MANAGEMENT DISCUSSION & ANALYSIS

FINANCIAL REVIEW FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

Information on the Company's results of operations and financial condition presented in the 2014 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated herein by reference.

REVENUES

	For the Year Ended December 31			% Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
Gold					
Revenue (P Millions)	P5,889	P5,582	P4,946	6	13
Ounces produced	105, 008	99,802	71,297	5	40
Average realized price	$1,270	$1,297	$1,638	(2)	(21)
Copper					
Revenue (P Millions)	P4,615	P4,580	P3,866	1	18
Ounces produced	35,391,154	32,495,443	22,306,172	9	46
Average realized price	$2.98	$3.27	$3.99	(9)	(18)
Other revenues (P Millions)	P394	P300	P326	31	(8)
Total Revenues (P Millions)	P10,898	P10,462	P9,137	4	15

Total operating revenues for the year 2014 amounted to ₱10.898 billion, 4% higher than ₱10.462 billion in 2013 (15% higher versus ₱9.137 billion in 2012). The Company produced higher volumes of metal following the temporary and subsequent permanent lifting of the suspension order at the Padcal mine in March 2013 and August 2014, respectively. The Company operated for a full year in 2014 (359 operating days) as against nearly ten months (299 operating days) of production in 2013 (versus 214 operating days in 2012).

Gold production rose to 105,008 ounces in 2014 from 99,802 ounces, over a ten-month operation, in 2013 and 71,297 ounces for seven months in 2012. As a result, gold revenue – comprising 54% of the total in 2014 – grew to ₱5.889 billion from ₱5.582 billion in 2013 and ₱4.946 billion in 2012.

Copper production climbed 9% to 35,391,154 pounds in 2014 from 32,495,443 pounds and 22,306,172 pounds in 2013 and 2012, respectively.

The higher copper output resulted in a slight improvement in revenue in 2014 – accounting for 42% of the total in 2014 – to ₱4.615 billion from ₱4.580 billion in 2013 and ₱3.866 billion in 2012.

Realized gold prices for the years ended December 31, 2014, 2013 and 2012 were $1,270 per ounce, $1,297 per ounce and $1,638 per ounce, respectively. The decrease in realized gold price was due to the continued decline in world metal prices since the latter part of 2012. On the other hand, realized copper prices for years ended December 31, 2014, 2013 and 2012 were $2.98 per pound, $3.27 per pound and $3.99 per pound, respectively. Similar to gold, the drop in copper prices since the end of 2012 caused the lower average realized copper prices in 2014.

Other revenues, which came mostly from sales of silver and petroleum products, made up the remaining 4% of the Company's total revenue in 2014. Revenue from silver, oil and gas exploration in 2014 was higher at ₱393.9 million, compared with ₱300.4 million in 2013 and ₱325.6 million in 2012, due to the increased production in Galoc oil field phase II project starting second half of 2013 arising from the completion of drilling of additional wells. PPC's 60.49%-owned subsidiary, FEP, derives most of its income from the Galoc oil field.

In the previous years, to protect part of its revenues from unfavorable metal price and foreign exchange fluctuations, the Company entered into metal and foreign currency hedging contracts in the form of forwards, purchased put options and sold call options. The gains or losses from these transactions were reflected in revenue as addition or deduction in deriving the realized metal prices and realized foreign exchange for the Company's metal production during the respective reporting periods.

REVENUE BREAKDOWN (P Millions)

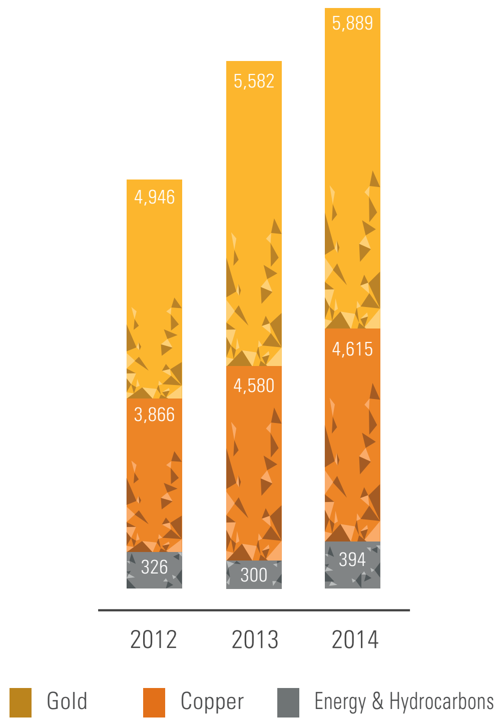


TABLE A: Gold Hedging Contracts for 2014

Period Covered	Transaction Date	Settlement Date	Volume (Ounces)	Strike Price - US$/oz. Put (Floor)	Strike Price - US$/oz. Call (Ceiling)	Settlement Price US$/oz.	Settlement Gain (Loss) (P Millions)
July 1-31, 2014	23-Jun-14	4-Aug-14	6,000	1,275	1,335	1,312	-
August 1-29, 2014	4-Jun-14	2-Sep-14	3,000	1,200	1,278	1,296	(2.4)
	23-Jun-14	2-Sep-14	3,000	1,275	1,335	1,296	-
September 1-30, 2014	23-Jun-14	2-Oct-14	6,000	1,275	1,335	1,240	9.4
October 1-31, 2014	17-Sep-14	4-Nov-15	3.000	1.200	1.270	1.223	-
November 1-28, 2014	17-Sep-14	2-Dec-14	3.000	1.200	1.270	1.176	3.2
December 1-30, 2014	17-Sep-14	5-Jan-15	3.000	1.200	1.270	1.201	-
Total / Average			27.000	1,242	1,307		P10.1

In June and September 2014, the Company entered into gold collar hedging contracts covering 6,000 ounces of monthly production for the third quarter of 2014 and 3,000 ounces of monthly production for the fourth quarter of 2014, respectively, with a total of 27,000 ounces. The terms of these contracts, already matured as of December 31, 2014, and the corresponding gains (losses) are provided in Table A.

In December 2014, the Company entered into another hedging contract covering the 3,000 ounces of monthly gold production for the first quarter of 2015. Provided in Table B are the terms of the contract.

As of December 31, 2014, mark-to-market (MTM) gain on outstanding gold hedges amounted to ₱7.8 million recorded under equity with the recognition of potential derivative asset. MTM gains or losses are reversed and actual gains or losses, if any, are realized and recorded through revenue upon maturity of the hedge. The hedge contract for 9,000 ounces of gold covering the production for the first quarter of 2015 remained outstanding as of December 31, 2014.

In 2013, the Company had not entered into hedging contracts as management supported the view that prevailing market trends and conditions would remain favorable to operations. The same view applied for copper in 2014, thus had no outstanding derivative financial instruments.

TABLE B: Outstanding Gold Hedging Contracts as of December 31, 2014

Period Covered	Trade/ Transaction Date	Settlement Date	Volume (Ounces)	Strike Price - US$/oz. Put (Floor)	Strike Price - US$/oz. Call (Ceiling)	MTM Gain (Loss) US/$ as of Dec. 31, 2014 Put	MTM Gain (Loss) US/$ as of Dec. 31, 2014 Call
Jan 1 - Jan 30	4-Dec-14	3-Feb-15	3,000	1,200	1,210	$69,926	($14,304)
Feb 1 - Feb 27	4-Dec-14	3-Mar-15	3,000	1,200	1,210	104, 917	(46, 194)
Mar 1 - Mar 31	4-Dec-14	2-Apr-15	3,000	1,200	1,210	130, 324	(71, 010)
Total / Average			9,000	1,200	1,210	$305, 167	($131, 508)
						Net MTM Gain	$173, 659
						Net MTM Gain (P Millions)	P7.8

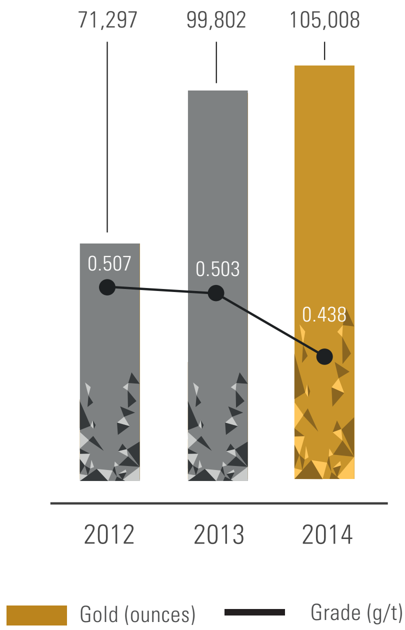
OPERATIONAL OVERVIEW	For the Year Ended December 31			% Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
Tonnes milled	9,506,195	7,738,258	5,537,423	23	40
Copper concentrates- DMT	70,062	60,582	40,562	16	49
No. of Operating Days	359	299	214	20	40
Gold					
Ounces	105,008	99,802	71,297	5	40
Head grade - grams/tonne	0.438	0.503	0.507	(13)	(1)
Recovery - %	78.36	79.77	78.99	(2)	1
Copper					
Pounds	35,391,154	32,495,443	22,306,172	9	46
Head grade - %	0.212	0.236	0.224	(10)	5
Recovery - %	79.82	80.60	81.50	(1)	(1)

Gold production rose to 105,008 ounces in 2014 from 99,802 ounces over a ten-month operation in 2013 and 71,297 ounces over a seven-month operation in 2012. The 5% increase in the 2014 gold production was mainly due to higher tonnes milled, despite lower average head grade of 0.438 grams per tonne from 0.503 grams per tonne in 2013. Over the past three years, the 2012 production showed the highest average head grade of 0.507 grams per tonne due to the presence of higher-grade performing mining blocks.

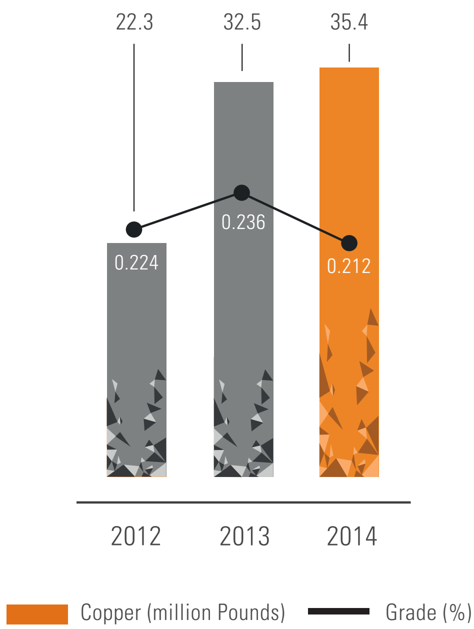
Likewise, copper production climbed 9% to 35,391,154 pounds in 2014 from 32,495,443 pounds in 2013 (46% higher versus 22,306,172 ounces in 2012). The higher tonnage resulted in improved copper production in 2014 against 2013 despite a lower head grade of 0.212%. Similarly, higher tonnage resulted in higher copper production in 2013 versus 2012 in addition to the impact of better head grade of 0.236%. The lower copper grade in 2014 was expected and programmed under the mine's development plan. Copper head grades in 2013 and 2012 were higher at 0.236% and 0.224%, respectively.

Total tonnes milled from the Company's Padcal mine for 2014 was 23% higher than 2013 (40% more than 2012) mainly due to higher operating days of 359 days in 2014 against 299 operating days in 2013 (over about ten months). Operation in 2012 was for seven months or 214 operating days.

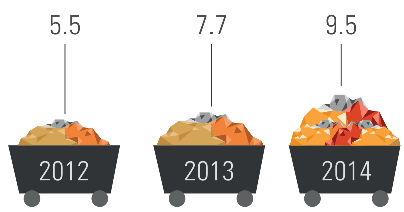
GOLD PRODUCTION AND GRADE



COPPER PRODUCTION AND GRADE



TONNES MILLED (MILLIONS)



OPERATING COSTS AND EXPENSES

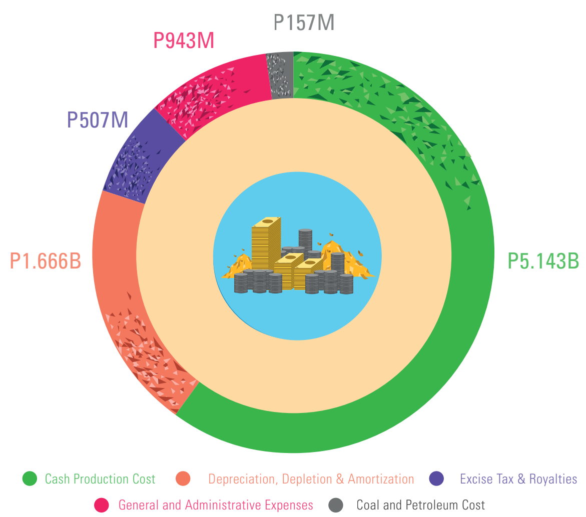
Consolidated operating costs and expenses (including General and Administrative Expenses) amounted to ₱8.415 billion in 2014, higher by 13% than ₱7.480 billion in 2013 (42% higher versus ₱5.269 billion in 2012) due mainly to higher number of operating days. Treatment cost and refining charges (TC/RC) rates increased for the period from April 2014 to March 2015 by US$22 per DMT of copper concentrate and 2.2 cents per pound copper, respectively, resulting in higher marketing charges of ₱849.8 million in 2014 from ₱659.5 million in 2013 and ₱439.8 in 2012. The rise in marketing charges in 2014 against 2013 and 2012 was in line with the increase in copper concentrates and the change in TC/RC rates in line with the increase in the Japanese Benchmark.

Excise tax and royalties in 2014 was slightly lower by 5% than 2013 (18% higher versus 2012 due to higher net revenues) due to higher Social Development and Management Program (SDMP) amount that was deducted from royalties to Indigenous People (IPs). General and Administrative Expenses was also lower at ₱943.0 million in 2014 compared with ₱1.311 billion in 2013 (higher than ₱1.148 billion in 2012 mainly due to the consolidation of Pitkin) as a result of cost reduction measures.

OPERATING COSTS AND EXPENSES

(P Millions)	For the Year Ended December 31 2014	2013	2012	% Change 2014 vs 2013	2013 vs 2012
Cash Production Cost	5,143	4,188	2,980	23	41
Depreciation,Depletion & Amortization	1,666	1,339	553	24	142
Total Production Cost	6,808	5,527	3,533	23	56
Excise Tax & Royalties	507	537	455	(5)	18
General and Administrative Expenses					
Mining	662	929	964	(29)	(4)
Petroleum and Coal	281	382	184	(26)	108
Coal and Petroleum Cost	157	106	133	49	(21)
Consolidated Operating Costs and Expenses	8,415	7,480	5,269	13	42

2014 BREAKDOWN OF COSTS AND EXPENSES
(excluding Marketing Charges)



Coal and petroleum costs were up by 49% in 2014 against 2013 due primarily to the 59% increase in oil production at Galoc oil field, while the 2013 amount was 21% lower than 2012 due to the suspension of coal operation of Brixton Energy and Mining Corp. (BEMC).

Production cost per tonne in 2014 of ₱716 was slightly above 2013's ₱714 per tonne (versus 2012's ₱631 per tonne). The rise in production cost per tonne in 2014 against 2013 and 2012 was caused by higher cost of power, materials and supplies in addition to higher non-cash production costs.

Operating cost per tonne, on the other hand, went down slightly to ₱859 per tonne from ₱869 per tonne in 2013 (higher than 2012's ₱792 per tonne). The drop in operating cost per tonne was attributed to the increase in the capacity of tailings storage facility no. 3 (TSF3), to six (6) years from 2 ½ years previously, thus reducing the amount of annual amortization related to the rehabilitation of TSF3.

Operating cost (using a co-production method) per ounce of gold and per pound of copper were $977 per ounce and $2.29 per pound in 2014, both higher than the 2013 and 2012 levels due to the significant rise in input costs coupled with moderate improvement in metal output.

COST PER TONNE / PER OUNCE / PER POUND

Padcal Mine (P Millions)	For the Year Ended December 31 2014	2013	2012	% Change 2014 vs 2013	2013 vs 2012
Padcal Cash Production cost	5.143	4,187	2,942	23	42
Depreciation, Depletion & Amortization	1.666	1,339	553	24	142
Total Production Cost	6.808	5,526	3,495	23	58
Marketing	850	660	440	29	50
Excise tax & Royalties	507	535	453	(5)	18
Total Operating Cost (P Millions)	8,165	6,721	4,388	21	53
Production cost per tonne	P716	P714	P631	0.3	13
Operating cost per tonne	P859	P869	P792	(1.1)	10
Operating cost per ounce	$977	$858	$820	14	5
Operating cost per pount	$2.29	$2.16	$2.00	6	8

OTHER CHARGES - NET			
	For the Year Ended December 31		
(P Millions)	2014	2013	2012
Oher Income:			
Sales of Fixed Assets	765	-	-
Interest Income	17	26	58
Insurance Proceeds	-	1,017	-
Gain on Sale of Subsidiaries and AFS Financial Assets	-	273	-
Marked-to-Market Gains	-	-	308
Others	18	63	34
	800	1,379	400
Other Charges:			
Impairment Loss on Deferred Exploration Costs and Others	(570)	(298)	(1023)
Separation Pay, Net of Retirement Fund Share	(394)	-	-
Interest Expense	(354)	(416)	(44)
Forex Exchange Losses-Net	(56)	(174)	(165)
Impairment of AFS Financial Assets	-	(1,007)	-
Padcal Minesite Maintenance Costs	-	(440)	(912)
Provision for Rehabilitation and Other Costs	-	(161)	(1,447)
Others	(4)	(131)	-
	(1,379)	(2,626)	(3,591)
	(579)	**(1.247)**	**(3.192)**

Other charges-net in 2014 dropped to ₱579.2 million from ₱1.247 billion in 2013 and ₱3.192 billion in 2012 due mainly to exceptional items in prior years associated with the Padcal incident in 2012.

OTHER INCOME

In 2014, the Company's Pasig property was the subject of a Deed of Absolute Sale with a third-party for a total consideration of ₱777.4 million, with a corresponding gain of ₱764.7 million.

Interest income from money market placements amounted to ₱17.0 million, a 35% decline from ₱26.1 million in 2013 and a 71% drop from ₱58.2 million in 2012. Interest rates averaged at 2.0% in 2013 and 2012.

On February 12, 2013, a full settlement of insurance claims of US$25 million or ₱1.017 billion, covering pollution and business interruption under the Company's Pollution Legal Liability Insurance Policy pertaining to the 2012 TSF3 incident at the Padcal Mine, was concluded with Chartis Philippines Insurance, Inc. (Chartis). This settlement was covered by a Settlement, Release and Policy Buy Back Agreement signed on February 8, 2013. The insurance proceeds were used to pay the ₱1.034 billion Mine Waste and Tailings Fee (MWTF) related to the TSF3 incident.

In addition, a gain on sale of subsidiaries and available-for-sale (AFS) financial assets of ₱273.5 million was realized by PPC – consisting of ₱246.6 million gain from the sale of its subsidiary's Pitkin Petroleum Plc.'s, interest in Vietnam American Exploration Company LLC (VAMEX) and ₱26.9 million gain from the sale of shares of stock in PetroEnergy Resources Corporation (PERC).
In August 2012, the unwinding of all of its outstanding metal and foreign currency hedge contracts, prompted by the suspension of Padcal operations, generated a MTM gain of ₱307.9 million for the year.

OTHER CHARGES

After assessing the viability of existing exploration projects, the Company recognized an impairment loss of ₱569.9 million in 2014 on the deferred exploration costs under its subsidiaries, Philex Gold Philippines, Inc, (PGPI) and Pitkin Petroleum Plc (Pitkin). In 2013, the Company recorded an impairment loss of ₱297.6 million related to its Butan, Tapaya and Barobo projects and FEP's SC 40.

Also, the Company incurred ₱394.2 million in separation pay on top of the retirement gratuity under the Philex Trust Fund in relation to the manpower rightsizing program implemented in 2014.

In 2012, PPC recorded an impairment loss of ₱1.023 billion, consisting of ₱388.6 million in FEP's deferred oil exploration costs and ₱577.8 million in BEMC's assets, which BEMC recognized following the suspension of its coal mining operations. This impairment loss covered 100% of the carrying value of all BEMC's property, plant and equipment amounting to ₱434.3 million and a significant volume of its coal inventory due to high ash content, which posed a risk to the recoverability of inventory costs of ₱143.5 million. In 2013, BEMC recognized an additional ₱86.4 million impairment loss, thereby fully writing off the remaining book value of its coal inventory.

