounted for using the equity method on the consolidated financial statements.

In 2016, the Group provided an allowance for impairment losses in its investment in Lepanto amounting to ₱220,293.

The following table summarizes the financial information of Lepanto:



	2016	2015
Current assets	₱1,979,774	₱1,844,445
Non-current assets	14,883,124	14,879,042
Current liabilities	(1,782,979)	(1,008,527)
Non-current liabilities	(8,153,679)	(8,141,015)
Equity	<b>₱6,926,240</b>	₱7,573,945

	2016*	2015*
Revenue	₱1,121,195	₱907,999
Cost and expenses	(1,658,721)	(1,391,951)
Finance costs	(16,010)	(18,327)
Other income (expenses)	59,295	(8,321)
Loss before income tax	(494,241)	(510,600)
Income tax expense	(6,309)	(328)
Loss for the year	<b>₱500,550</b>	₱510,928

Total comprehensive loss	<b>₱500,550</b>	₱510,928
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Group's share of loss for the year (annualized)	<b>₱33,370</b>	₱13,200
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\*Balances are based on unaudited September 30, 2016 interim financial statements submitted by Lepanto to PSE.

#### PXP

The Parent Company declared its shares of stock in PXP as property dividends to its shareholders on March 15, 2016 record date at a ratio of 17 shares for every 100 shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission (SEC) on June 22, 2016. The Group ceases to have control over PXP on July 15, 2016 (see Notes 26 and 33).

The following table illustrates the summarized financial information of the Group's investment in PXP:

	2016*
Current assets	₱625,695
Non-current assets	6,679,041
Current liabilities	(2,955,578)
Non-current liabilities	(1,312,809)
Equity	<b>₱3,036,349</b>

	2016*
Revenue	₱78,354
Cost and expenses	(122,228)
Other income (expenses)	4,961
Loss before income tax	(38,913)
Income tax expense	(457)
Loss for the year	<b>₱39,370</b>
Total comprehensive loss	<b>₱39,370</b>
Group's share of loss for the year (actual)	<b>₱11,202</b>

\*Balances are based on audited December 31, 2016 consolidated financial statements.

### 13. Deferred Exploration Costs and Other Noncurrent Assets



Deferred exploration costs and other noncurrent assets consist of:

	2016	2015
Deferred mine exploration costs	₱26,849,933	₱25,482,996
Less allowance for impairment losses	3,777,893	1,493,336
	<b>23,072,040</b>	23,989,660
Deferred oil exploration costs	–	5,399,948
Less allowance for impairment losses	–	426,313
	–	4,973,635
Other noncurrent assets	86,285	189,715
	<b>₱23,158,325</b>	₱29,153,010

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

	2016	2015
January 1		
Deferred mine exploration cost	₱1,493,336	₱1,519,542
Deferred oil exploration cost	426,313	874,415
Provisions during the year		
Deferred mine exploration cost	2,284,557	–
Deferred oil exploration cost	–	429,848
Reversals during the year		
Deferred oil exploration cost	–	(388,630)
Write-off during the year		
Deferred mine exploration cost	–	(26,206)
Deferred oil exploration cost	–	(489,320)
Deconsolidation of a subsidiary group (Note 33)	(426,313)	–
December 31	<b>₱3,777,893</b>	₱1,919,649

#### Deferred Mine and Oil Exploration Costs

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 are included under “Provision for impairment on investment in an associate and deferred exploration costs” in the consolidated statements of income amounted to ₱2,284,557, ₱429,848 and ₱569,944 in 2016, 2015 and 2014, respectively.

On July 15, 2016, deferred oil exploration costs were derecognized as a result of Parent Company’s loss of control over PXP (see Notes 26 and 33).

#### Other Noncurrent Assets

Bank 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, 2016 and 2015, the Parent Company’s MRF amounted to ₱5,469 and ₱5,361, while PGPI’s MRF amounted to ₱6,870 and ₱6,825, respectively.



#### 14. Loans and Bonds Payable

	2016	2015
Current Loans		
Bank loans		
Banco de Oro (BDO)	₱1,541,320	₱1,882,400
Philippine National Bank (PNB)	1,292,720	1,364,740
Bank of the Philippine Islands (BPI)	248,600	70,590
	<b>3,082,640</b>	3,317,730
Noncurrent Loans		
Bonds payable	6,592,854	6,259,063
	<b>₱9,675,494</b>	₱9,576,793

##### Related Party Loans in Prior Years

In 2012 and 2013, the Parent Company entered into unsecured Term Loan Facility Agreements with Kirtman Limited, Maxella Limited and Asia Link B.V., companies under common control of First Pacific Company Limited (FPC Group), to finance the capital expenditures of Silangan Project and working capital requirements of the Group. The Term Loans Facility Agreements were fully settled in 2014.

Interest expense on the Term Loan Facility Agreements with Kirtman Limited, Maxella Limited and Asia Link B.V amounted to nil for both 2016 and 2015, and ₱207,074 in 2014.

##### BDO Loans

On April 25, 2013, the Parent Company assumed the liability of BEMC for the settlement of the ₱100,000 loan from BDO at the interest rate of 4% subject to repricing. After a series of renewals, 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. The loan was fully paid in July 2014.

On November 6, 2013, the Parent Company obtained unsecured short-term loans from BDO amounting to US\$20,000. The original loan term carries 2.5% interest per annum and will mature on February 4, 2014. The loan was renewed upon maturity for an additional 90 days until May 5, 2014 under the same terms and was subsequently renewed several times with last renewal maturing April 28, 2015 under the same terms. Upon maturity on April 28, 2015, the Parent Company renegotiated the loan to reduce the interest rate to 2.3% per annum and new maturity date on July 27, 2015. The Parent Company renewed the loan several times with the latest maturity date set on March 24, 2016. Partial payments amounting to US\$3,000 were made in 2015 which reduced the outstanding balance to US\$17,000. On 2016, partial payments were made amounting to US\$2,000, US\$1,500 and US\$3,500 in April, June and August, respectively, which reduced the outstanding balance to US\$10,000. After several maturity and renewals, the latest maturity date of the loan is set at April 17, 2017.

On July 1, 2014, the Parent Company obtained unsecured short term loan from BDO amounting to US\$10,000. The loan carries 2.5% interest per annum and will mature on September 29, 2014. The loan was renewed several times with the Parent Company renegotiating on June 17, 2015 for a lower interest rate per annum of 2.3%. The loan was rolled several times with the latest renewal setting the maturity date on March 11, 2016. Partial payments amounting to US\$4,000 were made in 2015 which reduced the outstanding balance to US\$6,000. Partial payment was made during





February 2016 amounting to US\$1,000 which reduced the outstanding balance to US\$5,000. After several maturity and renewals, the latest maturity date of the loan is set at March 6, 2017.