On interest expense, the Company incurred ₱354.5 million in 2014 mainly from the short-term loans, slightly lower than in 2013 (₱416.4 million) due to the retirement of some debts but higher than in 2012 (₱44.4 million) when additional loans were incurred in 2013.

The Company recognized lower net foreign exchange losses of ₱56.4 million in 2014 against ₱174.0 million in 2013 mainly from the revaluation of its net foreign currency-related assets due to the effect of the mild depreciation of the Philippine peso against the US dollar. Comparative amount recognized in 2012 was ₱164.7 million, with foreign exchange rates at yearend closing at ₱44.72 in 2014, ₱44.40 in 2013, and ₱41.05 in 2012.

In 2013, the Company recognized a ₱1.007 billion impairment loss on its investments in shares of Lepanto Consolidated Mining Corporation (Lepanto) and Indophil Resources NL (Indophil) due to significant decline in the fair value of the shares as determined by the Company as above the 30% threshold. The Company owns about 5% of Lepanto, a primary gold producer listed at the Philippine Stock Exchange and 2.4% of Indophil, an Australian publicly-listed company that has interest in the Tampakan Copper-Gold Project in the Philippines through Sagittarius Mines, Inc.

Furthermore, ₱439.6 million and ₱912.1 million were charged in 2014 and 2013, respectively, under Padcal maintenance costs. The maintenance costs were related to the maintenance work and related manpower costs for the mill and underground facilities to keep the mine ready for eventual resumption of operations.

A provision of ₱1.447 billion covering MWTF and related rehabilitation and remediation costs was recorded in 2012. An additional provision of ₱161.4 million for rehabilitation and other costs was likewise taken up in 2013.

The major extraordinary charges in 2013, which were no longer part of current year's charges, included ₱1.007 billion in impairment loss related to the Company's investments in other mining stocks and the ₱439.6 million maintenance costs for Padcal.

CORE AND REPORTED NET INCOME

Net income attributable to the equity holders of the Company in 2014 amounted to ₱1.006 billion, compared with ₱341.9 million in 2013 and ₱208.7 million in 2012. The improvement in net income beginning 2013 were primarily due to the resumption of Padcal mine operations, by virtue of a temporary lifting of the suspension order on March 8, 2013 and subsequent permanent lifting on August 27, 2014. These enabled the Company to operate for longer production periods compared with 2012.

RECONCILIATION OF CORE NET INCOME TO CONSOLIDATED NET INCOME

	For the Year Ended December 31		
(P Millions)	2014	2013	2012
Core Net Income:	1,122	1,508	1,689
Non-Recurring Gains (Losses)			
Gain on Sale of Assets	765	98	-
Net Provision of Asset Write-Down	(348)	(303)	(497)
Reorganization Costs	(394)	-	-
Unrealized Foreign Exchange Losses	(57)	(180)	(168)
Impairment of AFS Financial Assets	-	(1,007)	-
Insurance Proceeds	-	407	-
Provision for Rehabilitation Costs and Others	-	(161)	(1,447)
Marked-to-Market Gain of Derivative Instruments	-	-	308
Clean-Up Costs/Reversal of Impairment	12	-	(22)
Net Tax Effect of Aforementioned Adjustments	(94)	(20)	345
Net Income Attributable to Equity Holders of the Parent Company	1,006	342	209
Net Income Attributable to NCI	(303)	(30)	(520)
Consolidated Net Income (Loss)	703	312	(311)

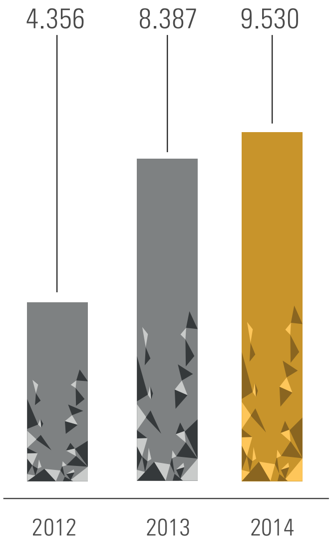
Despite losses incurred by subsidiaries, the Company's results of operations ended in a consolidated net income of ₱702.8 million for the year 2014, higher than ₱312.4 million in 2013 and a reversal of the ₱310.8 million loss in 2012.

The Company's core net income was ₱1.122 billion in 2014, 26% lower than ₱1.508 billion in 2013 and also lower than ₱1.689 billion in 2012 due primarily to lower metal prices and ore grades. The 2014 core net income was, however, higher by 4% than ₱1.081 billion in 2013, after excluding insurance gain of ₱427 million in 2013. In 2014, EBITDA amounted to ₱3.320 billion, compared to ₱3.920 billion in 2013 and ₱3.294 billion in 2012. The Company's EBITDA, similar to core net income, excludes non-recurring transactions to clearly provide results based on normal operating parameters of the business. The core net income reflects the Company's overall operating performance without the net effect of non-recurring transactions.

FINANCIAL CONDITON REVIEW

	For the Year Ended December 31		
(P Millions, except for Ratios)	2014	2013	2012
Cash and Cash Equivalents	5,232	4,081	1.670
Current Assets excluding Cash and Cash Equivalents	4,299	4,307	2,686
Non-Current Assets	35,110	31,533	24,916
Total Assets	44,640	39,921	29,272
Short-Term Loans	4,308	6,176	1,450
Current Liabilities Excluding Short-Term Loans	3,215	3,599	3,168
Non-Current Liabilities	10,076	4,228	2,563
Equity Attributable to Equity Holders of the Parent Company	23,599	21,811	21,691
Non-Controlling Interests	3,442	4,107	400
Total Equity	27,042	25,917	22,091
Current / Liquidity Ratios			
Current Ratio	1.27	0.86	0.94
Quick Ratio	0.84	0.45	0.41
Solvency Ratios and Debt to Equity Ratios			
Debt-to-Equity Ratio	0.65	0.54	0.33
Solvency Ratio	0.13	0.12	0.03
Financial Leverage Ratios			
Asset-to-Equity Ratio	1.65	1.54	1.33
Interest Rate Coverage Ratio	3,97	3.58	6.34
Profitability Ratios			
Return on Assets	1.66%	0.90%	-2.12%
Return on Equity	2.65%	1.30%	-2.81%
Net Profit Margin	6.99%	3.19%	-3.57%

CURRENT ASSETS (P Billions)



CASH AND CASH EQUIVALENTS

As of December 31, 2014, current assets stood at ₱9.530 billion, 14% higher than ₱8.387 billion in 2013 (93% higher than ₱4.356 billion in 2012), primarily due to higher cash and cash equivalents, which increased to ₱5.232 billion in 2014 arising from issuance of convertible notes, and consolidation of Pitkin with ending cash balance of ₱1.761 billion.

CURRENT ASSETS, EXCLUDING CASH AND CASH EQUIVALENTS

Current assets, excluding cash and cash equivalents, was slightly down to ₱4.299 billion mainly due to lower inventories for volume of copper concentrates at 5,112 dmt that remained unshipped as at year end 2014 as against 10,267 dmt in 2013 and 83 dmt in 2012.

Accounts Receivable

Accounts receivables consisted essentially of trade receivables from sales of the Company's copper concentrates or bullion, accrued interest receivables and other receivables. As at year-end 2014, accounts receivable amounted to ₱1.056 billion, with trade receivables amounting to ₱893.9 million, accrued interest receivable amounting to ₱2.0 million and other receivables amounting to ₱160.0 million, against ₱295.5 million in 2013 and ₱207.7 million in 2012. As of December 31, 2014, outstanding receivables from copper concentrates mainly consisted of 100% of the value of shipment no. S-708 which was shipped to Japan on December 31, 2014, 90% of the value of which was collected in early January 2015. In 2013, the copper concentrates shipment (S-698) scheduled on the latter part of December 2013 remained unshipped as at year-end 2013 due to the unfavorable weather conditions. As a result, Pan Pacific advanced the sales proceeds, equivalent to 90% of the value, from S-698. The Company recorded the transaction in the balance sheet as a net liability to Pan Pacific as the advance payment was more than the outstanding trade receivables from previous shipments. As of December 31, 2012, only the receivable from 378 ounces in gold bullion shipped in December 2012 remained outstanding as all proceeds from the 2012 copper concentrates shipments were fully collected.

A total of fifteen (15) copper concentrates shipments were made in 2014 from Padcal mine's full year production, against only ten (10) shipments in 2013 and nine (9) in 2012 as a result of the suspension of the Padcal operations from August 2, 2012 to March 7, 2013. The Padcal mine's copper concentrates shipments were provisionally valued based on prices in the second calendar week immediately prior to the week of shipment. These were then adjusted to the applicable final prices based on their quotational period (QP), which for contract years 2014 and 2013 was the calendar month following the month of the shipment's arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper.

Inventories

Inventories, mostly materials and supplies – comprising 64% of total value of inventories – were lower at ₱1.858 billion in 2014 compared with ₱2.668 billion in 2013 (lower than ₱1.315 billion in 2012). Also included in inventories were ₱643.5 million worth of mine products inventory, corresponding to 5,112 dmt of copper concentrates, and ₱18.6 million of petroleum inventories. This included copper concentrates totaling 5,112 dmt with a value of ₱643.5 million, which remained unshipped as of December 31, 2014, compared with 10,267 dmt with a value of ₱1.534 billion in 2013. No copper concentrates were unshipped at end 2012. In 2013, the amount of materials and supplies accounted for 42% of the total amount of inventories, with the remainder from the mine products inventory as well as coal and petroleum inventories.

Other Current Assets

Other current assets increased to ₱1.377 billion in 2014 from ₱1.343 billion in 2013 and ₱997.3 million in 2012. The increase was substantially due to the rise in input value-added tax claims on importation of materials and supplies and equipment pending with the Department of Finance.

NON-CURRENT ASSETS

As of December 31, 2014, non-current assets of the Company rose to ₱35.110 billion from ₱31.533 billion in 2013 and ₱24.916 billion in 2012, consisting mainly of property, plant and equipment, and deferred exploration costs. With property, plant and equipment of ₱7.139 billion – representing 16% - and deferred exploration costs of ₱25.817 billion – comprising 58% – of total assets, these portions reflect the capital intensive nature of the mining business. In the Company's case, these attributed to internal exploration and development activities as well as upgrading of existing facilities.

Property, Plant and Equipment

Property, plant and equipment ("PPE") as of December 31, 2014 expanded to ₱7.139 billion compared with ₱6.880 billion in 2013 and ₱6.035 billion in 2012. The annual increases over the past three years were mainly due to capital expenditures of ₱2.354 billion, ₱2.310 billion and ₱2.105 billion, respectively, incurred by the Company and its subsidiaries.

Available-for-Sale (AFS) Financial Assets

AFS financial assets, recorded at fair value, declined further to ₱906.7 million in 2014 from ₱975.4 million in 2013 and ₱3.991 billion in 2012. The AFS financial assets portfolio consists substantially of investments in shares of stock of Indophil and Lepanto. Following a continued drop in the market prices of these shares, which were used to determine the fair value of these investments, the value of these investments was reduced by ₱1.007 billion in 2013 which was recognized as impairment loss in the Company's income statement. In 2014, further reduction in fair value of these investments of ₱68.7 million was also recognized under Equity.

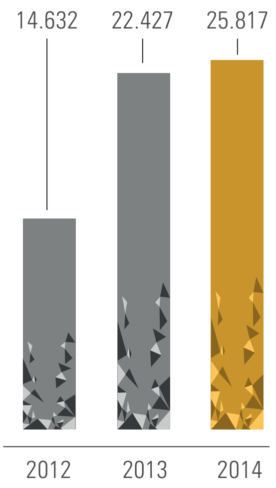
With the acquisition of additional interest in Pitkin in 2013, making Pitkin a 50.28%-owned subsidiary of the Company through PPC, the balance of investment in Pitkin of ₱1.231 billion under AFS financial assets was reclassified, thus reducing further the total amount compared to 2012. The interest in Pitkin rose to 53.07% following Pitkin's buyback program which was partially participated by PPC, thus increasing PPC's interest from 50.28%. The sale of investment in PERC and the lower fair value of other investments under AFS financial assets also contributed to the lower balance of the account. In 2013, the decrease in the fair value of investments under AFS financial assets other than Indophil and Lepanto were considered insignificant and temporary, therefore recorded as comprehensive loss through equity. Similarly in 2014, changes in the fair value of all investments under AFS financial assets were taken up under equity.

In July 2013, Pitkin sold all its interest in VAMEX for a total cash consideration of ₱2.100 billion. The acquisition of additional interest in Pitkin to 50.28% and the sale of its VAMEX interest resulted in a net increase in Goodwill by ₱980.4 million to ₱1.239 billion in 2013 from ₱258.6 million in 2012. No change in the Goodwill balance of ₱1.239 billion as of December 31, 2014 from 2013.

Deferred Exploration Costs

Deferred exploration costs and other non-current assets increased to ₱25.817 billion, a 15% growth from ₱22.427 billion in 2013 following a 53% jump from ₱14.632 billion in 2012. The increase in balances was mainly on account of the on-going extensive exploration activities in the Silangan and Kalayaan projects as well as in the oil exploration projects of FEP. In 2013, the consolidation of Pitkin accounts in PPC further increased deferred exploration costs and non-current assets. The Company also recorded impairment loss of ₱231.2 million in 2014 and ₱242.5 million in 2013 on various mine exploration projects as well as ₱338.5 million in 2014 for SC 6 and ₱16.1 million in 2013 for SC 40 under PPC.

DEFERRED EXPLORATION COSTS
(P Billions)



DEFERRED EXPLORATION COSTS

(P Millions)	As of December 31 2014 Costs	 Impairment	 Net Book Value	 2013 Net Book Value
Mining				
Silangan Project	16,403	-	16,403	13,205
Kalayaan Project	2,676	-	2,676	2,380
Sibutad, Bulawan and Vista Alegre Projects	857	231	626	833
Sto. Tomas II Exploration Project	278	1	277	233
Lascogon Project	290	161	129	63
Southwest Prospect	100	5	95	92
Clifton Project	85	-	85	65
Other Exploration Project	1,366	1,122	13	201
Oil and Gas Projects				
Forum	1,361	389	972	947
Pitkin	4,221	431	3,790	4,027
Area 4	123	54	69	4
Other Non-Current Assets	451	-	451	377
Total	28,211	2,394	25,817	22,427

TOTAL ASSETS

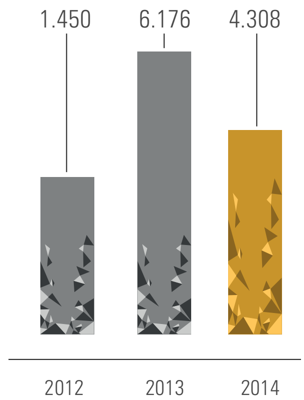
As of December 31, 2014, total assets stood at ₱44.640 billion compared with ₱39.921 billion in 2013 and ₱29.272 billion in 2012.

As of December 31, 2014, total current liabilities amounted to ₱7.523 billion, lower than ₱9.775 billion in 2013 due to the repayment of existing loans with FPC. The 2013 balance was higher than ₱4.618 billion in 2012 due to the availment of short-term loans and the advance against future copper concentrates shipment.

SHORT-TERM LOANS

Short-term loans dropped to ₱4.308 billion in 2014 from ₱6.176 billion in 2013 and ₱1.450 billion in 2012. In 2014, the Company paid off ₱ 1.3 billion in short-term loans and the US$80 million loan with FPC which the Company availed together with another ₱1.000 billion peso-loan in 2013.These were on top of the ₱1.100 billion loan availed in 2012, principally for the capital expenditures of Silangan Project. The US$80 million FPC loan was repaid in December 2014.

SHORT-TERM LOANS
(P Billions)



CURRENT LIABILITIES EXCLUDING SHORT-TERM LOANS

Current liabilities excluding short-term loans were slightly down to ₱3.215 billion compared with ₱3.599 billion in 2013 (versus ₱3.168 billion in 2012) due to a reduction in accounts payable and accrued liabilities.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities, mainly payables to suppliers and contractors, decreased by ₱525.5 million to ₱1.796 billion in 2014 from ₱2.321 billion in 2013. The 2013 number included ₱693 million as advance payment for copper concentrates shipment no. 698 which Pan Pacific extended to the Company following the rescheduling of the shipment date from December 23, 2013 to January 2, 2014 due to unfavorable weather conditions. In 2012, this account recorded a balance of ₱1.096 billion.

Income Tax Payable

Income tax payable amounted to ₱47.4 million in 2014 from ₱11.5 million in 2013 due to an improvement in earnings.

Dividends Payable

Dividends payable amounted to ₱488.8 million in 2014 compared with ₱460.7 million in 2013 and ₱483.3 million in 2012. The Company declared cash dividends of ₱0.05 per share totaling ₱246.9 million in February 2014, representing 16% of the Company's core net income for the full year of 2013. In October 2014, the Company declared cash dividend of P0.03 per share amounting to ₱148.2 million, representing 16% of YTD September 2014 core net income. No dividends were declared in the latter part of 2012 and in 2013 as a result of the suspension of Padcal operations from August 2012 to March 2013.

Provisions and Subscription Payable

Provisions and subscription payable slightly increased to ₱883.1 million from ₱805.1 million in 2013, but lower than ₱1.590 billion in 2012. Subscription Payable remained the same at ₱22.0 million for the years 2012 to 2014.

In early 2013, the Company settled the ₱1.034 billion MWTF assessed by the Mines and Geosciences Bureau (MGB), which was part of the ₱1.447 billion provisions made in 2012. There were no provisions for directors' compensation in 2013 and 2012, while ₱13.0 million was provided in 2014.

NON-CURRENT LIABILITIES

Total non-current liabilities as of December 31, 2014 increased to ₱10.076 billion from ₱4.228 billion in 2013 and ₱2.563 billion in 2012, comprising mainly of deferred income tax liabilities (DTL) and loans and bonds payable.

Deferred Income Tax Liabilities

DTL decreased slightly to ₱3.859 billion in 2014 from ₱3.947 billion in 2013, which was a result of the acquisition of additional interest in Pitkin by PPC in 2013. The 2014 DTL consisted mainly of the following: ₱1.665 billion arising from the acquisition of the remaining 50% of Silangan from Anglo in 2009; ₱1.089 billion for accelerated depreciation and deferred exploration costs; and ₱980.0 million from the acquisition of additional interest in Pitkin.

Loans and Bonds Payable

The amount of loans and bonds payable of ₱5.947 billion represented the carrying amount of the convertible notes (CN) issued by Silangan Mindanao Exploration Co., Inc. (SMECI), net of the ₱1.226 billion portion representing the equity conversion option of the CN which was shown under equity. In 2013, the long-term portion of FEP's loan with BNP Paribas corresponded to the ₱55.0 million balance of loans payable - net of current portion, compared to nil in 2012 which was fully paid in 2014. Pension obligation was ₱43.6 million in 2014 from ₱21.6 million in 2013 and ₱45.0 million in 2012.

Provisions for Losses and Mine Rehabilitation Costs
Provision for losses and mine rehabilitation costs comprising mainly of FEP's contingent liability amounted to ₱225.6 million in 2014, slightly higher than the ₱204.8 million in 2013 and ₱190.5 million in 2012. Provision for mine rehabilitation representing the amortized value of the Company's estimated mine closure costs slightly increased to ₱31.5 million in 2014 from ₱20.8 million in 2013 and ₱19.7 million in 2012.

TOTAL LIABILITIES

As of December 31, 2014, total liabilities of the Company increased to ₱17.599 billion from ₱14.003 billion as of end-2013 – arising mainly from the convertible bond issuance with a face value of ₱7.200 billion but with carrying amount of ₱5.947 billion, net of the ₱1.226 billion equity conversion option.

SHAREHOLDERS' EQUITY

	As of December 31		
	2014	2013	2012
Common Shares	4,940,399,068	4,936,996,068	4,933,026,818
Stock Options	33,618,150	38,911,400	12,970,650

Total equity as of December 31, 2014 amounted to ₱27.042 billion in 2014, 4% higher than ₱25.917 billion in 2013 and 22% more than ₱22.091 billion in 2012.The yearly increases in the capital stock and additional paid-in capital from 2012 to 2014 were from the exercise of stock options from the Company's 2007 stock option plan.

The Company's net income attributable to the equity holders of the Parent Company of ₱1.006 billion boosted retained earnings to ₱14.712 billion from ₱14.129 billion in 2013 and ₱13.578 billion in 2012. A total of ₱395.1 million worth of dividends was declared in 2014 compared with nil in 2013. In 2014, a total of ₱27.3 million was taken up against retained earnings related to re-measurement of pension obligation, net of tax. In December 2013, the Company's Board of Directors approved the appropriation of ₱10.000 billion of the retained earnings for the Company's share in the Silangan mine development and construction from 2016 to 2018.

A temporary decline in the fair value of AFS financial assets of ₱68.7 million was recorded in 2014 in net unrealized gain (loss) on AFS financial assets under equity, reducing further the balance to ₱906.7 million in 2014 from ₱975.4 million in 2013 and ₱3.991 billion in 2012.

In 2013, the decline in the market prices of Indophil and Lepanto was considered permanent therefore not taken up under equity but recognized as a loss in the income statement. As a result of the translation of foreign subsidiaries in 2014, cumulative translation adjustments amounted to ₱37.4 million from ₱25.1 million in 2013 and a negative ₱41.8 million in 2012.

The amount of net revaluation surplus remained at ₱1.611 billion for the years 2012 to 2014. The effect of transactions with non-controlling interests decreased to ₱19.1 million from ₱45.1million in 2013 and 2012 – reflecting the difference between the acquisition cost and the book value of the interest acquired in PGI, FEP and FEC shares. With the consolidation of Pitkin accounts following PPC's acquisition of additional interest in Pitkin, making it a subsidiary, the non-controlling interests account increased to ₱4.107 billion in 2013 from ₱400.3 million in 2012, but reduced by losses in subsidiaries to ₱3.442 billion in 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary objectives are to fund existing operations and to maintain a healthy pipeline of exploration projects for possible expansion. Despite the risks inherent in the business associated with metal prices, foreign exchange rates and the changing economic and market conditions, the Company generated strong net cash flows from operating activities of ₱1.788 billion in 2014, ₱2.471 billion in 2013 and ₱2.913 billion in 2012. The cash generated in 2013 and 2012 was significantly affected by the lower metal production due to the suspension of Padcal operations from August 2, 2012 to March 7, 2013, while the cash generated in 2014 was substantially affected by lower gold and copper prices despite full year production.

Other than internally generated funds, which remain as the Company's principal source of cash, the Company also raised funds from borrowings primarily to finance the capital expenditures of Silangan project and other exploration initiatives, as well as to refinance existing debt. The liquidity position of the Company is supported by credit facilities committed by various local banks and FPC. All amounts drawn from the US$150 million-loan facility with FPC were repaid as of December 18, 2014, thus terminating the facility effective the date of full repayment.

Net cash used in investing activities, principally for capital expenditures and exploration costs, amounted to ₱5.462 billion from ₱4.452 billion in 2013 and ₱3.931 billion in 2012. Capital expenditures increased to ₱2.354 billion in 2014 from ₱2.310 billion in 2013 and ₱2.105 billion in 2012, which were attributed to the higher sustaining capital expenditure of Padcal mine amounting to ₱1.835 billion as against ₱1.667 billion in 2013 and ₱1.572 billion in 2012. Expenditure for the continuing exploration activities at the Silangan, Kalayaan, and other projects amounted to ₱3.477 billion in 2014, slightly lower than ₱3.778 billion in 2013, but signicantly higher than ₱1.896 billion in 2012.

The net cash used in investing activities also reflected the proceeds from the sale of Company's real property of ₱764.7 million in 2014, and the acquisition of additional interest in Pitkin for ₱1.433 billion in 2013 against ₱20.7 million in 2012. The additional investment in Pitkin of ₱1.433 billion was partially offset by the ₱803.4 million cash reflected upon consolidation of the Pitkin accounts in mid-2013. A total of ₱395.7 million was used for the share buyback of Pitkin in 2014. While in 2013, the proceeds from the sale of Pitkin's interest in VAMEX amounting to ₱2.100 billion was also reflected under net cash generated from investing activities.

Net cash provided by financing activities amounted to ₱4.825 billion in 2014 versus ₱4.386 billion in 2013 and a net cash used in financing activities of ₱1.253 billion in 2012, on account of higher loan repayment of ₱4.880 billion in 2014 compared to ₱3.375 billion in 2013 and cash dividend payments of ₱2.456 billion in 2012. Net cash provided by financing activities was principally comprised of proceeds from the availment of short-term loans amounting to ₱2.928 billion in 2014 versus ₱7.769 billion including loan from FPC in 2013, on top of the ₱1.100 billion loan in 2012 (of which ₱2.100 billion was repaid in 2013).

Capital expenditures in 2014 amounted to ₱5.831 billion from ₱6.088 billion in 2013 as the Company focused on the Silangan project and mining projects within the vicinity of Padcal. This was higher than ₱4.001 billion in 2012 as the Company continued to invest in new technologies to expand capacities, improve efficiencies and accelerate the Silangan project.

The Silangan project cornered bulk or 65% of capital outlays in 2014 at ₱3.765 billion compared with ₱3.347 billion in 2013 and ₱1.163 billion in 2012. Deferred exploration costs amounted to ₱3.281 billion in 2014 against ₱2.939 billion and ₱926 million in 2013 and 2012, respectively. Investments in new machinery and equipment amounted to ₱483 million from ₱408 million in 2013 and ₱237 million in 2012.

Padcal operations accounted for the second largest chunk of capital investments at ₱1.835 billion last year or 31% of the total. This increased from ₱1.667 billion in 2013 and ₱1.572 billion in 2012 due to the upgrade of facilities, particularly the TSF3, which entailed ₱298 million, ₱791 million and ₱522 million in investments over the last three years respectively. Upgrade of equipment and machinery continued as well, with outlays amounting to ₱869 million in 2014, ₱442 million in 2013 and ₱644 million in 2012 as the Company increased the inventory from twelve (12) months in 2013 to fifteen (15) months last year, which required additional investments in terms of new equipment and resources.

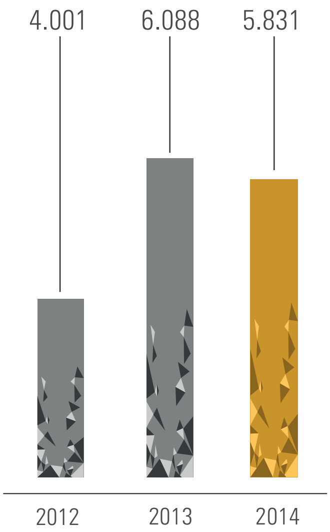
Investments in exploration projects, meanwhile, amounted to ₱164 million in 2014 from ₱681 million and ₱1.152 billion, respectively, the previous two years as a result of prioritization of and a more focused approach to new mine developments.

Meanwhile, capex for our oil and gas related exploration projects also went down significantly to ₱67 million as PMC concentrated mainly on data gathering for the SC 75 located in North West Palawan.

CAPITAL EXPENDITURES AND EXPLORATION COSTS

(P Millions)	For the Year Ended December 31 2014	2013	2012
By Project:			
Padcal and Others			
Mine Development	668	434	406
Tailings Pond Structures	298	791	522
Machinery & Equipment	869	442	644
	1,835	1,667	1,572
Silangan and Kalayaan Projects			
Deferred Exploration	3,281	2,939	926
Machinery & Equipment	483	408	237
	3,765	3,347	1,163
Mine Exploration Projects	164	681	1,152
Oil and Gas Exploration Projects	67	393	115
	5,831	6,088	4,001
By Recording:			
Deferred Exploration	3,477	3,778	1,896
Property, Plant and Equipment	2,354	2,310	2,105
	5,831	**6,088**	**4,001**

CAPITAL EXPENDITURES
(P Billions)



AUDIT AND RISK COMMITTEE'S STATEMENT
ON ADEQUACY OF THE COMPANY'S INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

In compliance with the Audit and Risk Committee Charter, we confirm that:

- an independent director chairs the Audit and Risk Committee, and that the Committees has two independent directors as members;
- the Audit Committee had five (5) meetings during the year 2014;
- the Audit Committee reviewed and recommended to the board the revised Audit Committee Charter and creation of a separate Risk Committee;
- the Audit and Risk Committee reviewed and approved all audit services provided by SGV & Co. to Philex Group, and related fees for such services;
- the Audit and Risk Committee have discussed with the Philex' Internal Audit Group and SGV &Co. the overall scope and the plans for their respective audits, and results of their examinations, their evaluation of Philex Mining Corporation and subsidiaries' internal controls and the overall quality of the Philex Group's financial reporting;
- the Audit and Risk Committee has discussed with SGV & Co. the matters required to be discussed by the prevailing applicable Auditing Standard, and we have received written disclosures and the letter from SGV & Co. as required by the prevailing Independence Standards (Statement as to Independence) and have discussed with SGV & Co. its independence from Philex Group and Philex Group management;
- the Audit and Risk Committee has conducted a review of the effectiveness of the Company's internal control systems and risk management systems. Based on the Audit and Risk Committee review, in conjunction with the Internal Auditor's report, the Audit Committee confirmed that the internal controls and enterprise risk management of Philex are adequate and effective;
- in the performance of the Audit and Risk Committee's oversight responsibilities, the Audit and Risk Committee has reviewed and discussed the audited Financial statements of Philex Group as of and for the year ended December 31, 2014 with the Philex Group's management, which has the primary responsibility for the financial statements, and with SGV & Co., the Philex Group's independent auditor, who is responsible for expressing an opinion on the conformity of Philex Group's audited financial statements with Philippine Financial Reporting Standards (PFRS);
- based on the reviews and discussions referred to above, in accordance with the Philex Group's management and SGV & CO., , and subject to the limitation of our roles and responsibilities, the Audit Committee recommended to the Board of Directors the inclusion of the Company's consolidated financial statements as of and for the year ended December 31, 2014 in the Company's Annual Report to the stockholders and to the Philippine SEC on Form 17-A; and
- based on the review of SGV & Co.'s performance and qualifications, including consideration of management's recommendation, the Audit Committee recommended to the board the appointment of SGV & Co. as the Philex Group's independent external auditor.

Respectfully submitted,

Signed:

OSCAR J. HILADO
Committee Chair-Independent

ELIZA BETTINA R. ANTONINO
Member

MARILYN A. VICTORIO-AQUINO
Member

WILFREDO A. PARAS
Member

ROBERT C. NICHOLSON
Member

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills

The management of Philex Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014, 2013 and 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

SyCip, Gorres, Velayo & Co., the independent auditors, appointed by the stockholders have examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders have expressed their opinion on the fairness of presentation upon completion of such examination.

MANUEL V. PANGILINAN
Chairman of the Board

EULALIO B. AUSTIN, JR.
President & Chief Executive Officer

DANNY Y. YU
Chief Financial Officer &
Senior Vice President - Finance

The Stockholders and the Board of Directors
Philex Mining Corporation
Philex Building
27 Brixton Street
Pasig City, Metro Manila

We have audited the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-2 (Group A),
March 1, 2012, valid until March 31, 2015
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4751344, January 5, 2015, Makati City

February 25, 2015

FINANCIAL PERFORMANCE

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

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱5,231,892**	₱4,080,512
Accounts receivable (Notes 7, 20 and 22)	**1,055,864**	295,451
Inventories (Note 8)	**1,858,220**	2,668,274
Derivative assets (Note 20)	**7,766**	–
Other current assets (Note 9)	**1,376,741**	1,343,245
Total Current Assets	**9,530,483**	8,387,482
Noncurrent Assets		
Property, plant and equipment (Note 10)	**7,138,912**	6,880,096
Available-for-sale (AFS) financial assets (Note 11)	**906,681**	975,380
Goodwill (Note 4)	**1,238,583**	1,238,583
Deferred income tax assets - net (Note 24)	**8,224**	11,818
Deferred exploration costs and other noncurrent assets (Notes 1, 12 and 18)	**25,817,465**	22,427,186
Total Noncurrent Assets	**35,109,865**	31,533,063
TOTAL ASSETS	**₱44,640,348**	₱39,920,545
LIABILITIES AND EQUITY		
Current Liabilities		
Loans payable (Note 13)	**₱4,307,720**	₱6,176,369
Accounts payable and accrued liabilities (Note 14)	**1,795,755**	2,321,301
Income tax payable (Note 24)	**47,423**	11,519
Dividends payable (Note 25)	**488,818**	460,650
Provisions and subscriptions payable (Notes 1, 11 and 31)	**883,102**	805,108
Total Current Liabilities	**7,522,818**	9,774,947
Noncurrent Liabilities		
Deferred income tax liabilities - net (Notes 4 and 24)	**3,859,141**	3,946,941
Loans and bonds payable (Note 13)	**5,947,366**	55,014
Pension obligation (Note 18)	**43,585**	21,598
Provision for losses and mine rehabilitation costs (Notes 10 and 31)	**225,618**	204,791
Total Noncurrent Liabilities	**10,075,710**	4,228,344
Total Liabilities	**17,598,528**	14,003,291
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - ₱1 par value (Note 25)	**4,940,399**	4,936,996
Additional paid-in capital	**1,117,627**	1,058,497
Retained earnings (Note 25)		
Unappropriated	**4,712,032**	4,128,826
Appropriated	**10,000,000**	10,000,000
Net unrealized gain (loss) on AFS financial assets (Notes 11 and 24)	**(64,010)**	4,689
Equity conversion option (Note 13)	**1,225,518**	–
Cumulative translation adjustments (Notes 20 and 24)	**37,370**	25,116
Net revaluation surplus (Note 4)	**1,611,397**	1,611,397
Effect of transactions with non-controlling interests (Note 2)	**19,084**	45,099
	23,599,417	21,810,620
Non-controlling interests (Note 25)	**3,442,403**	4,106,634
Total Equity	**27,041,820**	25,917,254
TOTAL LIABILITIES AND EQUITY	**₱44,640,348**	₱39,920,545

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		
	2014	2013	2012
REVENUE (Notes 7, 20 and 30)			
Gold	**₱5,889,107**	₱5,581,587	₱4,946,041
Copper	**4,615,092**	4,579,757	3,865,704
Silver	**78,161**	82,063	79,571
	10,582,360	10,243,407	8,891,316
Less marketing charges	**849,837**	659,536	439,771
	9,732,523	9,583,871	8,451,545
Petroleum	**308,255**	191,243	191,003
Others	**7,462**	27,142	55,041
	10,048,240	9,802,256	8,697,589
COSTS AND EXPENSES			
Mining and milling costs (including depletion and depreciation) (Note 15)	**6,719,928**	5,457,881	3,473,183
General and administrative expenses (Note 15)	**943,001**	1,311,059	1,148,291
Excise taxes and royalties (Note 15)	**507,188**	536,522	454,858
Petroleum production costs	**152,982**	87,895	98,245
Handling, hauling and storage	**88,417**	69,003	59,339
Cost of coal sales	**3,282**	17,770	35,238
	8,414,798	7,480,130	5,269,154
OTHER INCOME (CHARGES)			
Gain on sale of property plant and equipment (Note 10)	**764,685**	–	–
Interest income (Note 6)	**16,952**	26,060	58,201
Foreign exchange losses - net (Note 20)	**(56,374)**	(173,972)	(164,716)
Interest expense (Notes 10 and 13)	**(354,461)**	(416,360)	(44,355)
Reorganization costs (Note 31)	**(394,154)**	–	–
Impairment loss on deferred exploration costs and others (Notes 7, 8, 10 and 12)	**(569,926)**	(297,585)	(1,023,376)
Others - net (Notes 1, 11, 12, 20 and 31)	**14,118**	(385,217)	(2,017,439)
	(579,160)	(1,247,074)	(3,191,685)
INCOME BEFORE INCOME TAX	**1,054,282**	1,075,052	236,750
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)			
Current	**421,584**	255,703	551,979
Deferred	**(70,147)**	506,954	(4,390)
	351,437	762,657	547,589
NET INCOME (LOSS)	**₱702,845**	₱312,395	(₱310,839)
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱1,005,552**	₱341,932	₱208,733
Non-controlling interests (Note 25)	**(302,707)**	(29,537)	(519,572)
	₱702,845	₱312,395	(₱310,839)
Basic Earnings Per Share (Note 27)	**₱0.204**	₱0.069	₱0.042
Diluted Earnings Per Share (Note 27)	**₱0.204**	₱0.069	₱0.042

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2014	2013	2012
NET INCOME (LOSS)	**₱702,845**	₱312,395	(₱310,839)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items to be reclassified to profit or loss in subsequent periods:			
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	**(68,699)**	(1,620,140)	(1,433,104)
Gain on fair value of derivative (Note 20)	**7,766**	–	–
Gain (loss) on translation of foreign subsidiaries	**7,655**	210,071	(117,795)
Realized loss on impairment of AFS investments (Note 11)	–	1,006,508	–
Realized loss on sale of AFS financial assets (Note 11)	–	30,485	–
Realized gain on fair value of hedging instruments transferred to the consolidated statements of income - net of related deferred income tax (Note 20)	–	–	(499,496)
	(53,278)	(373,076)	(2,050,395)
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on pension obligation plans - net of income tax effect (Note 18)	**(28,038)**	207,671	2,601
TOTAL OTHER COMPREHENSIVE LOSS	**(81,316)**	(165,405)	(2,047,794)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱621,529**	₱146,990	(₱2,358,633)
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱921,823**	₱21,275	(₱1,745,355)
Non-controlling interests (Note 25)	**(300,294)**	125,715	(613,278)
	₱621,529	₱146,990	(₱2,358,633)

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in Thousands)

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

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 25)	**Additional Paid-In Capital**	**Retained Earnings** (Note 25)		**Net Unrealized Gain (Loss) on AFS Financial Assets** (Notes 11)	**Cumulative Translation Adjustments** (Note 20)	**Net Revaluation Surplus** (Note 4)	**Effect of Transactions with Non-controlling Interests**		**Non-controlling Interests** (Note 25)	
			Unappropriated	**Appropriated**					**Subtotal**		**Total**
BALANCES AT DECEMBER 31, 2012	₱4,933,027	₱963,867	₱13,578,086	₱–	₱601,055	(₱41,785)	₱1,611,397	₱45,099	₱21,690,746	₱400,256	₱22,091,002
Net income (loss)	–	–	341,932	–	–	–	–	–	341,932	(29,537)	312,395
Other comprehensive income (loss):											
Items to be reclassified to profit or loss in subsequent periods:											
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	–	(1,620,140)	–	–	–	(1,620,140)	–	(1,620,140)
Realized loss on AFS financial assets due to impairment	–	–	–	–	1,006,508	–	–	–	1,006,508	–	1,006,508
Realized loss on sale of AFS financial assets	–	–	–		17,266	–	–	–	17,266	13,219	30,485
Loss on translation of foreign subsidiaries	–	–	–	–	–	66,901	–	–	66,901	143,170	210,071
Items not to be reclassified to profit or loss in subsequent periods:											
Remeasurements of net defined benefit gains, net of tax	–	–	208,808	–	–	–	–	–	208,808	(1,137)	207,671
Total comprehensive income	–	–	550,740	–	(596,366)	66,901	–	–	21,275	125,715	146,990
Increase in paid-in capital due to exercise of stock option and others (Note 26)	3,969	10,497	–	–	–	–	–	–	14,466	–	14,466
Increase in additional paid-in capital due to stock option plan (Note 26)	–	84,133	–	–	–	–	–	–	84,133	–	84,133
Increase in minority due to acquisition of Pitkin Petroleum Plc (PPP) (Note 4)	–	–	–	–	–	–	–	–	–	3,580,663	3,580,663
Appropriation during the year (Note 25)	–	–	(10,000,000)	10,000,000	–	–	–	–	–	–	–
BALANCES AT DECEMBER 31, 2013	₱4,936,996	₱1,058,497	₱4,128,826	₱10,000,000	₱4,689	₱25,116	₱1,611,397	₱45,099	₱21,810,620	₱4,106,634	₱25,917,254