On April 27, 2015, the Parent Company obtained a new unsecured short term loan from BDO amounting to US\$17,000. The loan carries 2.3% interest per annum and will mature on July 24, 2015. The loan was renewed several times upon maturity wherein the last maturity was set on March 20, 2016. Partial payment was made during February 2016 amounting to US\$1,000 which reduced the outstanding balance to US\$16,000. After several maturity and renewals, the latest maturity date of the loan is set at April 12, 2017.

#### PNB Loans

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 several times upon maturity for an additional 90 days or until May 5, 2014 under the same terms. Subsequent renewal followed with last renewal maturing on April 15, 2015. The loan was fully paid in 2015.

On March 19, 2014, the Parent Company obtained an unsecured short-term loan from PNB amounting to US\$10,000. The loan carries 2.5% interest per annum but subject to repricing every 30 days. The loan will mature on June 19, 2014. Partial payments amounting to \$1,000 was made in 2015 which reduced outstanding balance to \$9,000. When the partial payment was made in July 2015, the rate was also renegotiated to 2.3%. On 2016, partial payments were made amounting to US\$1,000 each in February, September and December which reduced the outstanding balance to US\$6,000. After several maturity and renewals, the latest maturity date of the loan is set at May 25, 2017.

On June 3, 2014, the Parent Company obtained unsecured loan from PNB amounting to US\$10,000. The loan carries 2.5% interest per annum and was renegotiated to 2.3% in June 2015. After several maturity and renewals, the latest maturity date of the loan is set at March 14, 2017.

On November 24, 2015, the Parent Company obtained unsecured loan from PNB amounting to US\$10,000. The loan carries 2.3% interest per annum with original maturity on February 22, 2016 and was later extended for another 90 days. After several maturity and renewals, the latest maturity date of the loan is set at May 15, 2017.

#### BPI Loans

On January 14, 2013 and February 18, 2013, the Parent Company 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. These loans were both fully paid in July 2014.

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. The loan was fully paid on March 21, 2014.



On May 12, 2014, PMC 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 June 1, 2014. After several maturity and renewals, the loan was fully settled on November 25, 2015.

On November 24, 2014, the Parent Company obtained an unsecured short-term loan from BPI amounting to US\$5,000. The loan carries 2.5% interest per annum but subject to repricing every 30 days and last renewal to mature on January 23, 2015. After several maturity and renewals, the loan was fully settled on September 18, 2015.

On November 27, 2014, the Parent Company obtained an unsecured short-term loan from BPI amounting to US\$3,500. The loan carries 2.5% interest per annum but subject to repricing every 30 days. Partial payments amounting to US\$2,000 were made in 2015 which reduced the outstanding balance to US\$1,500. After several maturity and renewals, the latest maturity date of the loan is set at May 10, 2017.

On July 11, 2016, the Parent Company obtained an unsecured short-term loan from BPI amounting to US\$3,500. The loan carries 2.25% interest per annum. The Parent Company renewed the loan several times in 2016 with the latest maturity date set on May 9, 2017.

#### LBP Loans

On July 14, 2014, the Parent Company obtained an unsecured short-term loan from LBP amounting to ₱100,000. The loan carries 4.5% interest per annum which will start on the date of initial borrowing and having a duration not exceeding 88 days, and will mature on October 10, 2014. This loan was renewed for another 88 days to mature on January 8, 2015. The Parent Company renewed the loan under the same terms in 2015 with partial payment amounting to ₱50,000 made on February 26, 2015 and full settlement made on March 9, 2015.

On July 28, 2014, the Parent Company obtained an unsecured short-term loan from LBP amounting to ₱250,000. The loan carries 4.5% interest per annum but subject to repricing every 90 days, and will mature on October 27, 2014. This loan was renewed for another 88 days to mature on January 23, 2015. The Parent Company renewed the loan under the same terms in 2015 with partial payment amounting to ₱100,000 made on January 23, 2015 and full settlement made on February 10, 2015.

#### BNP Paribas Loan

On December 21, 2012, FEP, together with Galoc Production Co. (GPC), entered into a \$40,000 loan facility with BNP Paribas for the purpose of financing the development activities of SC 14C's Galoc Phase 2. On June 30, 2014, the loan was fully settled in cash and all accessory contracts are terminated.

Interest expense on the bank loans amounted to ₱87,283, ₱108,837 and ₱90,757 for 2016, 2015 and 2014, respectively.

#### Bonds Payable

On December 18, 2014, SMECI, with PMC as the co-issuer, issued 8-year convertible bonds with a face value of ₱7,200,000 at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18 per share 12 months after the issue date ("Standstill Period"). On the last day of the Standstill Period, the Issuer shall have a one-time right to redeem the bonds from the holders in whole or in part. After the Standstill Period, the noteholders may exercise the conversion right, in whole but not in parts, at any time but no later than the maturity date. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds at a premium, payable at a rate of 3% per annum compounded semi-annually



based on the face value of the bonds and unpaid accrued interest (if there be any). The proceeds of the bonds were used to repay the SMECI's advances from PMC and fund further exploration works of SMMCI.

At the date of issuance, the carrying amount of the bonds payable and equity conversion options amounted to ₱5,974,482 and ₱1,225,518, respectively. The carrying value of convertible bonds payable amounted to ₱6,592,854 and ₱6,259,063 as at December 31, 2016 and 2015, respectively.

Interest amortization amounted to ₱333,791 and ₱311,697 in 2016 and 2015, respectively while finance charges paid amounted to ₱121,342 and ₱76,871 in 2016 and 2015, respectively. Finance charges paid in 2016 and 2015 consist of coupon payments amounting to ₱114,671 and 15% final tax amounting to ₱6,671 paid on behalf of Asialink B.V. Accrued interest amounting to ₱41,647 as at December 31, 2016 and 2015 is presented in "Accounts payable and accrued liabilities" in the statement of financial position. Bonds amortization is calculated on the effective interest basis by applying effective interest rate of 6.97% per annum (compounded semi-annually) for an equivalent non-convertible bonds at the date of issue of the convertible bond to the liability component of the convertible bonds.

Finance expense pertaining to the convertible bonds amounting to ₱455,133 and ₱433,488 in 2016 and 2015, respectively, was capitalized as deferred exploration costs. The rate used to determine the amount of borrowing costs eligible for capitalization was 5.61%.

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## 15. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

Trade	<b>₱643,847</b>	₱738,635
Accrued expenses	<b>458,659</b>	502,524
Accrued royalties and excise taxes	<b>121,723</b>	67,890
Withholding taxes	<b>36,049</b>	59,903
Provisions (Note 31)	<b>410,592</b>	434,048
Other nontrade liabilities	<b>161,791</b>	101,488
	<b>₱1,832,661</b>	₱1,904,488

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

Accrued royalties are due to the claim owners of the land where the mine site operations were located while excise taxes pertain to the taxes paid or accrued by the Parent Company for its legal obligation arising from the production of copper concentrates. These excise taxes and royalties are expensed as incurred. Royalties are paid monthly while obligation to pay excise taxes are made quarterly.

Withholding taxes pertain to statutory deductions and withheld taxes by the Parent Company from its employees for compensation and suppliers for expanded withholding taxes that are to be remitted to the Bureau of Internal Revenue fourteen days following the end of month.



## 16. Costs and Expenses

Costs and expenses include the following:

	2016	2015	2014
<b>Production costs</b>			
Materials and supplies (Note 8)	<b>₱1,640,583</b>	₱1,557,628	₱1,785,909
Communications, light and water	<b>1,468,000</b>	1,664,852	1,709,707
Depletion and depreciation (Notes 10 and 18)	<b>1,460,439</b>	1,545,778	1,665,523
Personnel (Note 17)	<b>875,705</b>	822,254	1,076,790
Contracted services	<b>303,817</b>	290,567	240,024
Hauling, handling and storage	<b>64,190</b>	72,312	88,324
Others	<b>262,128</b>	206,961	241,975
	<b>₱6,074,862</b>	₱6,160,352	₱6,808,252
<b>General and administrative expenses</b>			
Personnel (Note 17)	<b>₱216,552</b>	₱261,430	₱342,083
Contracted services	<b>34,875</b>	29,187	92,453
Taxes and licenses	<b>24,928</b>	28,924	70,442
Depreciation (Notes 10 and 18)	<b>20,966</b>	18,478	21,606
Communications, light and water	<b>10,579</b>	16,153	15,762
Travel and transportation	<b>7,166</b>	5,033	13,408
Donations	<b>4,961</b>	9,465	3,934
Office supplies	<b>4,666</b>	3,048	2,907
Repairs and maintenance	<b>3,318</b>	5,513	12,189
Others	<b>45,112</b>	37,024	99,611
	<b>₱373,123</b>	₱414,255	₱674,395
<b>Excise taxes and royalties</b>			
Royalties	<b>₱269,758</b>	₱269,380	₱310,714
Excise taxes	<b>182,657</b>	167,476	195,940
	<b>₱452,415</b>	₱436,856	₱506,654

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

## 17. Personnel Cost

Details of personnel costs are as follows:

	2016	2015	2014
<b>Production costs (Note 16)</b>			
Salaries and wages	<b>₱606,171</b>	₱562,458	₱733,826
Employee benefits	<b>224,900</b>	216,887	402,622
Retirement costs (gain) (Note 19)	<b>44,634</b>	42,909	(59,658)
	<b>875,705</b>	822,254	1,076,790
(Forward)			



	2016	2015	2014
General and administrative expenses (Note 16)			
Salaries and wages	₱149,243	₱167,684	₱256,036
Employee benefits	60,043	86,761	88,032
Retirement costs (gain) (Note 19)	7,266	6,985	(1,985)
	<b>216,552</b>	261,430	342,083
	<b>₱1,092,257</b>	₱1,083,864	₱1,418,873

In 2013, the Parent Company, PPP and FEP recognized retirement costs amounting to ₱448,780, ₱24,212, and ₱1,391, respectively. In 2014, PPP and FEP recognized retirement costs amounting to ₱2,939 and ₱4,788, respectively while the Parent company recognized a net retirement gain amounting to ₱69,370. In 2015, retirement costs amounted to ₱49,894 and ₱1,982 for the Parent Company and FEP, respectively. In 2016, the Parent Company recognized retirement costs amounting to ₱51,900 (see Note 19).

## 18. Depletion and Depreciation

Details of depletion and depreciation expense are as follows:

	2016	2015	2014
Production costs (Note 16)	₱1,460,439	₱1,545,778	₱1,665,523
General and administrative (Note 16)	20,966	18,478	21,606
	<b>₱1,481,405</b>	₱1,564,256	₱1,687,129

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱232,113, ₱254,032 and ₱321,336 in 2016, 2015 and 2014, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 10).

## 19. 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.

### Parent Company Retirement Fund

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 Union Bank of the Philippines and BDO as Trustee. The retirement plan provides for retirement, separation, disability and death benefits to its members.



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

2016												
Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net interest	Settlement/ Curtailment	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, 2016
Present value of defined benefit obligation	₱878,093	₱65,563	₱35,046	₱-	₱978,702	(₱40,352)	₱-	(₱37,392)	(₱28,005)	(₱65,397)	₱-	₱872,953
Fair value of plan assets	(1,163,928)	-	(48,709)	-	(1,212,637)	40,352	(28,786)	-	-	(28,786)	-	(1,201,071)
	<u>(₱285,835)</u>				<u>(₱233,935)</u>	<u>₱-</u>	<u>(₱28,786)</u>	<u>(₱37,392)</u>	<u>(₱28,005)</u>	<u>(₱94,183)</u>	<u>₱-</u>	<u>(₱328,118)</u>
2015												
Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income						
	January 1, 2015	Current service cost	Net interest	Settlement/ Curtailment	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, 2015
Present value of defined benefit obligation	₱798,089	₱63,240	₱25,466	₱-	₱886,795	(₱13,092)	₱-	₱55,575	(₱51,185)	₱4,390	₱-	₱878,093
Fair value of plan assets	(₱1,162,041)	-	(38,812)	-	(1,200,853)	13,092	23,833	-	-	23,833	-	(1,163,928)
	<u>(₱363,952)</u>				<u>(₱314,058)</u>	<u>₱-</u>	<u>₱23,833</u>	<u>₱55,575</u>	<u>(₱51,185)</u>	<u>₱28,223</u>	<u>₱-</u>	<u>(₱285,835)</u>



2014

	Net benefit cost in charged to consolidated statements of income					Remeasurements in other comprehensive income						
	January 1, 2014	Current service cost	Net interest	Settlement/ Curtailment	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, 2014
Present value of defined benefit obligation	₱1,138,837	₱71,905	₱33,064	(₱492,422)	₱751,384	(₱78,155)	₱-	₱130,802	(₱5,942)	₱124,860	₱-	₱798,089
Fair value of plan assets	(1,436,542)	-	(45,508)	363,591	(1,118,459)	78,155	(89,737)	-	-	(89,737)	(32,000)	(1,162,041)
	<u>(₱297,705)</u>				<u>(₱367,075)</u>	<u>₱-</u>	<u>(₱89,737)</u>	<u>₱130,802</u>	<u>(₱5,942)</u>	<u>₱35,123</u>	<u>(₱32,000)</u>	<u>(₱363,952)</u>