PHILEX MINING CORPORATION

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	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 25)	Additional Paid-In Capital	Retained Earnings (Note 25) Unappropriated	Retained Earnings (Note 25) Appropriated	Net Unrealized Gain (Loss) on AFS Financial Assets (Notes 11)	Equity Conversion Option (Note 13)	Cumulative Translation Adjustments (Notes 20 and 24	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non-controlling Interests	Subtotal	Non-controlling Interests (Note 25)	Total
BALANCES AT DECEMBER 31, 2013	**₱4,936,996**	**₱1,058,497**	**₱4,128,826**	**₱10,000,000**	**₱4,689**	**₱–**	**₱25,116**	**₱1,611,397**	**₱45,099**	**₱21,810,620**	**₱4,106,634**	**₱25,917,254**
Net income (loss)	–	–	1,005,552	–	–	–	–	–	–	1,005,552	(302,707)	702,845
Other comprehensive income (loss):												
Items to be reclassified to profit or loss in subsequent periods:												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	–	(68,699)	–	–	–	–	(68,699)	–	(68,699)
Items not to be reclassified to profit or loss in subsequent periods:												
Remeasurements of pension obligation, net of tax (Note 18)	–	–	(27,283)	–	–	–	–	–	–	(27,283)	(755)	(28,038)
Gain on fair value of derivative	–	–	–	–	–	–	7,766	–	–	7,766	–	7,766
Loss on translation of foreign subsidiaries	–	–	–	–	–	–	4,488	–	–	4,488	3,167	7,655
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 26)	3,403	33,322	–	–	–	–	–	–	–	36,725	–	36,725
Increase in additional paid-in capital due to stock option plan (Note 26)	–	25,808	–	–	–	–	–	–	–	25,808	–	25,808
Sale of PPC shares	–	–	–	–	–	–	–	–	259	259	193	452
Share buyback transaction (Note 2)	–	–	–	–	–	–	–	–	(26,274)	(26,274)	(364,129)	(390,403)
Equity conversion options (Note 13)	–	–	–	–	–	1,225,518	–	–	–	1,225,518	–	1,225,518
Declaration of cash dividends (Note 25)	–	–	(395,063)	–	–	–	–	–	–	(395,063)	–	(395,063)
BALANCES AT DECEMBER 31, 2014	**₱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**

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱1,054,282**	₱1,075,052	₱236,750
Adjustments for:			
Depletion and depreciation (Note 17)	**1,690,556**	1,447,592	778,995
Impairment loss on deferred exploration costs and others (Notes 7, 8, 10 and 12)	**569,926**	297,934	1,023,376
Reorganization costs (Note 31)	**394,154**	–	–
Interest expense (Notes 10 and 13)	**354,461**	416,360	44,355
Unrealized foreign exchange losses (gains) and others - net	**98,778**	378,671	(52,474)
Stock-based compensation expense (Note 26)	**25,808**	84,133	21,280
Interest income (Note 6)	**(16,952)**	(26,060)	(58,201)
Gain on disposal of property and equipment (Note 10)	**(764,685)**	–	–
Provision for rehabilitation, clean up and other costs (Notes 1 and 31)	–	161,400	1,446,859
Impairment loss on AFS financial assets (Note 11)	–	1,006,508	–
Gain on sale of subsidiaries	–	(246,597)	–
Gain on disposal of AFS financial assets (Note 11)	–	(26,867)	–
Operating income before working capital changes	**3,406,328**	4,568,126	3,440,940
Decrease (increase) in:			
Inventories	**810,054**	(1,469,759)	(392,891)
Accounts receivable	**(761,700)**	(63,279)	1,342,408
Pension assets	**(101,370)**	(38,955)	(82,520)
Other current assets	**(33,496)**	(345,905)	(235,659)
Increase (decrease) in:			
Accounts payable and accrued liabilities	**(517,892)**	1,216,999	90,194
Provisions and subscriptions payable	**(316,160)**	(933,528)	(195,645)
Pension obligation	**21,987**	15,278	23,164
Cash generated from operations	**2,507,751**	2,948,977	3,989,991
Interest received	**18,574**	41,757	41,515
Interest paid	**(352,474)**	(442,220)	(23,645)
Income taxes paid	**(385,680)**	(77,717)	(1,094,452)
Net cash flows from operating activities	**1,788,171**	2,470,797	2,913,409
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in deferred exploration costs and other noncurrent assets	**(3,477,330)**	(3,778,195)	(1,896,122)
Additions to:			
Property, plant and equipment (Notes 10 and 13)	**(2,353,691)**	(2,309,854)	(2,104,626)
AFS financial assets	–	–	(20,680)
Net proceeds from sale of:			
Property, plant and equipment	**764,685**	–	90,288
Subsidiaries	–	2,097,815	–
AFS financial assets	–	167,999	–
Share buyback of Pitkin	**(395,734)**	–	–
Acquisition of additional interests in PPP (net of cash acquired)	–	(629,953)	–
Net cash flows used in investing activities	**(5,462,070)**	(4,452,188)	(3,931,140)

(Forward)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of short-term loans (Note 13)	**₱2,928,378**	₱7,769,313	₱1,100,000
Exercise of stock options and others (Note 25)	**36,725**	14,467	103,195
Issuance of bonds - net of transaction costs	**7,162,000**	–	–
Payments of:			
Short-term bank loans (Note 13)	**(4,880,022)**	(3,374,935)	–
Long-term loans	**(55,014)**	–	–
Dividends (Note 25)	**(366,894)**	(22,607)	(2,455,918)
Net cash flows provided by (used in) financing activities	**4,825,173**	4,386,238	(1,252,723)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**106**	6,123	(7,299)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,151,380**	2,410,970	(2,277,753)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,080,512**	1,669,542	3,947,295
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱5,231,892**	₱4,080,512	₱1,669,542

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

Philex Mining Corporation (the Parent Company or PMC) was incorporated on July 19, 1955 in the Philippines and is listed in the Philippine Stock Exchange on November 23, 1956. Having reached the end of its 50 years corporate life, the Parent Company's Philippine Securities and Exchange Commission (SEC) registration was renewed on July 23, 2004. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary through a holding company and incorporated in the Philippines), Lascogon Mining Corporation (LMC), (a subsidiary of PGPI and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary directly by the Parent Company and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI, a wholly-owned subsidiary directly by the Parent Company and through SMECI, and incorporated in the Philippines) are all primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. LMC conducts exploration work on Taganaan, Surigao del Norte. SMMCI owns the Silangan Project covering the Boyongan and Bayugo deposits. As of December 31, 2014, the pre-feasibility study of the Boyongan project is already complete and is now undergoing a definitive feasibility study.

Philex Petroleum Corporation (PPC, a 64.8% owned subsidiary of the Parent Company and incorporated in the Philippines) and its subsidiaries: Forum Energy Plc (FEP, 60.5% owned and registered in England and Wales) and its subsidiaries, Pitkin Petroleum Plc. (PPP, 53.1% owned and incorporated and registered in United Kingdom of Great Britain and Northern Ireland) and its subsidiaries, and FEC Resources, Inc. (FEC, 51.2% owned and incorporated in Canada) are engaged primarily in oil and gas operation and exploration activities, holding participations in oil and gas production and exploration activities through their investee companies. Brixton Energy & Mining Corporation (BEMC), a wholly-owned subsidiary of PPC and incorporated in the Philippines commenced operation of its coal mine in Diplahan, Zamboanga Sibugay in November 2010, but suspended operation in January 2013. On January 6, 2014, BEMC finalized the agreement regarding the assignment and sale of its Coal Operating Contract (COC) and is currently awaiting the approval of the Department of Energy (DOE).

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

The Parent Company's registered business address is Philex Building, 27 Brixton Street, Pasig City, Metro Manila.

Status of Business Operations

Padcal Mine Operations

The Parent Company has the Padcal Mine as its main source of revenue from its metals business segment. The Padcal Mine is on its 57th year of operation producing copper concentrates containing gold, copper and silver.

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

On February 18, 2013, the Parent Company paid ₱1,034,358 Mine Waste and Tailings Fee to MGB in connection with the TSF No. 3 as provided for under Department Administrative Order (DAO) No. 2010-21 implementing the provisions of the Philippine Mining Act of 1995.

On August 27, 2014, the Parent Company received an order from 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.

The Group's ability to continue as a going concern depends on the results of its exploration projects. The effect of these uncertainties will be reported in the consolidated financial statements as they become known and estimable.

The Group continues to look for sources of funding to finance its 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 will be primarily used to finance SMMCI's exploration activities and payment of its advances from the Parent Company (see Notes 13 and 23).

PGPI

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

SMMCI

SMMCI is currently conducting the definitive feasibility study of the Silangan Project covering the Boyongan and Bayugo copper-gold deposits. The pre-feasibility study was completed in mid-2014. Adjacent to the Bayugo deposit is the Kalayaan Project, the exploration of which is being undertaken by the Parent Company by virtue of a Farm-in Agreement with Kalayaan Gold & Copper Resources, Inc., a subsidiary of Manila Mining Corporation.

BEMC

In January 2013, BEMC decided to undertake a detailed review of the operations and prospects of its coal mining project. The management determined that it was prudent to suspend underground mining operations at that time. On September 1, 2013, BEMC announced the closure of its coal mine in Diplahan, Zamboanga Sibugay under COC 130. On January 6, 2014, BEMC has finalized the agreements for the assignment of COC 130 to Grace Coal Mining and Development, Inc., pending approval of the DOE.

FEP and its subsidiaries

FEP's principal asset is a 70% interest in Service Contract (SC) 72 which covers an area of 8,800 square kilometres in the West Philippine Sea. FEP scheduled the completion of 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, 2014.

On July 8, 2014, FEP has been granted by the DOE an extension up to August 2016 to complete its obligation under the sub-phase 2 of exploration of SC 72 which requires drilling of two appraisal wells.

In addition, FEP's SC 14C Galoc has completed its development of Galoc Phase 2 which increased the capacity of the field to produce from 4,500 barrels of oil per day (BOPD) to 12,000 BOPD. On December 4, 2013, Galoc Phases 1 and 2 started to produce oil simultaneously and continues to do so as at December 31, 2014.

PPP

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

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

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

PPC

On April 5, 2013, PPC 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 PPC 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, PPC 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 PPC's ownership in Pitkin from 50.28% to 53.07% as at July 2, 2014.

Recovery of Deferred Mine and Oil Exploration Costs
The Group's ability to realize its deferred mine and oil exploration costs amounting to ₱25,366,569 and ₱22,049,814 as at December 31, 2014 and 2013, respectively (see Note 12), depends on the success of exploration and development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, and the success of converting the Group's EPs or EPAs or APSAs to new mineral agreements, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

Authorization for Issuance of the Financial Statements
The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 25, 2015.

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 standards and amendments, which are effective for annual periods beginning on or after January 1, 2014. The nature and impact of each new standard and amendment is described below:

- Investment Entities (Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Group, since none of the entities within the Group qualifies to be an investment entity under PFRS 10.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Group.

- PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)
  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no material impact on the disclosure in the Group's financial statements.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

  This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

- *Annual Improvements to PFRSs* (2010-2012 cycle)
  In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group.

- *Annual Improvements to PFRSs* (2011-2013 cycle)
  In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards-First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

Future Changes in Accounting Policies

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

- PFRS 9, *Financial Instruments - Classification and Measurement (2010 version)*
  PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and

measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA:

Effective January 1, 2015

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

- Annual Improvements to PFRSs (2010-2012 cycle)
  The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

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

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

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

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment will not have a material effect on the Group since it adopts the cost model of accounting.

- Annual Improvements to PFRSs (2011-2013 cycle)
  The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group.

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

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

Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
  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. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
  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 retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. These amendments will not have any impact on the Group's financial statements.

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group shall consider these amendments for future acquisitions of interests in joint operations.

- PFRS 14, *Regulatory Deferral Accounts*
  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

- Annual Improvements to PFRSs (2012-2014 cycle)
  The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group.
  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. These amendments will not have any impact on the Group's financial statements.

  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 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. The Group expects that this interpretation will not have any impact on its financial statements.

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

  PAS 19, *Employee Benefits - regional market issue regarding discount rate*
  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. These amendments will not have any impact on the Group's financial statements.

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). These amendments will not have any impact on the Group's financial statements.

Effective January 1, 2018

- PFRS 9, *Financial Instruments - Hedge Accounting* and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
  PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

  The Group shall consider the effects of this amendment in its future hedging transactions.

- PFRS 9, *Financial Instruments* (2014 or final version)
  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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 comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 is not expected to have any significant impact on the Group's financial statements.

The following new standard issued by the IASB has not yet been adopted by the FRSC

- IFRS 15 Revenue from Contracts with Customers
  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Summary of Significant Accounting Policies

Presentation of 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
Basis of consolidation starting January 1, 2013
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Basis of consolidation starting January 1, 2010
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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

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

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

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

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

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

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

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

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

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 Vamex LLC (PVX), Pitkin Petroleum Peru 2 LLC (PP2) and Pitkin Petroleum Peru 3 LLC (PP3).

The ownership of the Parent Company and subsidiaries over the foregoing companies in 2014 and 2013 are summarized as follows:

	Percentages of Ownership			
	2014		2013	
	Direct	**Indirect**	Direct	Indirect
PGHI	**100.0**	**–**	100.0	–
PGI	**–**	**100.0**	–	100.0
PGPI	**–**	**100.0**	–	100.0
LMC	**–**	**98.9**	–	98.9
SMECI	**–**	**–**	–	0.1
SMMCI	**–**	**–**	–	95.8
PPC	**64.8**	**–**	64.8	–
BEMC	**–**	**100.0**	–	100.0
FEP and subsidiaries	**–**	**36.4**	–	36.4
FEC	**–**	**51.2**	–	51.2
LMC	**–**	**1.1**	–	1.1
FEP	**–**	**24.1**	–	24.1
PPP	**–**	**53.1**	–	50.3
SMECI	**100.0**	**–**	99.9	–
SMMCI	**–**	**100.0**	–	–
SMMCI	**–**	**–**	4.2	–
FSTI	**100.0**	**–**	100.0	–
PLI	**100.0**	**–**	100.0	–
PIAI	**100.0**	**–**	100.0	–

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

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

On December 23, 2013, PGPI sold to PMC its remaining 150 shares (representing 0.15% ownership) in SMECI. On January 23, 2014, the Bureau of Internal Revenue (BIR) approved the Certificate Authorizing Registration of the 150 shares making PMC the 100% owner of SMECI.

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

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

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

On July 31, 2014, PMC sold its remaining 4.2% share of ownership in SMMCI to SMECI. Due to this sale, the share of ownership of SMECI in SMMCI will be 100%, awaiting issuance of certificate authorizing registration by the BIR.

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

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

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

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

In July 2014, PPP tendered an offer to buy back 11,972,500 of its outstanding shares for a consideration of US$1 per share. PPC surrendered 2,000,000 of its shares wherein non-controlling interests surrendered 9,099,000 shares. As a result of the share buyback transaction, the Parent Company's ownership interest increased from 50.3% to 53.1%.

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share in the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognized separately as a noncurrent asset. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance.

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

For purposes of consolidation, the financial statements of FEP, PPP and PGI, which are expressed in United States of America (US) dollar amounts, the financial statements of PGMC-BV, which are expressed in Euro 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 (i.e., including comparatives) are translated at the closing rate at the date of the consolidated statement of financial position;
b. income and expenses for each statement of income (i.e., including comparatives) are translated at exchange rates at the average monthly prevailing rates for the year; and
c. all resulting exchange differences are taken in the consolidated statement of comprehensive income.

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

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the 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, 2014 and 2013, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

Determination of fair value
The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each statement of financial position date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2014 and 2013, the Group's cash and cash equivalents and accounts receivable are included under loans and receivables (see Note 20).

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, 2014 and 2013.

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, 2014 and 2013, included in other financial liabilities are the Group's accounts payable and accrued liabilities, dividends payable, subscriptions payable and loans and bonds payable (see Notes 11, 13, 14 and 25).

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 30% or more and "prolonged" as greater than 12 months for quoted equity securities. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from equity and recognized in the consolidated statement of income.

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

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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 and improvements	5 to 10
Machinery and equipment	2 to 20
Surface structures	10

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

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

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

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

Deferred Exploration Costs

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

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

Borrowing Costs

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

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

Impairment of Noncurrent Non-financial Assets

The Group's noncurrent non-financial assets include property, plant and equipment, 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 weight and assay content, as adjusted for marketing charges to reflect the NRV of mine products inventory at the end of the financial reporting period. Contract terms for the Group’s sale of metals (i.e. gold, silver and copper) in bullion and concentrate allow for a price adjustment based on final assay results of the metal concentrate by the customer to determine the content.

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

Revenue from sale of petroleum products
Revenue is derived from sale of petroleum to third party customers. Sale of oil is recognized at the time of delivery of the product to the purchaser. Revenue is measured, based on participating interest of the Group, at the fair value of the consideration received, excluding discounts, rebates, and other sales tax or duty.

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

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

Cost and Expense Recognition
Costs and expenses are recognized in the consolidated 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:

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

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.

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

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

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in 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 26.

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

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

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

<u>Foreign Currency-Denominated Transactions and Translations</u>
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.

<u>Income Taxes</u>
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.

<u>Provisions and Contingencies</u>
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.

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 Cdn dollar. PGMC-BV's functional currency is the Euro. 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, 2014 and 2013, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱449,024 and ₱476,284, respectively (see Note 24). As at December 31, 2014 and 2013, no deferred income tax assets were recognized on the following deductible temporary differences amounting to about ₱2,472,080 and ₱2,175,544, respectively (see Note 24), because management believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

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

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

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

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

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

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

As at December 31, 2014 and 2013, the Group's joint arrangement is in the form of a joint operation.

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

Measurement of Mine Products Revenue
Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine products revenue, gross of marketing charges, amounted to ₱10,582,360, ₱10,243,407 and ₱8,891,316 in 2014, 2013 and 2012, respectively (see Note 30).

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

The Group did not assess its loans and receivables for collective impairment due to few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. \The amount of loss is recognized in the consolidated 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 ₱1,055,864 and ₱295,451 as at December 31, 2014 and 2013, respectively (see Note 7). Allowance for impairment on these financial assets as at December 31, 2014 and 2013 amounted to ₱2,613 and ₱3,193, respectively (see Note 7).

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

Any change in fair value of its AFS financial assets is recognized in the consolidated statements of comprehensive income. As at December 31, 2014 and 2013, the Group has net cumulative unrealized loss and unrealized gain on its AFS financial assets amounting to ₱64,010 and ₱4,689, respectively (see Note 11). As at December 31, 2014 and 2013, the carrying value of the Group's AFS financial assets amounted to ₱906,681 and ₱975,380, respectively (see Note 11).

Impairment of AFS Financial Assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. The Group recognized impairment loss on investments in quoted shares amounting to ₱1,006,508 in 2013 due to significant decline in the fair value of the quoted shares below its cost. As at December 31, 2014 and 2013, the carrying value of the Group's AFS financial assets amounted to ₱906,681 and ₱975,380, respectively (see Note 11).

Impairment of Goodwill

The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2014, 2013 and 2012, whereas the carrying value of goodwill as at December 31, 2014 and 2013 amounted to ₱1,238,583 (see Notes 1 and 4).

Measurement of NRV of Mine Products Inventory

The NRV of mine products inventory is the estimated sales value less costs to sell, which can be derived from such inventory based on its weight and assay for metal content, and the LME and London Bullion Metal Association for prices, which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as at December 31, 2014 and 2013 amounted to ₱643,474 and ₱1,533,883, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

Write-down of Carrying Values of Coal and Materials and Supplies Inventories

The Group carries coal and material and supplies inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence or other causes. When it is evident that the NRV is lower than its cost based on physical appearance and condition of inventories, an allowance for inventory obsolescence is provided. Additional provision for materials and supplies amounted to nil, ₱46,059 and ₱53,160 in 2014, 2013 and 2012, respectively. Related allowance for inventory obsolescence amounted to ₱116,185 and ₱197,474 as at December 31, 2014 and 2013, respectively. The carrying value of materials and supplies inventories amounted to ₱1,196,196 and ₱1,113,198 as at December 31, 2014 and 2013, respectively (see Note 8).

Additional provision for coal inventory write-down amounted to nil, ₱71,313 and ₱143,547 in 2014, 2013 and 2012, respectively. Reversal of coal inventory write-down amounted to ₱3,159 in 2014 and nil in 2013. Related allowance for decline in coal inventory amounted to ₱220,083 and ₱223,242 as at December 31, 2014 and 2013, respectively. The carrying amount of coal inventory amounted to nil as at December 31, 2014 and 2013 (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, 2014 and 2013, net book value of property, plant and equipment amounted to ₱7,138,912 and ₱6,880,096, respectively (see Note 10).