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:

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	₱140,724	₱119,321
Receivables	7,766	9,116
Investment in debt securities	710,437	648,793
Investment in equity securities	224,939	387,427
Other investments	117,961	-
	<b>1,201,827</b>	1,164,657
<b>Liabilities</b>		
Accrued trust fees payables	756	729
	<b>₱1,201,071</b>	₱1,163,928

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:

Actuarial valuation assumptions	2016	2015
Discount rate	4.64%	4.25%
Future salary increases	5.00%	5.00%
Expected rate of return on plan assets	6.00%	6.00%

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%	(₱38,502)
	(1.00%)	52,220
Future salary increases	1.00%	₱42,599
	(1.00%)	(40,782)

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

	Expected benefit payments
Less than one year	₱57,993
More than one year to five years	354,358
More than five years to ten years	941,434

The average duration of the defined benefit obligation at the end of the reporting period is 4.25 years.





The Parent Company's actuarial funding requirement in 2015 and 2016 is nil, however, the intention is to continue regular contributions to the fund.

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, 2016.

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:

Actuarial valuation assumptions	2016	2015
Discount rates	5.56%	5.07%
Future salary increases	10.00%	10.00%

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

	2016	2015
January 1	₱21,968	₱19,033
Current service cost	13,100	10,907
Past service cost	(16,498)	-
Interest cost	1,114	870
Subtotal	(2,284)	11,777
Remeasurements in other comprehensive income		
Experience adjustments	(3,229)	(2,460)
Actuarial changes from changes in demographic assumptions	-	(4,879)
Actuarial changes from changes in financial assumptions	(907)	(1,503)
Subtotal	(4,136)	(8,842)
December 31	₱15,548	₱21,968

Retirement expense amounting to ₱14,214 and ₱11,777 in 2016 and 2015, respectively, were capitalized as part of the deferred mine exploration costs. In 2016, there was a reversal of past service costs amounting to ₱16,498 due to the retrenchment in SMMCI.



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:

	Increase (decrease)	Present Value of Obligation
Discount rates	1.00%	(₱13,958)
	(1.00%)	17,491
Future salary increases	1.00%	₱7,447
	(1.00%)	(13,954)

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

	2016	2015
Less than 1 year	₱-	₱-
More than 1 year to 5 years	9,555	24,793
More than 5 years to 10 years	13,424	20,824
More than 10 years to 15 years	4,055	15,181
More than 15 years to 20 years	62,915	115,792
More than 20 years	243,336	378,500

The average duration of the defined benefit obligation at the end of the reporting period is 23.03 years and 22.29 years in 2016 and 2015, respectively.

#### 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:

Actuarial valuation assumptions	2014
Discount rates	5.77%
Future salary increases	5.00%

Present value of defined benefit obligation:

	2014
Net benefit cost in consolidated statements of comprehensive income	
January 1	₱15,623
Current service cost	5,132
Interest cost	2,595
Subtotal	23,350
Re-measurements in OCI	
Experience adjustments	2,267
Actuarial changes from changes in financial assumptions	(1,065)
Subtotal	1,202
Ending balance	₱24,552



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:

	Increase (decrease)	Present Value of Obligation
		2014
Discount rates	1.00%	₱23,638
	(1.00%)	26,326
Future salary increases	1.00%	26,271
	(1.00%)	23,668
Turnover rate	1.00%	23,570
	(1.00%)	25,602

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

	2014
Less than 1 year	₱-
More than 1 year to 5 years	27,050
More than 5 years to 10 years	16,527

PPP terminated all of its employees in 2015. FEP also terminated its employees and were rehired the PXP in August 2015. These resulted in absolute and full extinguishment of the obligation of the PPP to pay retirement benefits under the existing regulatory framework. Consequently, the outstanding retirement benefits liabilities of the PPP and FEP at the date of extinguishment were recognized as gain in the statement of comprehensive income. Gain on extinguishment of retirement benefits liability of PPP and FEP amounted to ₱3,463 and ₱24,893, respectively.

The retirement benefits liability amounting to nil and ₱24,552 as at December 31, 2015 and 2014, respectively, are recorded under “Pension asset-net” in the consolidated statements of financial position.

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## 20. 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, and dividends payable, approximate their fair values because of their short-term nature. Non-current bonds payable also approximates its fair values as it bears interest at market rate. 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.

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## 21. 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. The BOD has 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 production of concentrates is sold to Pan Pacific Copper Co., Ltd. The balance of the Parent Company's annual production of concentrates is contracted with LD Metals which is covered by several short-term agreements up to March 2018.

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, 2016 and 2015:

	2016	2015
Cash and cash equivalents		
Cash with banks	P272,345	P693,894
Short-term deposits	183,384	312,422
Accounts receivable		
Trade	411,795	701,328
Others	62,169	61,842
Advances to a related party	2,193,829	-
<b>Gross maximum credit risk exposure</b>	<b>P3,123,522</b>	<b>P1,769,486</b>

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2016 and 2015 based on the Group's credit evaluation process:

	December 31, 2016			Total
	Neither Past Due nor High-Grade	Impaired Standard	Past Due and Individually Impaired	
Cash and cash equivalents				
Cash with banks	P272,345	P-	P-	P272,345
Short-term deposits	183,384	-	-	183,384
Accounts receivable				
Trade	411,795	-	-	411,795
Others	62,169	-	1,747	63,916
Advances to a related party	2,193,829	-	-	2,193,829
<b>Total</b>	<b>P3,123,522</b>	<b>P-</b>	<b>P1,747</b>	<b>P3,125,269</b>



December 31, 2015				
	Neither Past Due nor Impaired		Past Due and Individually	Total
	High-Grade	Standard	Impaired	
Cash and cash equivalents				
Cash with banks	₱693,894	₱-	₱-	₱693,894
Short-term deposits	312,422	-	-	312,422
Accounts receivable				
Trade	701,328	-	-	701,328
Others	61,842	-	1,747	63,589
<b>Total</b>	<b>₱1,769,486</b>	<b>₱-</b>	<b>₱1,747</b>	<b>₱1,771,233</b>

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.