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

As at December 31, 2014 and 2013, the carrying value of the mine and mining properties of the Parent Company amounted to ₱3,079,946 and ₱3,112,869, respectively net of related accumulated depletion amounting to ₱7,804,555 and ₱6,760,477, 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 ₱31,522 and ₱20,818 as at December 31, 2014 and 2013, 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 and other noncurrent assets. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses amounting to ₱569,944, ₱179,962 and ₱827,172 were recognized in 2014, 2013 and 2012, respectively. As at December 31, 2014 and 2013, the carrying value of non-financial assets amounted to ₱34,223,326 and ₱30,509,008, respectively (see Notes 9, 10, and 12).

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

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

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.

Provisions for Losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each end of the reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. In 2014 and 2013, payments were made for a total of ₱219,495 and ₱1,060,528, respectively, through the Parent Company and PGPI. As at December 31, 2014 and 2013, FEP made payments to Basic Energy Corporation (BEC) amounting to nil and ₱41,050, respectively. Provisions in 2014 and 2013 amounted to ₱13,000 and ₱114,619, respectively. Total provision for losses amounted to ₱1,086,725 and ₱969,154 as at December 31, 2014 and 2013, respectively (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 retirement plan asset, which is recorded as part of "Deferred exploration costs and other noncurrent assets" amounted to ₱363,952 and ₱297,705 as at December 31, 2014 and 2013, respectively (see Note 18).

SMMCI's retirement liability amounted to ₱19,033 and ₱5,975 as at December 31, 2014 and 2013 are presented as part of noncurrent liabilities (see Note 18).

PPP's and FEPs retirement liability amounted to ₱24,552 and ₱15,623 as at December 31, 2014 and 2013 are presented as part of noncurrent liabilities (see Note 18).

4. Business Combinations

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

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

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

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
Assets		
Cash and cash equivalents	₱803,379	₱803,379
Receivables	40,916	40,916
Inventories	1,035	1,035
Deferred exploration oil and gas exploration costs	5,521,113	407,219
Property and equipment	2,801	2,801
Other noncurrent assets	6,842	6,842
	6,376,086	1,262,192
Liabilities		
Accounts payable and accrued liabilities	48,391	48,391
Deferred tax liability	1,534,168	–
	1,582,559	48,391
Total identifiable net assets	₱4,793,527	₱1,213,801
Total consideration	6,327,695	
Goodwill arising from acquisition	₱1,534,168	

The 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
	₱6,327,695

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
	₱629,953

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

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

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

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

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

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

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

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

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

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

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

Acquisition of BEMC and FEC in 2010
On September 24, 2010, pursuant to an internal reorganization whereby all of the energy assets of PMC are to be held by PPC, PMC transferred all of its investment in shares of stock in BEMC and FEC. This qualified as a business combination under common control. The investment in FEP was previously recognized as an investment in associate.

The business combinations under common control were accounted for using the pooling-of-interests method since PMC controls PPC, BEMC, FEC and FEP before and after the transactions. No restatement of financial information for periods prior to the transactions was made.

The share of the Parent Company in the carrying amounts of net identifiable assets and liabilities amounted to ₱1,056,752 while the costs of business combinations amounted to ₱1,016,164 which consist of cash purchase price for BEMC and FEC, and the carrying amount of equity interest in FEP held by the Parent Company before the date of acquisition. 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.

Total cash and cash equivalents acquired from the business combinations under common control amounted to ₱252,861.

5. **Segment Information**

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

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

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

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

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

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

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

	December 31, 2014				
	Metals	Energy and Hydro-carbon	Unallocated Corporate Balances	Eliminations	Total
Revenue	**₱9,732,523**	**₱311,414**	**₱4,303**	**₱–**	**₱10,048,240**
External customers	–	–	–	–	–
Inter-segment	–	–	–	–	–
Consolidated revenue	**₱9,732,523**	**₱311,414**	**₱4,303**	**₱–**	**₱10,048,240**
Results					
EBITDA	**₱3,498,322**	**(₱115,803)**	**(₱4,004)**	**(₱58,521)**	**₱3,319,994**
Interest income (expense) - 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**	**(315,307)**	**12**	**(4,986)**	**(237,647)**
Consolidated net income (loss)	**₱1,207,303**	**(₱436,737)**	**(₱4,214)**	**(₱63,507)**	**₱702,845**
Core net income (loss)	**₱1,233,573**	**(₱103,557)**	**(₱8,223)**	**₱–**	**₱1,121,793**

	December 31, 2014				
	Metals	**Energy and Hydro-carbon**	**Unallocated Corporate Balances**	**Eliminations**	**Total**
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**
Other Segment Information:					
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**

	December 31, 2013				
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱9,583,871	₱208,773	₱9,612	₱–	₱9,802,256
Inter-segment	–	–	–	–	–
Consolidated revenue	₱9,583,871	₱208,773	₱9,612	₱–	₱9,802,256
Results					
EBITDA	₱4,209,905	(₱294,016)	₱3,641	₱–	₱3,919,530
Interest income (expense) - net	(395,475)	5,054	121	–	(390,300)
Income tax benefit (expense)	(776,484)	14,837	(1,010)	–	(762,657)
Depreciation and depletion	(1,442,750)	(4,478)	(364)	–	(1,447,592)
Non-recurring items	(1,188,626)	181,945	95	–	(1,006,586)
Consolidated net income (loss)	₱406,570	(₱96,658)	₱2,483	₱–	₱312,395
Core net income (loss)	₱816,409	₱440,927	₱2,418	₱248,585	₱1,508,339
(Forward)					
Consolidated total assets	₱29,938,772	₱6,010,486	₱20,366	₱3,950,921	₱39,920,545
Consolidated total liabilities	₱10,866,323	₱1,243,781	₱4,380	₱1,888,807	₱14,003,291
Other Segment Information					
Capital expenditures and other non-current assets	₱5,540,200	₱547,801	₱48	₱–	₱6,088,049
Non-cash expenses other than depletion and depreciation	1,444,597	105,377	–	–	1,549,974

	December 31, 2012				
	Metals	Energy and Hydrocarbon	Unallocated Corporate Balances	Eliminations	Total
Revenue					
External customers	₱8,451,545	₱239,033	₱7,011	₱–	₱8,697,589
Inter-segment	–	–	–	–	–
Consolidated revenue	₱8,451,545	₱239,033	₱7,011	₱–	₱8,697,589

(Forward)

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

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
Core net income	**₱1,121,793**	₱1,508,339	₱1,689,281
Non-recurring gains (losses):			
Gain on sale of assets	**764,685**	97,747	–
Gain on reversal of impairment	**11,741**	–	–
Provision for impairment of AFS investments	**–**	(1,006,508)	–
Marked to market gain on derivative instruments	**–**	–	307,928
Clean- up costs	**–**	–	(21,657)
Proceeds from insurance claims	**–**	406,850	–
Provision for rehabilitation costs and others	**–**	(161,400)	(1,446,859)
Foreign exchange losses	**(56,505)**	(180,062)	(167,761)
Net tax effect of aforementioned adjustments	**(94,208)**	(19,615)	344,955
Net provision for impairment of asset	**(347,800)**	(303,419)	(497,154)
Reorganization costs	**(394,154)**	–	–
Net income attributable to equity holders of the Parent Company	**1,005,552**	341,932	208,733
Net income attributable to NCI (Note 25)	**(302,707)**	(29,537)	(519,572)
Consolidated net income (loss)	**₱702,845**	₱312,395	(₱310,839)

Core net income per share is computed as follows:

	2014	2013	2012
Core net income	**₱1,121,793**	₱1,508,339	₱1,689,281
Divided by weighted average number of common shares outstanding during year (Note 27)	**4,938,577,039**	4,933,657,951	4,932,216,253
Core net income per share	**₱0.227**	₱0.306	₱0.342

Sales of the Parent Company are made to Pan Pacific Copper Co., Ltd. (Pan Pacific), which is covered by a Long-term Gold and Copper Concentrates Sales Agreement (see Note 30), and to Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) for the remaining ore produce. Gross revenue from Pan Pacific and LD Metals for the year ended December 31, 2014, 2013 and 2012 are presented below:

	2014	2013	2012
LD Metals	**₱8,336,374**	₱5,961,458	₱4,428,747
Pan Pacific	**3,179,773**	2,606,474	4,047,513
	₱11,516,147	₱8,567,932	₱8,476,260

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2014	2013
Cash on hand	**₱3,305**	₱3,616
Cash with banks	**719,424**	703,854
Short-term deposits	**4,509,163**	3,373,042
	₱5,231,892	₱4,080,512

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 ₱16,952, ₱26,060 and in ₱58,201 in 2014, 2013 and 2012, respectively. The Group has US dollar (US$) accounts and short-term deposits in various banks amounting to US$67,776 and US$90,577 as at December 31, 2014 and 2013, respectively (see Note 22).

7. Accounts Receivable

Accounts receivable consist of:

	2014	2013
Trade	**₱893,943**	₱100,908
Accrued interest	**1,968**	3,591
Others	**162,566**	194,145
	1,058,477	298,644
Less allowance for impairment losses	**2,613**	3,193
	₱1,055,864	₱295,451

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. The Group has US dollar (US$) accounts receivable amounting to US$18,295 and nil as at December 31, 2014 and 2013, respectively (see Note 22).

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

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

	2014	2013
January 1		
Trade	**₱423**	₱689
Others	**2,770**	1,708
Provisions during the year		
Others	**–**	2,429
Reversals during the year		
Trade	**(423)**	(266)
Others	**(157)**	(1,367)
December 31	**₱2,613**	₱3,193

The impaired receivables were specifically identified as at December 31, 2014 and 2013.

8. Inventories

Inventories consist of:

	2014	2013
Mine products - at NRV	**₱643,474**	₱1,533,883
Coal - at NRV	**–**	–
Petroleum - at cost	**18,550**	21,193
Materials and supplies:		
On hand - at NRV	**1,165,764**	1,052,311
In transit - at cost	**30,432**	60,887
	₱1,858,220	₱2,668,274

As at December 31, 2014 and 2013, the cost of materials and supplies inventories on hand amounted to ₱1,281,949 and ₱1,249,785, respectively. As at December 31, 2014 and 2013, the Group's coal inventory at cost amounted to ₱220,083 and ₱223,242, respectively.

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

	2014	2013
January 1		
Coal	**₱223,242**	₱151,941
Materials and supplies	**197,474**	248,261
Provisions during the year		
Coal	**–**	71,313
Materials and supplies	**–**	46,059
Reversals during the year		
Coal	**(3,159)**	–
Materials and supplies	**(78,322)**	(62,682)
Write-off during the year		
Materials and supplies	**(2,967)**	(34,164)
Coal	**–**	(12)
December 31	**₱336,268**	₱420,716

Additional provision for coal inventories which is related to BEMC's closure in 2013 is included in the "Impairment loss on deferred exploration cost and others" account in the consolidated statements of income due to its non-recurring nature. In 2014, impairment losses amounting to ₱3,159 were reversed by the BEMC since it was able to sell these inventories at cost.

Materials and supplies recognized as expense amounted to ₱1,789,423, ₱1,656,530 and ₱1,148,044, for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 15).

9. Other Current Assets

Other current assets consist of:

	2014	2013
Input tax recoverable - net	**₱1,266,949**	₱1,201,726
Prepaid expenses and others	**109,792**	141,519
	₱1,376,741	₱1,343,245

Allowance for impairment loss on input tax recoverable amounted to ₱99,392 as at December 31, 2014 and 2013.

10. Property, Plant and Equipment

Property, plant and equipment consist of:

	December 31, 2014						
	Mine, Mining and Oil and Gas Properties	Land, Buildings and Improvements*	Machinery And Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost:							
January 1	**₱10,680,277**	**₱328,248**	**₱7,399,540**	**₱130,159**	**₱514,326**	**₱2,197,683**	**₱21,250,233**
Additions	**1,036,672**	**62,082**	**1,166,038**	**56,199**	**32,700**	**–**	**2,353,691**
Disposals	**–**	**–**	**(73,658)**	**–**	**–**	**(112,610)**	**(186,268)**
Reclassifications (see Note 32)	**(10,911)**	**23,162**	**(88,537)**	**–**	**(44,839)**	**–**	**(121,125)**
Other Adjustments	**(3,583)**	**–**	**(3,772)**	**–**	**–**	**–**	**(7,355)**
Effect of CTA	**4,093**	**–**	**3,996**	**–**	**–**	**–**	**8,089**
December 31	**11,706,548**	**413,492**	**8,403,607**	**186,358**	**502,187**	**2,085,073**	**23,297,265**
Accumulated Depletion and Depreciation:							
January 1	**7,227,623**	**229,711**	**4,585,052**	**130,068**	**–**	**2,197,683**	**14,370,137**
Depletion and depreciation for the year (Notes 17 and 32)	**1,086,277**	**24,344**	**894,549**	**3,295**	**–**	**–**	**2,008,465**

(Forward)

	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
Disposals	–	–	**(71,464)**	–	–	**(112,610)**	**(184,074)**
Reclassifications	–	–	**(39,918)**	–	–	–	**(39,918)**
Other Adjust-ments	–	–	**(725)**	–	–	–	**(725)**
Effect of CTA	**2,134**	–	**2,334**	–	–	–	**4,468**
December 31	**8,316,034**	**254,055**	**5,369,828**	**133,363**	–	**2,085,073**	**16,158,353**
Net Book Values	**₱3,390,514**	**₱159,437**	**₱3,033,779**	**₱52,995**	**₱502,187**	**₱–**	**₱7,138,912**

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

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

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

Mine and mining properties as at December 31, 2014 and 2013 include mine development costs of the 908 Meter Level, 782 Meter Level and 798 Meter Level project amounting to ₱2,526,172 and ₱2,130,265, respectively. In 2011, the estimated mine life of the Parent Company's Padcal Mine was extended until 2020, or an additional three years from the original estimated mine life of until 2017. Correspondingly, the extension in mine life was considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱317,909, ₱67,967 and ₱166,984 in 2014, 2013 and 2012, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to nil as at December 31, 2014 and 2013. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2021 up to 2030, discounted using the Parent Company's historical average borrowing rate of 10% per annum. The provision for mine rehabilitation costs amounted to ₱31,522 and ₱20,818 as at December 31, 2014 and 2013, respectively.

Included in the mine and mining properties is the present value of the BEMC's mine rehabilitation costs amounting to nil as at December 31, 2014 and 2013. Discount rate of 14% was used to compute the present value of mine rehabilitation costs as at December 31, 2010. Accretion of interest totaled nil and ₱120 in 2014 and 2013, respectively. Accordingly, the provision for mine rehabilitation costs of BEMC amounted to ₱953 as at December 31, 2014 and 2013.

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.

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

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

	2014	2013
Investments in quoted shares of stock of:		
Lepanto Consolidated Mining Company (Lepanto)	**₱479,509**	₱672,608
Indophil Resources NL (Indophil)	**316,066**	190,375
Philippine Realty & Holdings Corporation (PRHC)	**33,400**	29,956
Other quoted equity investments	**5,012**	9,747
	833,987	902,686
Investments in unquoted shares of stock of:		
Pacific Global One Aviation	**37,500**	37,500
Philippine Associated Smelting and Refining Corporation	**14,055**	14,055
Other unquoted equity investments	**21,139**	21,139
	72,694	72,694
	₱906,681	₱975,380

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

As at December 31, 2014 and 2013, the cumulative change in value of AFS financial assets amounted to a decrease of ₱64,010 and increase of ₱4,689, 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.

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

The following table shows the movement of the "Net unrealized gain (loss) on AFS financial assets" account:

	2014	2013
January 1	**₱4,689**	₱587,836
Decrease in fair value of AFS financial assets	**(68,699)**	(1,620,140)
Loss transferred in consolidated statements of income due to impairment	–	1,006,508
Loss transferred in consolidated statements of income (Note 25)	–	30,485
December 31	**(₱64,010)**	₱4,689

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

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

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

Subscriptions Payable
Subscriptions payable which is included as part of "Provisions and subscription payable" in the consolidated statements of financial position is related to the investments in shares of stock of PRHC and Philodrill amounting to ₱21,995 in 2014 and 2013.

12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

	2014	2013
Deferred mine exploration costs	**₱22,054,748**	₱18,359,454
Less allowance for impairment losses	**1,519,542**	1,288,123
	20,535,206	17,071,331
Deferred oil exploration costs	**5,705,778**	5,421,457
Less allowance for impairment losses	**874,415**	442,974
	4,831,363	4,978,483
Other noncurrent assets	**450,896**	377,372
	₱25,817,465	₱22,427,186

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

	2014	2013
January 1		
Deferred mine exploration cost	**₱1,288,123**	₱1,048,811
Deferred oil exploration cost	**442,974**	442,974
Others	**–**	47,435
Provisions during the year		
Deferred mine exploration cost	**231,419**	242,686
Deferred oil exploration cost	**338,525**	–
Write-off during the year		
Deferred mine exploration cost	**–**	(3,374)
Cumulative translation adjustment		
Deferred oil exploration cost	**92,916**	–
Reversals during the year		
Others	**–**	(47,435)
December 31	**₱2,393,957**	₱1,731,097

Deferred Mine and Oil Exploration Costs

a. Deferred mine and oil exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas that can be produced in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable. Allowances recognized for the year are included under "Impairment loss on deferred exploration costs and others" and "Others - net" in the consolidated statements of income amounted to ₱569,926 and ₱18, respectively.

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

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

(Forward)

	Participating Interest		
Service Contract	Pitkin	PPC	FEP
Peru Block XXVIII	100.00%	–	–
Peru Block Z-38	25.00%	–	–

[1] *Pitkin is awaiting the approval of DOE on the reassignment of its participating interest back to the farm-out partners which includes PPC and FEPCO, a subsidiary of FEP.*
[2] *Pitkin is seeking the approval of DOE of its Purchase and Sale Agreement with RMA (HK) Limited transferring its participating interests to the latter.*

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

In 2014, Pitkin elected not to enter Phase 2 of a farm-in agreement to earn a 70% participating interest in SC 6A which is located offshore NW Palawan. Pitkin will be reassigning its participating interest back to the farm-out partners upon completion of the Phase 1 work program on December 31, 2014. The reassignment of Pitkin's participating interest will be subject to the approval of the Department of Energy. As a result of the decision to exit SC 6A, Pitkin recorded an impairment loss of ₱338,525.

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

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

On December 21, 2012, FEP and Galoc Production Company (GPC) entered into a loan facility with BNP Paribas to provide a total of US$40 million project financing for the Galoc Field's Phase 2 development. In 2014, the total amount drawn from the loan facility was fully paid with BNP Paribas.

SC 14 Block C-2 (West Linapacan)
West Linapacan is located in 300 to 350 metres of water, approximately 60 kilometres offshore from Palawan Island in SC 14 Block C2 in the Northwest Palawan Basin, Philippines. It comprises of two main oil bearing structures - West Linapacan A and B - and several seismic leads. The SC was entered into on December 17, 1975 between the Petroleum Board and the original second parties to the contract. PPP had a 58.30% interest in this SC pursuant to a Farm-In Agreement approved by the DOE on September 11, 2008. However, on February 7, 2011, PPP concluded a farm-out agreement whereby it transferred 29.15% participating interest to RMA (HK) Limited in exchange for being carried through the drilling and testing of the West Linapacan A appraisal/development well. The farm-out agreement was approved by the DOE on July 4, 2011. The viability of redeveloping the West Linapacan oil field is currently being evaluated as at December 31, 2014.

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

deferred exploration costs and others' in the consolidated statement of income in 2012. The carrying value as at December 31, 2014 reflects the potential of a number of smaller onshore locations within SC 40.

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

During 2014, Pitkin has been able to obtain most of the necessary local government permits as preparation for the drilling activities in the SC. However, activities may not proceed until the final resolution of the complaint filed by the indigenous people of Mindoro against the operations in the area. The DOE has granted the Company, through a letter of confirmation that the delay in the operations shall not in any way affect the term of the 10 year exploration period.

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

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

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

In 2014, the Department of Energy granted Forum (GSEC 101) Limited's request to extend the completion date of the second Exploration Sub-Phase of Service Contract 72 ("SC 72") by one year to August 15, 2016. The Sub-Phase 2 exploration work program of SC 72 which is located offshore West Palawan, comprises the drilling of two wells.

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

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

Peru Block XXVIII
Block XXVIII was awarded to PPP in October 2010. It covers an area of 3,143 square kilometres located in the eastern portion of the productive Sechura Basin. As at December 31, 2014, the project is in its 2nd phase of exploration which involves several geological and geophysical studies such as gradiometry and magnetometry.