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, 2016 and 2015, respectively:

December 31, 2016				
	On Demand	Within 1 Year	More than 1 Year	Total
Loans and receivables				
Cash and cash equivalents	₱457,937	₱-	₱-	₱457,937
Accounts receivable				
Trade	-	411,795	-	411,795
Others	-	62,169	-	62,169
Advances to a related party	2,193,829	-	-	2,193,829
AFS financial assets				
Quoted equity investments	31,924	-	-	31,924
Unquoted equity investments	72,691	-	-	72,691
<b>Total undiscounted financial assets</b>	<b>₱2,756,381</b>	<b>₱473,964</b>	<b>₱-</b>	<b>₱3,230,345</b>
Other financial liabilities				
Short-term loans				
Principal	₱-	₱3,082,640	₱-	₱3,082,640
Interest	-	2,613	-	2,613
Long-term loans				
Principal	-	-	7,200,000	7,200,000
Interest	-	-	756,000	756,000
Accounts payables and accrued liabilities	-	1,242,302	-	1,242,302
Dividends payable	498,129	-	-	498,129
<b>Total undiscounted financial liabilities</b>	<b>₱498,129</b>	<b>₱4,327,555</b>	<b>₱7,956,000</b>	<b>₱12,781,684</b>



	December 31, 2015			Total
	On Demand	Within 1 Year	More than 1 Year	
Loans and receivables				
Cash and cash equivalents	₱1,008,686	₱–	₱–	₱1,008,686
Accounts receivable:				
Trade	–	701,328	–	701,328
Others	–	61,842	–	61,842
AFS financial assets				
Quoted equity investments	33,975	–	–	33,975
Unquoted equity investments	72,712	–	–	72,712
<b>Total undiscounted financial assets</b>	<b>₱1,115,373</b>	<b>₱763,170</b>	<b>₱–</b>	<b>₱1,878,543</b>
Other financial liabilities				
Short-term loans				
Principal	₱–	₱3,317,730	₱–	₱3,317,730
Interest	–	81,730	–	81,730
Long-term loans				
Principal	–	–	7,200,000	7,200,000
Interest	–	–	756,000	756,000
Accounts payables and accrued liabilities	–	1,318,165	–	1,318,165
Dividends payable	479,652	–	–	479,652
<b>Total undiscounted financial liabilities</b>	<b>₱479,652</b>	<b>₱4,717,625</b>	<b>₱7,956,000</b>	<b>₱13,153,277</b>

***Market Risks***

***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, trade receivables and loans payable. For the years ended December 31, 2016, 2015 and 2014, the Group recognized net foreign exchange losses of ₱145,213, ₱158,697 and ₱56,484, 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, 2016	
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax
4%	(₱97,088)
(4%)	97,088
Year Ended December 31, 2014	
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax
4%	(₱123,005)
(4%)	123,005



There were no outstanding dollar derivatives as of December 31, 2016 and 2015.

*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 PXP, which are classified in the consolidated statements of financial position as AFS financial assets (see Note 11). As of December 31, 2016 and 2015, investments in quoted shares totaling ₱31,924 and ₱33,975 representing 0.08% of the total assets of the Group, in 2016 and 2015, 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, 2016 and 2015 that could be brought by changes in equity indices with all other variables held constant are as follows:

<b>December 31, 2016</b>		
<b>Currency</b>	<b>Change in Quoted Prices of Investments Carried at Fair Value</b>	<b>Effect on Equity</b>
<b>Peso</b>	<b>Increase by 21%</b>	<b>₱7,020</b>
	<b>Increase by 41%</b>	<b>14,040</b>
	<b>Decrease by 21%</b>	<b>(7,020)</b>
	<b>Decrease by 41%</b>	<b>(14,040)</b>
<b>December 31, 2015</b>		
<b>Currency</b>	<b>Change in Quoted Prices of Investments Carried at Fair Value</b>	<b>Effect on Equity</b>
<b>Peso</b>	<b>Increase by 21%</b>	<b>₱7,474</b>
	<b>Increase by 41%</b>	<b>14,949</b>
	<b>Decrease by 21%</b>	<b>(7,474)</b>
	<b>Decrease by 41%</b>	<b>(14,949)</b>

*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, 2016. The change in metal prices is based on 1-year historical price movements.

<b>December 31, 2016</b>	
<b>Change in Metal Prices</b>	<b>Effect on Income before Income Tax</b>
<b>Gold</b>	
Increase by 8%	₱181,133
Decrease by 8%	(181,133)
<b>Copper</b>	
Increase by 12%	₱271,699
Decrease by 12%	(271,699)

There were no outstanding gold and copper derivatives as at December 31, 2016.

As at December 31, 2015, there were outstanding gold 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 change in the prices of gold and copper.

<b>December 31, 2015</b>	
<b>Change in Metal Prices</b>	<b>Effect on Equity</b>
<b>Gold</b>	
Increase by 12%	₱41,536
Decrease by 12%	(41,536)
<b>Copper</b>	
Increase by 21%	₱40,613
Decrease by 21%	(40,613)

#### Derivative Financial Instruments

##### *Gold Derivatives*

In December 2014, the Parent Company has entered into gold collar contracts covering 3,000 ounces of monthly gold production for the first quarter of 2015 at an average strike price of US\$1,200 per ounce for the put options and US\$1,210 per ounce for the call options. Also in May 2015, the Company concluded hedging contracts covering 3,000 ounces per month starting May to September 2015 at an average strike price of US\$1,200 per ounce for the put options and US\$1,230 per ounce for the call options. These contracts were designated as cash flow hedges.

In June 2014, the Company entered into gold collar hedging contracts covering 6,000 ounces of monthly production for the third quarter of 2014 at an average strike price of US\$1,262.50 per ounce for the put options and US\$1,325.50 per ounce for the call options. Similarly in September 2014, the Company concluded gold collar hedging contracts covering 9,000 ounces of monthly production for the fourth quarter of 2014 at an average strike price of US\$1,200 per ounce for the put options and US\$1,270 per ounce for the call options. These contracts were also designated as cash flow hedges.

In February 2016, the Parent Company entered into gold collar hedging contracts covering 3,000 ounces of monthly gold production from February to July 2016 at a strike price of US\$1,170 per ounce for the put options and US\$1,242 per ounce for the call options. Further in June 2016, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly production





from July to December 2016 at a strike price of US\$1,300 per ounce for the put options and US\$1,350 per ounce for the call options. These contracts were also designated as cash flow hedges.

There were no outstanding gold derivatives as at December 31, 2016.

*Embedded Derivatives*

As at December 31, 2015 the Parent Company has embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Notes 5 and 7). 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 the consolidated statements of financial position date stipulated in the contract. The effect of these fair value adjustments arising from embedded derivatives amounted to a net loss of ₱152,906 in 2015 which was included under revenue and adjusted against receivables.

There were no outstanding embedded derivatives as at December 31, 2016.