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

In 2014, the Peruvian oil and gas regulator, Perupetro S.A., approved the application to place Peru Block Z-38 into force majeure. The application for force majeure was requested on the basis of the Operator, Karoon Gas, being unable to secure a suitable drilling unit within the required timeframe on the Pacific side of the Americas. The force majeure was granted effective September 1, 2013. As a result, the term of the current third exploration period will have approximately 22 months remaining once the force majeure is lifted.

Other Noncurrent Assets
This account primarily includes the following:

a. Materials and supplies that are being used in operations over a period of more than one year.

b. 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, 2014 and 2013, the Parent Company's MRF amounted to ₱5,474 and ₱5,988, while PGPI's MRF amounted to ₱6,768 and ₱6,730, respectively.

c. The Parent Company's net retirement plan asset amounted to ₱363,952 and ₱297,705 as at December 31, 2014 and 2013, respectively (see Note 18).

13. Loans and Bonds Payable

	2014	2013
Current Loans		
Bank loans		
Philippine National Bank (PNB)	**₱1,788,800**	₱887,900
Banco de Oro (BDO)	**1,341,600**	987,900
Bank of the Philippine Islands (BPI)	**827,320**	693,950
Land Bank of the Philippines (LBP)	**350,000**	–
BNP Paribas - current portion	**–**	55,019
Related parties		
Asia Link B.V.	**–**	2,219,750
Kirtman Limited	**–**	665,925
Maxella Limited	**–**	665,925
Total current loans	**4,307,720**	6,176,369
Noncurrent Loans		
BNP Paribas - net of current portion	**–**	55,014
Bonds payable	**5,947,366**	–
	₱10,255,086	₱6,231,383

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

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

Both loans are to be settled in cash and contain a pre-termination clause which allows the Parent Company to pay all outstanding drawdown before maturity date.

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

On April 4, 2014, the Parent Company has requested Kirtman Limited to extend the repayment date of the US$25,000 term loan facility, dated March 12, 2013, to March 10, 2015.

On December 18, 2014, the Parent Company fully paid the US$15,000 initial drawdown on the US$25,000 loan agreement with Kirtman Limited.

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

On April 4, 2014 the Parent Company has requested Maxella Limited to extend the repayment date of the US$25,000 term loan facility, dated March 12, 2013, to March 10, 2015.

On December 18, 2014, the Parent Company fully paid the US$15,000 initial drawdown on the US$25,000 loan agreement with Maxella Limited.

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

On April 4, 2014 the Parent Company has requested Asia Link B.V. to extend the repayment date of the US$50,000 initial drawdown, dated March 12, 2013, to March 10, 2015.

On December 18, 2014, the Parent Company fully paid the US$50,000 initial drawdown on the US$100,000 loan agreement with Asia Link B.V.

Interest expense on the Term Loan Facility Agreements with Kirtman Limited, Maxella Limited and Asia Link B.V amounted to ₱207,074 and ₱374,765 for 2014 and 2013, respectively.

BDO Loans
On April 25, 2013, PMC 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 loan carries 2.5% interest per annum and will mature on February 4, 2014. The loan was also renewed upon maturity for an additional 90 days until May 5, 2014 under the same terms and was subsequently renewed several times with last renewal maturing January 28, 2015 under the same terms.

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 for another 81 days until December 19, 2014 under the same terms and was again renewed for another 90 days to mature on March 19, 2015.

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

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

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

On May 12, 2014, 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 June 1, 2014. This was subsequently renewed several times with last renewal to mature on January 1, 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.

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 and last renewal to mature on January 26, 2015.

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

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

On November 6, 2013, the Parent Company obtained unsecured short-term loans from PNB amounting to US$20,000. The loan carries 2.5% interest per annum and will mature on February 4, 2014. The loan was renewed 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 January 28, 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. The loan was subsequently renewed several times with last renewal on January 12, 2015.

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 will mature on September 3, 2014. The loan was renewed for 28 days up to October 1 and was again renewed for another 89 days to mature on December 29, 2014 under the same terms. Latest renewal for another 90 days will mature on March 27, 2015.

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.

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.

Interest expense on the bank loans amounted to ₱90,757, ₱37,676 and ₱14,361 for 2014, 2013 and 2012, respectively.

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. A Proceeds Account was set-up between the parties to which all drawdowns and petroleum sales proceeds shall be deposited and from which all disbursements for the purposes in which the loan was entered into, and all repayments of the loan principal, interests, and other incidental costs shall come from.

Interest on the loan is set at 6% plus London Interbank Offered Rate (LIBOR) rate per annum as at December 31, 2013. It shall decrease to 5.5% plus LIBOR rate per annum once all stipulations in the loan facility agreement have been met. Interest expense capitalized as part of property and equipment relating to the loan amounted to nil and ₱1,095 as at December 31, 2014 and 2013, respectively. Interest expense recognized in profit or loss in 2014 amounted to ₱3,146. Facility fees and finance charges amounted to ₱466 and ₱1,402 for the year ended December 31, 2014, and ₱7,100 and ₱7,890 as at December 31, 2013. The facility fees and finance charges are also recorded under 'Interest expense' in the consolidated statements of comprehensive income.

The loan is secured by 500,000,006 shares of FEP representing 100% capital stock of the company. On June 30, 2014, the loan was fully-settled in cash and all accessory contracts were terminated simultaneously.

The Company's bank loans are expected to be settled in cash and are payable in lump sum.

Bonds Payable

On December 18, 2014, SMECI and 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 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. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds, a 3% p.a. redemption premium based on the face value of the bonds and unpaid accrued interest (if there be any) at the relevant payment date.

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. Interest expense pertaining to the convertible bonds amounting to ₱14,731 was capitalized as deferred exploration costs.

14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2014	2013
Trade	**₱776,581**	₱1,331,320
Accrued expenses	**678,546**	675,338
Accrued royalties and excise taxes	**104,360**	129,233
Withholding taxes	**53,875**	99,975
Refundable retention fee	–	13,270
Other nontrade liabilities	**182,393**	72,165
	₱1,795,755	₱2,321,301

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

15. Costs and Expenses

Costs and expenses include the following:

	2014	2013	2012
Mining and milling costs:			
Materials and supplies	**₱1,785,909**	₱1,580,141	₱978,683
Communications, light and water	**1,709,707**	1,291,863	907,070
Depletion and depreciation (Notes 10 and 17)	**1,665,523**	1,339,139	552,783
Personnel (Note 16)	**1,076,790**	862,676	665,939
Contracted services	**240,024**	232,155	286,561
Others	**241,975**	151,907	82,147
	₱6,719,928	₱5,457,881	₱3,473,183
General and administrative expenses:			
Personnel (Note 16)	**₱507,299**	₱550,866	₱437,122
Contracted services	**152,189**	236,400	201,143
Taxes and licenses	**73,951**	60,592	66,735
Travel and transportation	**13,408**	48,101	59,246
Repairs and maintenance	**12,189**	27,999	20,956
Depreciation (Notes 10 and 17)	**25,033**	22,562	26,330
Communications, light and water	**15,762**	18,738	17,165
Donations	**3,934**	6,875	29,450
Business meetings	**1,880**	4,279	6,519
Office supplies	**2,907**	3,821	5,209
Exploration supplies	**607**	1,908	8,947
Others	**133,842**	328,918	269,469
	₱943,001	₱1,311,059	₱1,148,291
Excise taxes and royalties:			
Royalties	**₱311,248**	₱343,548	₱295,590
Excise taxes	**195,940**	192,974	159,268
	₱507,188	₱536,522	₱454,858

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

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

	2014	2013	2012
Padcal maintenance costs:			
Personnel (Notes 16 and 18)	**₱–**	₱126,313	₱187,919
Depreciation (Notes 10 and 17)	**–**	85,891	199,882
Materials and supplies	**–**	70,660	155,205
Communications, light and water	**–**	67,213	151,362
Contracted services	**–**	60,580	117,755
Others	**–**	28,933	99,984
	₱–	₱439,590	₱912,107

16. **Personnel Cost**

Details of personnel costs are as follows:

	2014	2013	2012
Mining and milling costs (Note 15):			
Salaries and wages	**₱733,826**	₱576,940	₱404,962
Employee benefits	**402,622**	228,047	210,760
Retirement costs (gain) (Note 18)	**(59,658)**	57,689	50,217
	1,076,790	862,676	665,939
General and administrative expenses (Note 15):			
Salaries and wages	**317,898**	323,714	246,679
Employee benefits	**191,386**	211,304	179,677
Retirement costs (gain) (Note 18)	**(1,985)**	15,848	10,766
	507,299	550,866	437,122
Padcal maintenance costs (Note 15):			
Salaries and wages	**–**	73,398	114,275
Employee benefits	**–**	36,637	59,474
Retirement costs (Note 18)	**–**	16,278	14,170
	–	126,313	187,919
	₱1,584,089	₱1,539,855	₱1,290,980

As of December 31, 2014, retirement costs amounted to ₱2,939 and ₱4,788 for PPP and FEP, respectively. The Parent company recognized a net retirement gain amounting to ₱69,370 in 2014 (see Note 18).

17. **Depletion and Depreciation**

Details of depletion and depreciation expense are as follows:

	2014	2013	2012
Mining and milling costs	**₱1,665,523**	₱1,339,139	₱552,783
General and administrative	**25,033**	22,562	26,330
Padcal maintenance costs	**–**	85,891	199,882
	₱1,690,556	₱1,447,592	₱778,995

18. **Retirement Benefits**

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

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 Bank of Commerce (BC) 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:

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)	(₱387,453)	(₱78,155)	₱–	₱130,802	(₱5,942)	₱124,860	₱–	₱798,089
Fair value of plan assets	(1,436,542)	–	(45,508)	363,591	318,083	78,155	(89,737)	–	–	(89,737)	(32,000)	(1,162,041)
	(₱297,705)				(₱69,370)	₱–	(₱89,737)	₱130,802	(₱5,942)	₱35,123	(₱32,000)	(₱363,952)

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

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

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:

	2014	2013
Assets		
Cash and cash equivalents	**₱218,917**	₱154,040
Receivables	**8,209**	12,639
Investment in debt securities	**555,279**	144,423
Investment in equity securities	**380,264**	1,112,738
Other investments	**447**	13,551
	1,163,116	1,437,391
Liabilities		
Accrued trust fees payables	**1,075**	848
	₱1,162,041	₱1,436,543

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:

	2014	2013
Discount rate	**3.34%**	3.20%
Salary increase rate	**5.00%**	5.00%

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%	(₱40,823)
	(1.00%)	43,600
Salary increase rate	1.00%	₱35,383
	(1.00%)	(34,100)

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

	Expected benefit payments
Less than one year	₱35,637
More than one year to five years	120,315
More than five years to ten years	1,290,457

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

The Parent Company's actuarial funding requirement in 2014 and 2015 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, 2014.

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:

	2014	2013
Discount rates	**4.60%**	5.84%
Future salary increases	**10.00%**	10.00%
Turnover rate	**2.08%**	3.12%

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

	2014	2013
January 1	**₱5,975**	₱993
Current service cost	**8,909**	1,295
Interest cost	**486**	46
Subtotal	**9,395**	1,341
Remeasurements in other comprehensive income:		
Experience adjustments	**(2,175)**	2,950
Actuarial changes from changes in financial assumptions	**5,838**	691
Subtotal	**3,663**	3,641
December 31	**₱19,033**	₱5,975

The net retirement liability as at the end of the reporting period amounted to ₱19,033 and ₱5,975 as at December 31, 2014 and 2013, respectively.

Retirement expense amounting to ₱9,395 and ₱1,341 in 2014 and 2013, respectively were capitalized as part of the deferred mine exploration costs.

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:

	2014	
	Increase (decrease)	Present Value of Obligation
Discount rates	1.00%	(₱2,884)
	(1.00%)	3,646
Future salary increases	1.00%	3,293
	(1.00%)	(2,693)
Turnover rate	2.00%	(2,389)
	(2.00%)	3,289

The average duration of the defined benefit obligation at the end of the reporting period is 25.42 and 20.4 years in 2014 and 2013, respectively.

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

	2014	2013
Less than 1 year	**₱123**	₱119
More than 1 year to 5 years	**10,147**	11,351
More than 5 years to 10 years	**17,674**	21,899
More than 10 years to 15 years	**21,280**	22,287
More than 15 years to 20 years	**72,867**	76,590
More than 20 years	**500,595**	449,226

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:

	2014	2013
Discount rates	**3.50 - 5.77%**	3.25 - 4.86%
Future salary increases	**5.00%**	5.00%

Present value of defined benefit obligation:

	2014	2013
Net benefit cost in consolidated statements of comprehensive income		
January 1	**₱15,623**	₱11,373
Current service cost	**5,132**	2,023
Interest cost	**2,595**	540
Subtotal	**23,350**	13,936
Re-measurements in OCI		
Experience adjustments	**2,267**	494
Actuarial changes from changes in financial assumptions	**(1,065)**	1,193
Subtotal	**1,202**	1,687
Ending balance	**₱24,552**	₱15,623

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

		Present Value of Obligation	
	Increase (decrease)	**2014**	2013
Discount rates	1.00%	**₱23,638**	₱19,464
	(1.00%)	**26,326**	22,903
Future salary increases	1.00%	**26,271**	22,807
	(1.00%)	**23,668**	19,508
Turnover rate	1.00%	**23,570**	20,167
	(1.00%)	**25,602**	22,026

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

	2014	2013
Less than 1 year	**₱–**	₱–
More than 1 year to 5 years	**27,050**	18,856
More than 5 years to 10 years	**16,527**	21,739

The retirement benefits liability amounting to ₱24,552 and ₱15,623 as at December 31, 2014 and 2013, respectively, are recorded under 'Pension obligation' in the consolidated statements of financial position.

19. Financial Instruments

Fair Values of Financial Instruments

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

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

20. Financial Risk Management Objectives and Policies and Hedging Activities

Financial Risk Management Objectives and Policies

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

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

Financial Risks

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

Credit and Concentration Risks

Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual mineral products sales are committed to Pan Pacific with whom the Parent Company has a long-term sales agreement. This agreement is effective until the end of the Padcal Mine life currently declared at year 2020. The balance of the Parent Company's annual mineral products sales is with LD Metals which is covered by a long-term sales agreement up to January 31, 2013 and several short-term agreements for 25,000 DMT representing the 40% excess production from June 2013 to May 2014 (see Note 5).

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, 2014, and 2013:

	2014	2013
Cash and cash equivalents:		
Cash with banks	**₱719,424**	₱703,854
Short-term deposits	**4,509,163**	3,373,042
Accounts receivable:		
Trade	**893,943**	100,485
Accrued interest	**1,968**	3,591
Others	**159,953**	191,375
Gross maximum credit risk exposure	**₱6,284,451**	₱4,372,347

The following tables show the credit quality of the Group's financial assets by class as at December 31, 2014 and 2013 based on the Group's credit evaluation process:

	December 31, 2014			
	Neither Past Due nor Impaired		**Past Due and Individually**	
	High-Grade	**Standard**	**Impaired**	**Total**
Cash and cash equivalents:				
Cash with banks	**₱719,424**	**₱–**	**₱–**	**₱719,424**
Short-term deposits	**4,509,163**	**–**	**–**	**4,509,163**
Accounts receivable:				
Trade	**893,943**	**–**	**–**	**893,943**
Accrued interest	**1,968**	**–**	**–**	**1,968**
Others	**159,953**	**–**	**2,613**	**162,566**
Total	**₱6,284,451**	**₱–**	**₱2,613**	**₱6,287,064**

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

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

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

The Group has no past due but not impaired financial assets as at December 31, 2014 and 2013.

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, 2014 and 2013, respectively:

		December 31, 2014		
	On Demand	**Within 1 Year**	**More than 1 Year**	**Total**
Loans and receivables:				
Cash and cash equivalents	**₱5,231,892**	**₱–**	**₱–**	**₱5,231,892**
Accounts receivable:				
Trade	**–**	**893,943**	**–**	**893,943**
Others	**–**	**159,953**	**–**	**159,953**
AFS financial assets:				
Quoted equity investments	**833,987**	**–**	**–**	**833,987**
Unquoted equity investments	**72,694**	**–**	**–**	**72,694**
Total undiscounted financial assets	**₱6,138,573**	**₱1,053,896**	**₱–**	**₱7,192,469**

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

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, and trade receivables. For the years ended December 31, 2014, 2013 and 2012, the Group recognized net foreign exchange losses of ₱56,374, ₱173,972 and ₱ 164,716, 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, 2014	
US$ Appreciate (Depreciate)	**Effect on Income before Income Tax**
4%	**(₱5,728)**
(4%)	**5,728**

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

There were no outstanding dollar derivatives as of December 31, 2014 and 2013.

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

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

The following table illustrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's 2014, 2013 and 2012 income before income tax. The change in market interest rates is based on the annualized volatility of the 6-month benchmark rate:

Year Ended December 31, 2014	
Change in Market Rate of Interest	**Effect on Income before Income Tax**
Decrease by 1.0%	**₱102,551**
Decrease by 0.5%	**51,275**
Increase by 1.0%	**(₱102,551)**
Increase by 0.5%	**(51,275)**

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

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

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

Equity Price Risk
Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company and PPC, which are classified in the consolidated statements of financial position as AFS financial assets (see Note 11). As of December 31, 2014 and 2013, investments in quoted shares totaling ₱833,987 and ₱ 902,686 represent 1.87% and 2.26% of the total assets of the Group, respectively. Reasonable possible changes were based on an evaluation of data statistics using 1-year historical stock price data.

The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as AFS financial assets as at December 31, 2014 and 2013 that could be brought by changes in equity indices with all other variables held constant are as follows:

December 31, 2014

Currency	**Change in Quoted Prices of Investments Carried at Fair Value**	**Effect on Equity**
Australian dollar (AU$)	**Increase by 48%**	**(AU$4,141)**
	Decrease by 95%	**(8,195)**
Peso	**Increase by 21%**	**₱100,696**
	Increase by 41%	**196,597**
	Decrease by 21%	**(100,696)**
	Decrease by 41%	**(196,597)**

December 31, 2013

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

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, 2014. The change in metal prices is based on 1-year historical price movements.

December 31, 2014

Change in Metal Prices	Effect on Income before Income Tax
Gold:	
Increase by 12%	₱43,903
Decrease by 12%	(43,903)
Copper:	
Increase by 13%	35,553
Decrease by 13%	(35,553)

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

As at December 31, 2014, 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.

December 31, 2014	
Change in Metal Prices	**Effect on Equity**
Gold:	
Increase by 12%	**₱30,732**
Decrease by 12%	**(30,732)**

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

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

Gold Derivatives
During 2014, the Parent Company has entered into gold collar contracts to hedge the Parent Company's position to possibly decreasing gold prices. These contracts have a total notional amount of 1,500 ounces and were designated as cash flow hedges.

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

Embedded Derivatives
As at December 31, 2014, 2013 and 2012, the Parent Company had embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Note 30). Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated statements of financial position. The Parent Company determines mark-to-market prices using the forward price for quotational periods after 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 loss of nil as at December 31, 2014 and ₱65,037 as at December 31, 2013, respectively, which were included under revenue and adjusted against receivables.

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

The details of the net changes in the fair values of all derivative instruments as at December 31, 2014 and 2013 are as follows:

	2014	2013
January 1	**₱–**	₱–
Premiums paid	**–**	–
Net changes in fair values of derivatives:		
Designated as accounting hedges	**7,766**	–
Not designated as accounting hedges	**–**	–
	7,766	–
Fair value of settled instruments	**–**	–
December 31	**₱7,766**	₱–

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

Hedge Effectiveness of Cash Flow Hedges
Below is a rollforward of the Parent Company's cumulative translation adjustments (CTA) on cash flow hedges for the years ended December 31, 2014 and 2013:

	2014	2013
January 1	**₱–**	₱–
Changes in fair value of cash flow hedges	**7,766**	–
Transferred to consolidated statements of income	–	–
Tax effects of items taken directly to or transferred from equity	–	–
December 31	**₱7,766**	₱–

21. Capital Management

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

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

	2014	2013
Capital stock	**₱4,940,399**	₱4,936,996
Additional paid-in capital	**1,117,627**	1,058,497
Retained earnings:		
Unappropriated	**4,712,032**	4,128,826
Appropriated	**10,000,000**	10,000,000
	₱20,770,058	₱20,124,319

22. Foreign Currency-Denominated Monetary Assets and Liabilities

The Group's foreign currency-denominated monetary assets and liabilities as at December 31, 2014 and 2013 follow:

	2014		2013	
	US$	**Peso Equivalent**	US$	Peso Equivalent
Assets				
Cash and cash equivalents	**$67,776**	**₱3,030,943**	$90,577	₱4,021,166
Trade receivables	**18,295**	**818,152**	–	–
	86,071	**3,849,095**	90,577	4,021,166
Liabilities				
Accounts payable	**773**	**34,569**	11,251	499,488
Bank loan	**88,500**	**3,957,720**	52,477	2,329,716
Related party loans	**–**	**–**	80,000	3,551,600
	89,273	**3,992,289**	143,728	6,380,804
Net Assets (Liabilities)	**($3,202)**	**($143,194)**	($53,151)	(₱2,359,638)

The exchange rates of the Peso to US dollar were ₱44.72 to US$1 as at December 31, 2014 and ₱44.40 to US$1 as at December 31, 2013.

23. 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 significant related party transactions, which are under terms that are no less favorable than those arranged with third parties, are as follows:

	Year	Amount/ Volume	Outstanding Balance	Terms	Conditions
Loans from:					
Kirtman Limited	**2014**	**US$–**	**US$–**	Payable in 364 days	Unsecured,
(Dollar)	2013	US$15,000	US$15,000	at interest rate of 5%	no impairment
Maxella Limited	**2014**	**US$–**	**US$–**	Payable in 364 days	Unsecured,
	2013	US$15,000	US$15,000	at interest rate of 5%	no impairment
Asia Link B.V.	**2014**	**US$–**	**US$–**	Payable in 364 days	Unsecured,
	2013	US$50,000	US$50,000	at interest rate of 5%	no impairment

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

<u>Compensations of Key Management Personnel</u>
Compensations of the members of key management personnel follow:

	2014	2013	2012
Short-term employee benefits	**₱112,498**	₱100,521	₱151,299
Pension costs	**5,094**	7,719	4,316
Share-based payments	**–**	–	–
	₱117,592	₱108,240	₱155,615

24. Income Taxes

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

	2014	2013
Deferred income tax assets on:		
Provision for losses and others	**₱270,984**	₱182,848
Unrealized foreign exchange losses – net	**65,432**	145,758

(Forward)

	2014	2013
Unamortized past service costs	**₱51,981**	₱68,175
Accumulated accretion of interest on provision for mine rehabilitation costs	**6,456**	5,959
Pension obligation	**5,917**	1,793
Allowances for:		
Unrecoverable deferred mine and oil exploration costs	**24,159**	24,159
Disallowable claims receivable	**24,095**	24,095
Materials and supplies obsolescence	**–**	23,497
Total deferred income tax assets	**₱449,024**	₱476,284
Deferred income tax liabilities on:		
Difference in fair value and carrying value of the net assets of subsidiary acquired	**(₱2,645,504)**	(₱2,645,504)
Accelerated depreciation	**(1,346,332)**	(1,346,174)
Mine inventory at year-end	**(57,515)**	(195,662)
Gain on dilution on interest	**(126,615)**	(126,615)
Net retirement plan assets	**(111,214)**	(89,311)
Unrealized foreign exchange gain	**(12,761)**	(8,141)
Total deferred income tax liabilities	**(4,299,941)**	(4,411,407)
Net deferred income tax liabilities	**(₱3,850,917)**	(₱3,935,123)

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:

	2014	2013	2012
Provision for income tax computed at the statutory income tax rates	**₱316,285**	₱322,516	₱71,025
Additions to (reductions in) income tax resulting from:			
Unrecognized DTA, NOLCO and excess MCIT	**287,310**	406,144	161,647
Nondeductible expenses and non-taxable income - net	**(254,813)**	35,906	309,992
Stock-based compensation expense	**7,742**	25,240	6,384
Dividend income	**–**	–	(1,777)
Interest income already subjected to final tax	**(5,087)**	(7,818)	(17,460)
Effect of difference in tax rates and others - net	**–**	(19,331)	17,778
Provision for income tax	**₱351,437**	₱762,657	₱547,589

c. As at December 31, 2014 and 2013, no deferred income tax assets were recognized on deductible temporary differences amounting to about ₱2,472,080 and ₱2,175,544, respectively.

d. As at December 31, 2014, significant respective NOLCO and MCIT of the Parent Company's subsidiaries for which no deferred income taxes were recognized are as follows:

PPC and subsidiaries:
As at December 31, 2014, the PPC and subsidiaries' NOLCO that can be claimed as deduction from future taxable income and excess MCIT that can be deducted against income tax due are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2012	2015	₱76,440	₱292
2013	2016	109,821	1,022
2014	2017	516,164	1,428
		₱702,425	₱2,742

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

	NOLCO		Excess MCIT	
	2014	2013	**2014**	2013
Beginning balance	**₱291,483**	₱264,422	**₱1,316**	₱533
Additions	**516,164**	109,821	**1,428**	1,022
Applications	**(36,474)**	(14,781)	**–**	–
Expirations	**(68,748)**	(67,979)	**(2)**	(239)
Ending balance	**₱702,425**	₱291,483	**₱2,742**	₱1,316

SMMCI
As at December 31, 2014, SMMCI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year	Available	NOLCO		Excess
Incurred	Until	Amount	Tax Effect	MCIT
2012	2015	₱33,388	₱10,016	₱3
2013	2016	24,187	7,256	–
2014	2017	11,183	3,355	71
		₱68,758	₱20,627	₱74

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

	NOLCO		Excess MCIT	
	2014	2013	**2014**	2013
At January 1	**₱77,243**	₱53,927	**₱3**	₱3
Additions	**11,183**	24,187	**71**	–
Expirations	**(19,668)**	(871)	–	–
At December 31	**₱68,758**	₱77,243	**₱74**	₱3

PGPI
As at December 31, 2014, 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
2012	2015	₱35,339	24
2013	2016	92,882	22
2014	2017	32,604	–
		₱160,825	₱46

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

	NOLCO		Excess MCIT	
	2014	2013	**2014**	2013
Beginning balance	**₱164,715**	₱153,470	**₱52**	₱30
Additions	**32,604**	92,882	**–**	22
Expirations	**(36,494)**	(81,637)	**(6)**	–
Ending balance	**₱160,825**	₱164,715	**₱46**	₱52

25. **Equity**

Capital Stock

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

	Number of Shares	
	2014	2013
Authorized common stock - ₱1 par value	**8,000,000,000**	8,000,000,000
Issued, outstanding and fully paid:		
January 1	**4,936,996,068**	4,933,026,818
Issuance during the year	**3,403,000**	3,969,250
December 31	**4,940,399,068**	4,936,996,068

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

(Forward)

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
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
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**
		8,000,000,000	**4,940,399,068**

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

As at December 31, 2014 and 2013, the Parent Company's total stockholders is 44,386 and 44,533, respectively.

Retained Earnings

Retained earnings consist of the following:

	2014	2013
Retained earnings:		
Unappropriated	**₱4,610,889**	₱4,000,400
Cumulative actuarial gains	**101,143**	128,426
Total Unappropriated	**4,712,032**	4,128,826
Appropriated	**10,000,000**	10,000,000
Ending balance	**₱14,712,032**	₱14,128,826

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

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

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

On February 26, 2014, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.05 per share 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.

The Parent Company's retained earnings available for dividend distribution amounted to ₱4,235,911 and ₱2,758,063 as at December 31, 2014 and 2013, respectively.

NCI

NCI consist of the following:

	Percentage of Ownership		Amount	
	2014	2013	**2014**	2013
NCI on net assets of:				
PPC	**35.2%**	35.2%	**₱617,807**	₱609,915
BEMC	**35.2%**	35.2%	**(251,157)**	(256,318)
FEC	**66.8%**	66.8%	**98,765**	114,407
FEP and its subsidiaries	**68.4%**	68.4%	**(80,005)**	(104,876)
PPP and its subsidiaries	**65.6%**	67.4%	**3,057,212**	3,743,683
LMC	**0.7%**	0.7%	**(219)**	(177)
			₱3,442,403	₱4,106,634

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:

	2014	2013
PPP and its subsidiaries	**(₱326,008)**	₱1,335,395
PPC	**7,698**	7,293

Other comprehensive income (loss) allocated to material NCI:

	2014	2013
PPP and its subsidiaries	**₱7,903**	₱88,613
PPC	–	10,734

The summarized financial information of these subsidiaries are provided below:

Statements of comprehensive income as of December 31, 2014:

	PPP	**PPC**
Revenue	**₱–**	**₱–**
Cost of sales	–	–
General and administrative expenses	**(167,102)**	**(23,287)**
Other income (charges)	**(327,327)**	**45,151**
Interest expense	–	–
Income (loss) before tax	**(494,429)**	**21,864**
Provision for (benefit from) income tax	–	–
Net income	**(494,429)**	**21,864**
Other comprehensive income	**9,308**	–
Total comprehensive income	**(₱485,121)**	**₱21,864**
Attributable to non-controlling interests	**(₱227,903)**	**₱7,698**

Statements of comprehensive income as of December 31, 2013:

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

Statements of financial position as at December 31, 2014:

	PPP	**PPC**
Current assets	**₱1,818,056**	**₱143,495**
Noncurrent assets	**567,738**	**4,332,927**
Current liabilities	**(25,747)**	**(2,692,336)**
Noncurrent liabilities	**(20,964)**	**(113,555)**
Total equity	**2,339,083**	**1,670,531**
Attributable to:		
Equity holders of the Parent Company	**₱1,241,351**	**₱1,082,336**
Non-controlling interests	**1,097,732**	**588,195**

Statements of financial position as at December 31, 2013:

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

Statements of cash flows as of December 31, 2014:

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

Statements of cash flows as of December 31, 2013:

Activities	PPP	PPC
Operating	(₱194,886)	(₱30,281)
Investing	1,824,363	(1,265,347)
Financing	332,985	1,303,935
Effect of exchange rate changes on cash	–	21
Net increase in cash and cash equivalents	₱1,962,462	₱8,328

Statements of cash flows as of December 31, 2012:

Activities	PPP	PPC
Operating	₱–	(₱28,634)
Investing	–	1,833
Financing	–	14,565
Effect of exchange rate changes on cash	–	(132)
Net decrease in cash and cash equivalents	₱–	(₱12,368)

26. **Share-based Payments**

2006 Parent Company Stock Option Plan (SOP)

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

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

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

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

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

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

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

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

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

The following table shows the movements in 2014 and 2013 of the 2006 Parent Company SOP:

	Number of Options		Weighted Average Exercise Price	
	2014	2013	**2014**	2013
January 1	**₱9,001,400**	₱12,970,650	**₱11.35**	₱8.99
Exercised	**(3,403,000)**	(3,969,250)	**10.79**	3.64
Forfeited	**(230,250)**	–	**9.54**	–
December 31	**₱5,368,150**	₱9,001,400	**₱11.78**	₱11.35

The number of unexercised vested stock options as at December 31, 2014 and 2013 are 5,368,150 and 7,981,400, respectively.

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

i) Option Grant Date is the date on which option is awarded under the Parent Company 2011 SOP, provided such award is subsequently accepted by eligible participant.
ii) The vesting percentage and vesting schedule of the options granted under the 2011 Parent Company SOP shall be determined by the Compensation Committee of the Board.
iii) 246,334,118 shares representing 5% of the Parent Company’s outstanding capital stock shall be initially reserve for exercise of options to be granted.
iv) The exercise price for the options granted under the 2011 Parent Company SOP shall be determined by the Compensation Committee of the Board but shall not be lower than the highest of: (i) the closing price of the shares on PSE on the Option Grant Date, (ii) the average closing price of the shares on the PSE for the 5 business days on which dealings in the shares are made immediately preceding the Option Grant Date; and (iii) the par value of shares.
v) Any amendments to the 2011 Parent Company SOP shall be deemed adopted and made effective upon approval by shareholders owning at least two-thirds of the outstanding capital stock of the Parent Company and, to the extent legally necessary, by the SEC.

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

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

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

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

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

The following table shows the movements in 2014 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2014	2014
January 1	**₱29,910,000**	**₱24.05**
Forfeited	**(1,660,000)**	**24.05**
December 31	**₱28,250,000**	**₱24.05**

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

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

The number of unexercised vested stock options as at December 31, 2014 totaled to 21,347,500.

The total share-based compensation expense for the 2006 and 2011 SOP in 2014 and 2013 amounted to ₱25,808 and ₱84,133, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital as at December 31, 2014 and 2013 amounted to ₱326,816 and ₱301,008, respectively.

27. **Basic/Diluted Earnings Per Share**

Basic earnings per share are computed as follows:

	2014	2013	2012
Net income attributable to equity holders of the Parent Company	**₱1,005,552**	₱341,932	₱208,733
Divided by weighted average number of common shares outstanding during year	**4,938,577,039**	4,933,657,951	4,932,216,253
Basic earnings per share	**₱0.204**	₱0.069	₱0.042

Diluted earnings per share amounts are calculated as follows:

	2014	2013	2012
Net income attributable to equity holders of the Parent Company	**₱1,005,552**	₱341,932	₱208,733
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	**4,938,577,039**	4,933,657,951	4,938,632,314
Diluted earnings per share	**₱0.204**	₱0.069	₱0.042

(Forward)

Weighted average number of common shares for basic earnings per share	**₱4,938,577,039**	₱4,933,657,951	₱4,932,216,253
Effect of exercise of stock options	–	–	6,416,061
Weighted average number of common shares adjusted for the effect of exercise of stock options	**₱4,938,577,039**	₱4,933,657,951	₱4,938,632,314

The Parent Company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2014 and 2013 (see Note 26). The assumed exercise of these stock options would have resulted in additional 6,416,061 common shares in 2012. The stock options outstanding as at December 31, 2014 and 2013 are anti-dilutive. The Group considered the effect of the convertible bonds of SMECI and determined it to be anti-dilutive.

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

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

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

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

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

As at December 31, 2014, the Company is undergoing discussions with MMC to revise, and consequently, extend the term of the farm-in agreement on the Kalayaan Project.

29. **Joint Ventures with Anglo**

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

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

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

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

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

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

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

On December 7, 2011, the Parent Company entered into an agreement with Anglo and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Parent Company agreed to buy and Anglo agreed to sell all Anglo’s rights, interests and obligations in MECI for US$25. In addition, AAEPI agreed with the Parent Company that all of its rights, interests and title in and to its receivable to MECI will be assigned to the Parent Company for a consideration amounting to US$175. The purchase of share and assignment of receivable will become effective and legally enforceable only upon fulfillment of the closing obligations. As at December 31, 2014, the closing obligations are not yet fulfilled.

30. **Long-term Gold and Copper Concentrates Sales Agreement**

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

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

b. Contract Year 2013 (starting April 1, 2013 and ending on March 31, 2014), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the treatment and refining charges for copper shall be negotiated by the parties in good faith during the Contract Year 2013.

c. Contract Year 2014 (starting April 1, 2014 and ending on March 31, 2015), approximately 60% of the total Concentrates production during each Contract Year, for which the treatment and refining charges for copper shall be negotiated by the parties in good faith during the Contract Year 2014.

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

31. **Other Matters**

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

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

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

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

e. 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.

32. Notes to Consolidated Statements of Cash Flows

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

a. In 2014 and 2013, total depreciation expense that was capitalized as part of deferred mine exploration costs by PMC, SMMCI and PGPI amounted to ₱317,909 and ₱67,967, respectively.

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

33. Events After the End of Reporting Period

On February 3, 2015, the SMECI's BOD approved the amendment of the it's Articles of Incorporation for the increase in 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 shares increased for an aggregate price of ₱7,207,500.

On February 25, 2015, the BOD of the Parent Company approved the dividend declaration of ₱0.02 per share payable on March 24, 2015.

PHILEX MINING
CORPORATION

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CORPORATION

27 Brixton Street, Pasig City, 1600
Philippines

AWARDS & RECOGNITION

1. Most Promising Company of the Year
   (Corporate Governance Asia)
   November 2014 Hong Kong

2. Corporate Governance Company of the Year
   (Asia CEO Awards)
   November 2014 Manila
   Finalist: CSR Company of the Year

3. Presidential Mineral Industry Environmental Awards
   Silangan Mindanao Mining Co., Inc.
   (Philippine Mine Safety and Environment Association)
   November 2014 Baguio City

4. 2nd Runner Up – Best Mining Forest, Exploration Category
   Silangan Mindanao Mining Co., Inc.
   (Philippine Mine Safety and Environment Association)
   November 2014 Baguio City

5. Gold Award in Financial Performance, Management, Corporate Governance, Investor Relations, Environmental and Social Responsibility
   (The Asset Magazine)
   December 2014 Hong Kong

6. Award of Excellence – 2013 Annual Report
   (Philippine Quill Awards)
   March 2015 Manila

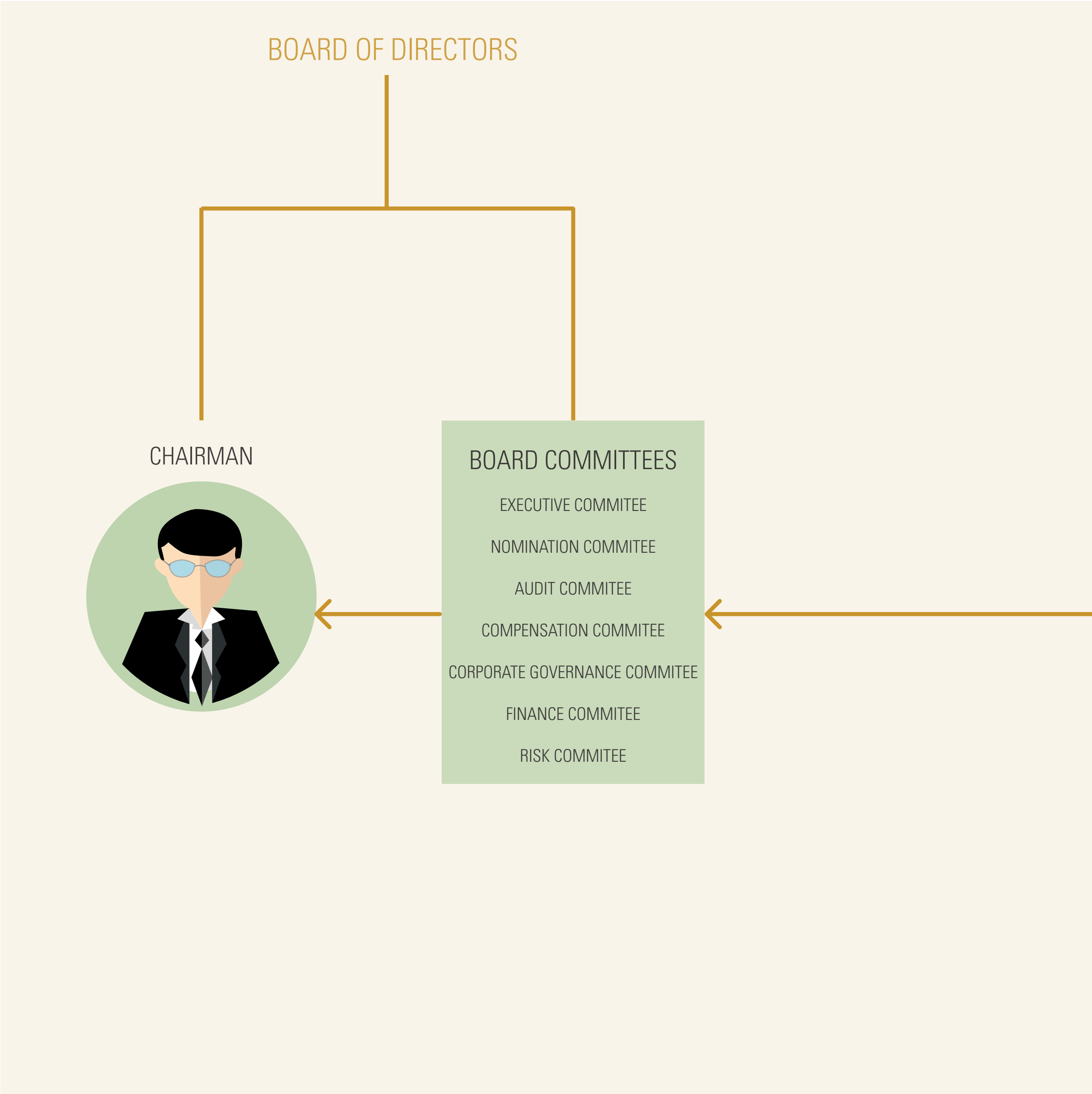
7. ISO14001: Certification for Environmental Management System and Health and Safety
   April 2015 Manila