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**22. 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:

	2016	2015
Capital stock	₱4,940,399	₱4,940,399
Additional paid-in capital	1,143,981	1,142,722
Retained earnings		
Unappropriated	4,442,436	5,496,271
Appropriated	10,000,000	10,000,000
	<b>₱20,526,816</b>	<b>₱21,579,392</b>

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**23. Foreign Currency-Denominated Monetary Assets and Liabilities**

The Group's foreign currency-denominated monetary assets and liabilities as at December 31, 2016 and 2015 follow:

	2016		2015	
	US\$	Peso Equivalent	US\$	Peso Equivalent
Assets				
Cash and cash equivalents	\$5,404	₱268,687	\$8,914	₱419,493
Trade receivables	7,838	389,705	13,194	620,910
	<b>13,242</b>	<b>658,392</b>	22,108	1,040,403



	2016		2015	
	US\$	Peso Equivalent	US\$	Peso Equivalent
Liabilities				
Accounts payable	\$-	₱-	\$680	₱32,001
Bank loan	62,000	3,082,640	70,500	3,317,730
	62,000	3,082,640	71,180	3,349,731
Liabilities	(\$48,758)	(₱2,424,248)	(\$49,072)	(₱2,309,328)

The exchange rates of the Peso to US dollar were ₱49.72 to US\$1 as at December 31, 2016 and ₱47.06 to US\$1 as at December 31, 2015.

#### 24. Related Party 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.

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 does not have significant related party transactions except for the settlement of loans from FPC Group as disclosed in Note 14.

On July 15, 2016, the Parent Company ceases to have control over PXP (Notes 26 and 33). Previously, advances to PXP are eliminated in the consolidated financial statements.

	Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>Related party</b>				
<i>Advances to PXP</i>				
<b>2016</b>	₱2,193,829	₱2,193,829	On demand	Secured
2015	₱-	₱-		

On August 17, 2015, the Parent Company and PXP entered into a pledge agreement to secure the advances against certain shares of stocks owned by PXP.

#### Compensations of Key Management Personnel

Compensations of the members of key management personnel follow:

	2016	2015	2014
Short-term employee benefits	₱98,854	₱107,909	₱112,498
Pension costs	5,240	5,240	5,094
	₱104,094	₱113,149	₱117,592



25. **Income Taxes**

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

	2016	2015
Deferred income tax assets on:		
Provision for losses and others	<b>₱149,424</b>	₱140,505
Unrealized foreign exchange losses - net	<b>114,548</b>	69,214
Unamortized past service costs	<b>29,299</b>	42,079
Accumulated accretion of interest on provision for mine rehabilitation costs	<b>8,533</b>	7,480
Pension obligation	-	5,992
Allowances for:		
Inventory obsolescence	<b>9,000</b>	-
Unrecoverable deferred mine and oil exploration costs	-	16,304
Disallowable claims receivable	<b>11,219</b>	24,761
<b>Total deferred income tax assets</b>	<b>322,023</b>	306,335
Deferred income tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	<b>(1,665,513)</b>	(2,645,504)
Accelerated depreciation	<b>(1,399,638)</b>	(1,318,640)
Mine inventory at year-end	<b>(100,624)</b>	(42,848)
Gain on dilution on interest	-	(126,615)
Net retirement plan assets	<b>(75,769)</b>	(98,368)
Unrealized foreign exchange gain	<b>(10,120)</b>	(13,520)
OCI portion of retirement liability	<b>(28,255)</b>	-
<b>Total deferred income tax liabilities</b>	<b>(3,279,919)</b>	(4,245,495)
<b>Net deferred income tax liabilities</b>	<b>(₱2,957,896)</b>	(₱3,939,160)

- 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:

	2016	2015	2014
Provision for income tax computed at the statutory income tax rates	<b>₱601,916</b>	₱386,847	₱445,109
Additions to (reductions in) income tax resulting from:			
Unrecognized DTA, NOLCO and excess MCIT	<b>22,714</b>	8,533	111,400
Nondeductible expenses and non-taxable income - net	<b>72,633</b>	(35,103)	(220,214)
Stock-based compensation expense	-	7,529	7,742
Interest income already subjected to final tax	<b>(38)</b>	(1,226)	(1,555)
<b>Provision for income tax</b>	<b>₱697,225</b>	₱366,580	₱342,482



- c. As at December 31, 2016 and 2015, no deferred income tax assets were recognized on deductible temporary differences amounting to about ₱2,730,995 and ₱2,655,280, respectively.
- d. As at December 31, 2016, significant NOLCO and MCIT of the Parent Company's subsidiaries for which no deferred income taxes were recognized are as follows:

*SMMCI*

As at December 31, 2016, 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
		Amount	Tax Effect	
2014	2017	₱11,149	₱3,345	₱71
2015	2018	26,960	16,977	–
2016	2019	11,970	3,591	–
		<b>₱50,079</b>	<b>₱23,913</b>	<b>₱71</b>

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

	NOLCO		Excess MCIT	
	2016	2015	2016	2015
At January 1	<b>₱62,296</b>	₱68,724	<b>₱71</b>	₱74
Additions	<b>11,970</b>	26,960	–	–
Expirations	<b>(24,187)</b>	(33,388)	–	(3)
At December 31	<b>₱50,079</b>	<b>₱62,296</b>	<b>₱71</b>	<b>₱71</b>

*PGPI*

As at December 31, 2016, 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
2014	2017	₱32,567	₱–
2015	2018	–	188
2016	2019	1,119	203
		<b>₱33,686</b>	<b>₱391</b>

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

	NOLCO		Excess MCIT	
	2016	2015	2016	2015
Beginning balance	<b>₱125,449</b>	₱160,788	<b>₱210</b>	₱46
Additions	<b>1,119</b>	–	<b>203</b>	188
Application	–	(985)	–	–
Expirations	<b>(92,882)</b>	(34,354)	<b>(22)</b>	(24)
Ending balance	<b>₱33,686</b>	<b>₱125,449</b>	<b>₱391</b>	<b>₱210</b>



26. Equity

Capital Stock

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

	Number of Shares	
	2016	2015
Authorized common stock - ₱1 par value	<b>8,000,000,000</b>	8,000,000,000
Issued, outstanding and fully paid:		
January 1	<b>4,940,399,068</b>	4,940,399,068
Issuance during the year	-	-
December 31	<b>4,940,399,068</b>	4,940,399,068

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
2008			912,279,662



Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
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
2014			3,403,000
2015			—
<b>2016</b>			—
		<b>8,000,000,000</b>	<b>4,940,399,068</b>

\*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, 2016 and 2015, the Parent Company's total stockholders is 44,219 and 44,296 respectively.

#### Retained Earnings

Retained earnings consist of the following:

	2016	2015
Retained earnings:		
Unappropriated	<b>₱4,285,040</b>	₱5,408,240
Cumulative actuarial gains	<b>157,396</b>	88,031
Total unappropriated	<b>4,442,436</b>	5,496,271
Appropriated	<b>10,000,000</b>	10,000,000
Ending balance	<b>₱14,442,436</b>	₱15,496,271

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 2020. On February 28, 2017, the Parent Company's BOD approved further appropriation of ₱500,000 of the unappropriated retained earnings for purposes of mine and development and construction of the Silangan Project from 2017 to 2018, thereby increasing total appropriation to ₱10,500,000.

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

On October 29, 2014, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.03 per share as regular dividend to all stockholders at record date of November 12, 2014.

On February 25, 2015, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.02 per share as regular dividend to all stockholders at record date of March 11, 2015.

On February 29, 2016, the Parent Company declared its shares of stock in PXP as property dividends to its shareholders on March 15, 2016 record date at a ratio of 17 shares for every 100 shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission



(SEC) on June 22, 2016. The Parent Company ceases to have control over PXP on July 15, 2016 (see Note 33).

On July 27, 2016, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.03 per share as regular dividend to all stockholders at record date of August 10, 2016.

The Parent Company's retained earnings available for dividend distribution amounted to ₱5,359,813 and ₱6,117,846 as at December 31, 2016 and 2015, respectively.

As at December 31, 2016 and 2015, dividends payable amounted to ₱498,129 and ₱479,652, respectively.

On February 28, 2017, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividend to all stockholders at record date of March 14, 2017.

NCI

NCI consist of the following:

	Percentage of Ownership		Amount	
	2016	2015	2016	2015
NCI on net assets of:				
PXP	–	35.3%	₱–	₱641,864
BEMC	–	35.3%	–	(249,565)
FEC	–	55.0%	–	118,607
FEP and its subsidiaries	–	58.9%	–	163,852
PPP and its subsidiaries	–	65.4%	–	2,046,600
LMC	<b>0.7%</b>	0.7%	<b>(257)</b>	(239)
			<b>(₱257)</b>	<b>₱2,721,119</b>

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:

	2015
PPP and its subsidiaries	(₱351,239)
PXP	22,299

Other comprehensive income allocated to material NCI:

	2015
PPP and its subsidiaries	₱524
PXP	–



Statements of comprehensive income as of December 31, 2015:

	PPP	PXP
Revenue	₱-	₱-
Cost of sales	-	-
General and administrative expenses	(109,721)	(35,822)
Other income (charges)	(427,215)	102,302
Income (loss) before tax	(536,936)	66,480
Benefit from income tax	(14)	-
Net income (loss)	(536,950)	66,480
Other comprehensive loss	(6,010)	-
<b>Total comprehensive income (loss)</b>	<b>(₱542,960)</b>	<b>₱66,480</b>
<b>Attributable to non-controlling interests</b>	<b>(₱355,639)</b>	<b>(₱24,467)</b>

Statements of financial position as at December 31, 2015:

	PPP	PXP
Current assets	₱281,920	₱1,045,869
Noncurrent assets	189,509	3,009,190
Current liabilities	(7,343)	(2,198,851)
Noncurrent liabilities	-	(122,399)
<b>Total equity</b>	<b>464,086</b>	<b>1,733,809</b>
Attributable to:		
Equity holders of the Parent Company	₱160,110	₱1,121,774
Non-controlling interests	303,976	612,035
	<b>464,086</b>	<b>1,733,809</b>

Statements of cash flows as of December 31, 2015:

Activities	PPP	PXP
Operating	(₱234,888)	(₱23,188)
Investing	55,464	644,844
Financing	(1,332,272)	(490,398)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(₱1,511,696)</b>	<b>₱131,258</b>

Statements of cash flows as of December 31, 2014:

Activities	PPP	PXP
Operating	(₱196,275)	(₱14,106)
Investing	(112,817)	7,459
Financing	(513,737)	95,044
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(₱822,829)</b>	<b>₱88,397</b>

As at December 31, 2016, there were no material NCI as a result of loss of control over PXP and its subsidiaries as disclosed in Note 33.





## 27. 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 2016 and 2015 of the 2006 Parent Company SOP:

	Number of Options		Weighted Average Exercise Price	
	2016	2015	2016	2015
January 1	<b>₱4,515,000</b>	₱5,368,150	<b>₱12.20</b>	₱11.78
Exercised	-	-	-	-
Forfeited	<b>(4,515,000)</b>	(853,150)	-	9.54
December 31	<b>₱-</b>	₱4,515,000	<b>₱12.20</b>	₱12.20

The number of unexercised vested stock options as at December 31, 2016 and 2015 are nil and 4,515,000, respectively.

The 2006 SOP effectively expired on January 5, 2016 following the expiration of the 5-year term of the January 5, 2011 grant which was the last grant under the plan.

#### 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 2016 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2016	2016
January 1	<b>22,870,000</b>	<b>₱21.97</b>
Forfeited	<b>(1,780,000)</b>	<b>23.99</b>
December 31	<b>21,090,000</b>	<b>₱21.80</b>

The following table shows the movements in 2015 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2015	2015
January 1	28,250,000	₱24.05
Granted	6,250,000	16.45
Forfeited	(11,630,000)	24.05
December 31	22,870,000	₱21.97

The number of unexercised vested stock options totaled to 21,090,000 and 22,870,000 in 2016 and 2015, respectively. The stock options outstanding are anti-dilutive. The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2016 and 2015.

The total share-based compensation expense for the 2006 and 2011 SOP in 2016, 2015 and 2014 amounted to ₱1,259, ₱25,095 and ₱25,808, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital as at December 31, 2016 and 2015 amounted to ₱353,170 and ₱351,911, respectively.

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## 28. Basic/Diluted Earnings Per Share

Basic earnings per share are computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	<b>₱1,589,045</b>	₱896,181	₱1,005,552
Divided by weighted average number of common shares outstanding during year	<b>4,940,399,068</b>	4,940,399,068	4,938,577,039
Basic earnings per share	<b>₱0.322</b>	₱0.181	₱0.204



Diluted earnings per share amounts are calculated as follows:

	2016	2015	2014
Net income attributable to equity holders of the Parent Company	<b>₱1,589,045</b>	₱896,181	₱1,005,552
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	<b>4,940,399,068</b>	4,940,399,068	4,938,577,039
<b>Diluted earnings per share</b>	<b>₱0.322</b>	₱0.181	₱0.204
Weighted average number of common shares adjusted for the effect of exercise of stock options	<b>4,940,399,068</b>	4,940,399,068	4,938,577,039

The stock options outstanding are anti-dilutive. The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2016 and 2015.

## 29. Farm-in Agreement with MMC

On May 11, 2011, the Parent Company entered into a farm-in agreement with MMC 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 three (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, 2016, the Company is undergoing discussions with MMC to revise, and consequently, extend the term of the farm-in agreement on the Kalayaan Project.



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### 30. Joint Ventures with Anglo

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 SMECI 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 SMECI 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. The term to fulfill the closing obligations expired in 2013.

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### 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. In 2014, the Parent Company recognized additional provision amounting to ₱394,154 for its manpower right-sizing program (MRP), which brought down overall manpower headcount by 512 employees.

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### 32. Notes to Consolidated Statements of Cash Flows

The principal non-cash investing activity of the Group pertains to total depreciation expense that was capitalized as part of deferred mine exploration costs amounting to ₱232,061 and ₱254,032 in 2016 and 2015, respectively.

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### 33. Deconsolidation of a Subsidiary

On February 29, 2016, the Parent Company declared portion of its shares in PXP as property dividends to all stockholders and distributed on July 15, 2016. The Parent Company's ownership interest in PXP had decreased to 19.76% from 64.73%. The Parent Company's retained ownership interest in PXP have been reclassified as Investment in Associate.



- a. Analysis of consolidated assets and liabilities of PXP and its subsidiaries as at July 15, 2016 are as follows:

	July 15, 2016
<i>Assets</i>	
Cash and cash equivalents	P606,585
Accounts receivable	82,212
Inventories	4,043
Other current assets	3,345
Property, plant and equipment	339,475
Deferred exploration costs and other noncurrent assets	4,997,549
Goodwill	1,238,583
Deferred income tax assets - net	4,153
<b>Total assets</b>	<b>7,275,945</b>
<i>Liabilities</i>	
Accounts payable and accrued expenses	(65,354)
Advances from related parties	(2,149,036)
Deferred income tax liabilities	(1,093,035)
Provision for losses and mine rehabilitation costs	(209,842)
<b>Total liabilities</b>	<b>(3,517,267)</b>
Net assets directly associated with disposal group	3,758,678
Non-controlling interest	(2,863,617)
<b>Net assets of deconsolidated subsidiary group attributable to Parent</b>	<b>P895,061</b>

- b. Gain from loss of control over a subsidiary group

	July 15, 2016	
Fair value of dividends distributed		P2,442,387
Fair value of retained interest in PXP		1,050,131
<b>Consideration</b>		<b>3,492,518</b>
Less: Net assets of deconsolidated subsidiary group	P895,061	
Cumulative equity items reclassified to profit or loss	59,439	
Transaction costs	15,314	969,814
<b>Gain from loss of control over a subsidiary group</b>		<b>P2,522,704</b>

- c. Net cash inflow (outflow) arising from deconsolidation of the subsidiary

	2016*	2015	2014
Net cash flows from (used in) operating activities	P66,845	(P115,195)	(P84,287)
Net cash flows from (used in) investing activities	13,211	(58,612)	(199,862)
Net cash flows from (used in) financing activities	174	(1,205,035)	(428,827)
Effect of exchange rate changes	-	(3,168)	(133)
<b>Net cash inflow (outflow)</b>	<b>P80,230</b>	<b>(P1,382,010)</b>	<b>(P713,109)</b>

\* From January 1 to July 15, 2016.



Results of deconsolidated subsidiary group

	2016*	2015	2014
<i>Revenue</i>			
Petroleum	<b>₱59,187</b>	₱172,250	₱311,414
<i>Cost and expenses</i>			
General and administrative expenses	<b>(31,217)</b>	(214,333)	(281,091)
Mine product taxes and royalties	-	-	(534)
Petroleum product costs	<b>(59,398)</b>	(97,982)	(152,981)
Cost of sales - coal	-	-	(3,282)
	<b>(90,615)</b>	(312,315)	(437,888)
<i>Other income (expenses)</i>			
Gain on reversal of impairment loss	-	388,630	18,122
Interest income	<b>1,899</b>	7,444	11,770
Foreign exchange gains (losses) - net	<b>(597)</b>	26,307	110
Interest expense and other charges	-	-	(5,014)
Loss on disposal of shares	<b>₱-</b>	₱-	(₱367)
Provisions for impairment of assets - net	-	(429,849)	(400,400)
Others - net	<b>588</b>	3,524	311
	<b>1,890</b>	(3,944)	(375,468)
Loss before income tax	<b>(29,538)</b>	(144,009)	(501,942)
Provision for (benefit from) income tax	<b>436</b>	(16)	(8,955)
Loss from deconsolidated subsidiary group	<b>(₱29,102)</b>	(₱144,025)	(₱510,897)
<b>Total comprehensive loss</b>	<b>(₱29,102)</b>	(₱144,025)	(₱510,897)

\* From January 1 to July 15, 2016.



Basic and diluted loss per share attributable to equity holders of the Parent Company from deconsolidated subsidiary group are computed as follows:

	2016	2015	2014
Loss from deconsolidated subsidiary group attributable to equity holders of the Parent Company	₱7,446	₱24,646	₱208,231
Divided by weighted average number of common shares outstanding during year	4,940,399,068	4,940,399,068	4,938,577,039
Basic and diluted earnings per share	₱0.002	₱0.005	₱0.042

#### 34. Events After Reporting Period

a. DENR Issues on Mining Operations

On February 17, 2017, SMMCI and PGPI received show cause letters (Letters) from the Department of Environment and Natural Resources (DENR) directing SMMCI and PGPI, respectively, to explain why the following Mineral Production Sharing Agreements (MPSAs) should not be cancelled for being located within watershed areas:

MPSA No.	Location	Company
MPSA No. 149-99-XIII	Mainit and Placer, Surigao del Norte	SMMCI
MPSA No. 148-99-XIII	Surigao City, Sison and Placer	LMC/PGPI
MPSA No. 344-2010-XIII	Liangang and Barobo, Surigao del Sur	PGPI
MPSA No. 063-97-IX	Sibutad, Dapitan City and Rizal, Zamboanga del Norte	PGPI
MPSA No. 096-97-VI	Hinobaan, Negros Occidental	PGPI

On February 24, 2017, SMMCI and PGPI responded to the Letters stating that there is no legal nor factual basis for the cancellation of the MPSAs since the contract areas covered by the MPSAs are not located within proclaimed watershed forest reserves where mining is prohibited, and that in any case, DENR has not observed due process. SMMCI and PGPI reserve all rights to take appropriate legal action and exhaust all remedies to protect their rightful claims under contract and the law.

b. Appropriation of Retained Earnings

On February 28, 2017, the Parent Company's BOD approved further appropriation of ₱500,000 of the unappropriated retained earnings for purposes of mine and development and construction of the Silangan Project from 2017 to 2018, thereby increasing total appropriation to ₱10,500,000.





c. Declaration of Cash Dividends

On February 28, 2017, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividend to all stockholders at record date of March 14, 2017.