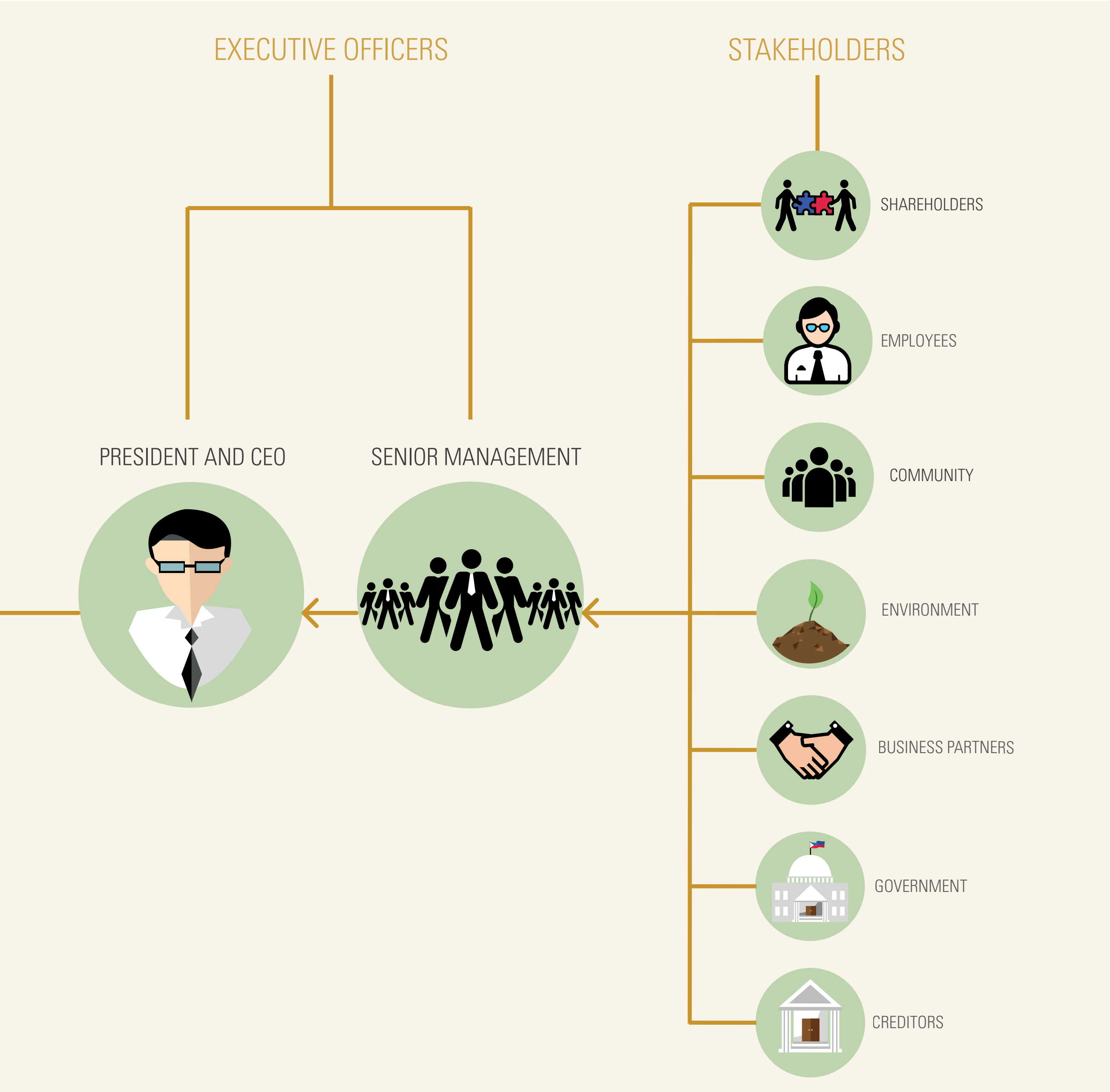
8. BS OSHAS 18001: Occupational Health and Safety Management Systems
   April 2015 Manila

9. Best Investor Relations Company
   (Corporate Governance Asia)
   April 2015 Hong Kong

CORPORATE GOVERNANCE

PMC'S CORPORATE GOVERNANCE STRUCTURE





CORPORATE GOVERNANCE STATEMENT

As a publicly-listed Philippine corporation, PMC conforms to the corporate governance rules, requirements, and regulations of the Philippine Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). The Company is committed to the highest standards of corporate governance and continues to benchmark its procedures against recognized international best practices. To ensure constant improvement, PMC monitors developments in corporate governance to elevate the Company's corporate governance structures, processes, and practices to global standards. The Company also advocates an ethical corporate culture guided by its core values of integrity, teamwork, respect for individuals, work excellence, corporate as well as social and environment responsibility.

PMC has adopted a Corporate Governance (CG) Manual and complies with the Code of Corporate Governance of the SEC and Corporate Governance Guidelines and listing rules of the PSE, and endeavors to raise its corporate governance practices in line with global best practices.

A. RIGHTS OF SHAREHOLDERS

The Company respects the rights of all shareholders, in accordance with the Corporation Code of the Philippines, the Company's Articles of Incorporation, By-Laws and CG Manual.

A.1 Basic Shareholders Right

Dividend Policy

The Company declares dividends, consistent with its dividend policy as stated in the Company By-Laws, and pays in an equitable and timely manner. In August 2014, the Company has adopted a policy on the timing of dividend payment, which should be within 30 calendar days from the date of declaration.

Date of Declaration	Date of Payment*	Amount
Feb. 26, 2014	Mar. 26, 2014	₱0.05/share
Oct. 29, 2014	Nov. 28, 2014	₱0.03/share
Feb. 25, 2015	Mar. 25, 2015	₱0.02/share

*The timing of payment was well within the 30-day period prescribed under corporate governance best practices.

A.2 Right to Participate in Decisions

The Company's shareholders have the right to participate in decisions concerning fundamental corporate changes. The following corporate actions require the vote of shareholders holding at least 66 2/3 of the Company's outstanding capital stocks:

(a) Amendment to the Articles of Incorporation;

(b) Increase in capital stock;

(c) Sale or disposition, including the constitution of a mortgage or a pledge, of all or substantially all of the Company's assets;

(d) Investment of corporation funds for a purpose other than the Company's primary purpose;

(e) Waiver of pre-emptive rights for specific transactions; and

(f) Mergers and consolidations.

A.3 Right To Participate Effectively and Vote

PMC shareholders have the right to participate effectively and vote in general shareholders' meetings. The Company ensures that shareholders are informed of the rules, including the voting procedures that govern general shareholders' meetings.

Shareholders have the opportunity to approve remuneration, in terms of profit sharing, which is contained in the Company's By-Laws. Any amendment to the By-Laws, however, will require a vote of a majority of the total outstanding capital stock.

PMC also respects and recognizes the right of minority shareholders to nominate directors. This right is corollary to the right to vote, which is guaranteed under the Corporation Code of the Philippines and recognized in the Company's By-Laws and CG Manual.

Under the Company's By-Laws, shareholders may submit nominations to the Board of Directors' Nominations Committee. The deadline for submission of nominations is on the 30th day of April of each year, or such other date as may be determined by the Board of Directors.

For 2015, the deadline for nominationst was announced by the Company last February 25, 2015 via the PSE disclosure system, together with the announcement for the date of the annual shareholders' meeting and the record date for the said meeting.

All shareholders have the right to vote each year for the following:

(a) Election of directors;

(b) Approval of the Minutes of shareholders' meeting/s held in the previous year;

(c) Approval of the annual report and the audited financial statements;

(d) Selection of election inspectors for the ensuing year; and

(e) Selection of the external auditors.

Voting Procedures

Voting is done by balloting and shareholders shall be entitled to vote either in person or by proxy. Shareholders who are present and did not submit proxies before the meeting are given ballots upon registration. In the case of proxies submitted prior to the meeting, the proxy designated by the shareholder to represent him/her at shareholders' meeting is provided with ballots for casting in accordance with the shareholders' instructions, as indicated in the proxy.

Proxies and ballots will be tabulated by the Company's stock transfer agent, the Stock Transfer Services, Inc. (STSI) and results of the tabulation will be announced for the relevant items on the agenda. The Corporate Secretary will be responsible for casting of votes and as appropriate, will be assisted by the Company's independent election inspectors in the counting of votes.

The voting and tabulation procedures are further explained in the Company's Notice of Annual Shareholders' Meeting (ASM). The Corporate Secretary will likewise explain the voting procedures at the start of the meeting that will form part of the Minutes of ASM which will be posted in the Company's website within five days from the date of the ASM.

Stockholders' Meeting

The Company recognizes the right of all shareholders to attend all scheduled shareholders' meetings. Regular shareholders' meetings are held annualy in June in accordance with the Company's By-Laws. The holding of the annual meeting is mandatory, as it is during this time when the directors are elected and the shareholders have the opportunity to be updated on the Company's condition, as well as on its plans and programs. It also serves as a venue to ask questions and raise relevant issues or concerns. On the other hand, special meetings, as needed, shall be held at any time and for any purpose.

The minutes of the ASM are posted in the Company's website within five (5) days from the date of the meeting. The minutes consist of the open forum during the ASM, voting results per agenda, the resolutions taken up during the ASM and the attendance of directors and key officers.

As a matter of practice, the members of the Board, the Chairman, the President and Chief Executive Officer (CEO), Audit Committee Chairman, Risk Committee Chairman, representatives of the external auditors, other key officers and employees are present during the scheduled meetings of shareholders. They shall have the opportunity to make a statement, should they desire to do so, and will be available to respond to appropriate questions.

Disclosure and Release of Notice of ASM to Shareholders

The Company disclosed to the PSE the Company's SEC Form 2015 Definitive Information Statement (DIS) on May 14, 2015. The Company likewise sent out the Notice of ASM, which states the date, time and place of meeting, including the rationale and explanation for each item in the agenda that requires shareholders' approval, to shareholders on May 25, 2015, which was at least twenty eight (28) days prior to June 24, 2015, the date of actual meeting.

The ASM is announced months before the actual date of the meeting and is being published in at least two major newspapers of national circulation three times before the ASM. For 2015, the Notice of ASM was published on May 25, June 3, and June 17, 2015.

A.4 Markets for Corporate Control

In cases of mergers, acquisitions and/or takeovers requiring shareholders' approval, the Board, as a matter of practice, appoints an independent party to evaluate the fairness of the terms and conditions of such transactions.

Further more, in cases of mergers and acquisitions, the CEO and the Chief Finance Officer (CFO), together with external financial and technical consultants, prepare a detailed recommendation for consideration by the Board. An independent consultant or independent financial advisor is retained to review the terms and conditions of contracts and to evaluate the merits of each specific transaction.

A.5 Institutional Investors

The exercise of ownership rights by all shareholders, including institutional investors, is recognized by PMC. The Company does not have any shareholders owning more than 50%. The Philippine Social Security System (SSS) is the only institutional investor with a share ownership greater than 5% as of March 31, 2015.

B. EQUITABLE TREATMENT OF SHAREHOLDERS

B.1 Shares and Voting Rights
PMC has only one class of common shares, each entitled to one vote. Cumulative voting, which enhances the ability of minority shareholders in voting for the election of directors, is allowed.

B.2 Notice of ASM (Definitive Information Statement)
The Notice of ASM contains the resolutions to be passed by shareholders for each item on the agenda at the ASM. There is no bundling of several items into the same resolution. For wider appreciation, all Company notices and circulars are written and published in English.

The Notice of ASM also provides the following information:

(a) The profiles of each director – age, academic qualification, date of first appointment, experience, and directorships in other listed companies seeking for election/re-election;
(b) External Auditors seeking appointment/re-appointment are clearly identified;
(c) Dividend Policy;
(d) Amount of dividends paid and any dividends payable; and
(e) Readily available proxy statements.

The Notice of ASM is also available in the Company's website through the following link:
http://www.philexmining.com.ph/company-disclosure/notice-of-annual-or-special-stockholders-meetings

B.3. Insider Trading and Abusive Self-Dealing Policies Trading Black-outs
The Company strictly enforces and monitors compliance with its policy on insider trading, which prohibits the trading of Company securities during prescribed periods by the following covered persons:

- Members of the Board of Directors
- Members of the Management Team
- Employees who have been made aware of undisclosed material information with respect to the Company and its operations

The blackout period begins thirty (30) calendar days prior to the disclosure of the annual financial results until two (2) full trading days thereafter. For the quarterly results, the blackout period begins fifteen (15) calendar days before the structured disclosure until two (2) full trading days after the date of the disclosure.

In cases of non-structured disclosures of other material information, employees in possession of price sensitive information are reminded not to trade in the Company's shares from the time they come into possession of any material information and up to two (2) full trading days after the information is disclosed to the public. Reminders on these guidelines are provided periodically.

Policy on Dealings in Company Shares of Stocks
The Company's revised Policy on Dealings in Company Shares of Stocks is available on the following link in the Company website.
http://www.philexmining.com.ph/userfiles/Amended%20Policy%20on%20Dealings%20in%20Company%20Shares%20-%20June%2025,%202014.pdf

This prohibits director and employees to benefit from any knowledge which is not generally available to the market.

Under the Revised Policy on Dealings in Company Shares of Stock, approved on June 25, 2014, all concerned directors, officers and/or employees are required to report to the Compliance Officer all respective dealings in Company shares within two (2) business days, and for the Company to disclose the same within three (3) business days from the date of the transaction.

B.4 Related Party Transactions by Directors and Key Executives
The Company strictly adheres to the guidelines covering securities dealings to comply with existing government regulations and promote fairness. Changes in personal shareholdings of directors and key Company officers resulting from open market transactions or the grant of shares from incentive-based schemes implemented by the Company are reported to the SEC and PSE within the specified deadlines.

All material and/or significant Related Party Transactions (RPT) are subject to review and endorsement by the Corporate Governance Committee ("CG Committee"), with the concurrence of all Independent Directors prior to approval by the Board to ensure that they are in the best interests of the Company and its shareholders in accordance with the Company's RPT Policy.

Conflict of Interest Policy
Adopted on February 26, 2014, the Conflict of Interest Policy is available on the following link in the Company website.
http://www.philexmining.com.ph/userfiles/Conflict%20of%20interest%20Policy.pdf

The director, employee or consultant concerned shall inhibit themselves from any direct or indirect participation or involvement at any stage of the transactional process flow where they are conflicted. These persons are also not allowed to sign any paper or document related to the transaction.

The Company shall not, directly or indirectly (through any subsidiary or affiliate), grant or arrange for any credit (or extensions thereof) in the form of personal loans to any director or officer, unless allowed by applicable laws and regulations.

B. 5 Protecting Minority Shareholders from Abusive Actions
PMC respects the rights of the minority shareholders and develops policies towards ensuring that the Board, in all cases, shall consider the corporate interest above all, as a whole. The key guidelines include:

(i) Emphasis on the fiduciary responsibilities of the Board, the officers to the Company and its shareholders as well as the duties of care and exercise of prudence;

(ii) Avoidance of conflicts of interest and prompt disclosure of potential conflict;

(iii) Prompt, full and fair disclosure of material information;

(iv) Formulation of other policies towards prevention of actions that will favor the controlling interest or major shareholder/s at the expense of the minority shareholders; and

(v) Adoption of policies on RPTs which ensures that:

(a) RPTs that can be classified as financial assistance to entities that are considered as Company's subsidiaries are all disclosed in the Company's financial statements; and

(b) RPTs should be conducted in a way that ensures fair and at arm's length dealings.

C. ROLE OF STAKEHOLDERS

C.1. Respecting Rights of Stakeholders

Customers

Customer health and safety is important for all businesses and remains an utmost priority of PMC. In line with PMC's Code of Business Conduct and Ethics, the Company upholds fair and transparent dealings with its customers. All transactions and business relationships with customers are covered by contracts and comply with existing laws and regulations in the country.

As part of the Company's commitment to the welfare of its customers, Company representatives and its customers meet annually to review and discuss the terms of the new or existing contract as well as identify areas for improvement in delivery of goods and other related aspects.

The following are the activities conducted to ensure the health and safety of the Company's customers:

a. Product Safety
Prior to shipment, the concentrates (the product) undergo a thorough chemical analysis required by the customers (Pan Pacific Copper Co., Ltd. and Louis Dreyfus Commodities Metals Suise SA) to ensure that these are free from foreign materials and impurities that may be deleterious to the customers' health and operations.

   The Company insures the product at 110% of its value with an internationally-recognized insurance company, in favor of the customers, and shall provide the customers with a certificate signed by the insurance company indicating the details of the coverage.

   The Company ensures that the quality of concentrates for shipment to the customers is suitable for ocean transportation in bulk and meets the requirements of the International Maritime Organization Code of Safe Practice for Solid Bulk Cargoes.

b. Shipment Safety
PMC assumes the obligation of providing the vessels, suitable for shipment of the concentrates, with the following specifications and conditions:

   - single deck bulk carrier, seaworthy in all respects
   - with clear holds and hatchway suitable for normal grab discharge
   - classed as 100A at Lloyds or equivalent
   - compliant with the ISM code
   - be no more than twenty (20) years of age
   - able to meet berth accommodation restrictions

   The Company shall notify the buyer of the date of actual shipment which includes confirming the name of the vessel, weight of concentrates loaded, stowage plan and estimated time of arrival at the port of unloading with due consideration to the suitability of weather conditions for a safe travel.

c. Customer Safety
To cover for any harm or damage that the shipment may cause to customers, a marine insurance, with an agreed upon coverage and in favor of customers, is secured from an internationally-recognized insurance company.

Suppliers/Contractors practice

PMC's Policy on Vendor Relations, released on February 26, 2014, is available on the followng link in the Company website.
http://www.philexmining.com.ph/userfiles/Supplier%20Contractor%20Relations%20Policy.pdf

Under this policy, the Company shall promote and implement standards of relationships with suppliers that embody the code's principles and core values as defined in the code. Directors, employees and consultants shall maintain the Company's reputation for equal opportunity and honest treatment of suppliers in all business transactions through the following guidelines:

- The Company shall seek and maintain mutually beneficial relationships with suppliers that uphold the Company's principles and core values.
- The Company shall give qualified suppliers adequate, fair, and equal opportunity to bid on goods and services for the Company's projects or requirements.
- The Company shall accredit suppliers based on established criteria.
- As a general rule, purchases will be made on the basis of competitive bidding. In the event that it will be for the best interest of the Company to enter into strategic partnerships with suppliers, the Company may apply the Negotiated Contract (NC) option. Transparency in all these transactions shall be maintained at all times. Such reports, justifications, and subsequent approval or disapproval of the appropriate authorities shall be kept by the Supply Chain Department.

The following are the Company's activities and programs aimed at implementing the Vendor Relations Policy:

a. For vendor accreditation:

   1. Prospective vendors must accomplish detailed forms that require information regarding their financial condition, ownership, product lines, agreements with respective principals/OEM, experience and expertise. For new vendors seeking accreditation, a New Vendor Accreditation Application Form (NVAAF) must be filled up. Existing vendors, on the other hand, must update their information periodically through the submission of a duly accomplished Existing Vendor Information Update Form (EVIUF).
   2. A review of each vendor's selected financial ratios is undertaken as part of the accreditation process.
   3. Vendors must submit a written statement confirming that all information provided are true and correct; that they will comply with terms of contract, and avoid conflict of interest and observe ethical and fair practices.

b. Purchases will be made on the basis of a competitive bidding.

c. The Company shall monitor risk indicators that may impact its supply chain operations to avoid delays or the stoppage of operations.

Environment

As a socially and environmentally responsible Company, PMC is committed to the continuous improvement of operations through its existing Environmental Policy. Under this policy, the Company shall be mindful of any adverse environmental impact and ensure faithful compliance with all laws, legislations and other regulatory policies, pertaining to the promotion of environmental awareness and preservation among its workers at all levels.

a. Ensuring an environmentally-friendly value chain.

1. Consistent with the Company's Environmental Policy, one of the criteria in its procurement process requires that the vendor must have an Environmental Policy or must be a member of an organization espousing environmental protection awareness.

2. Consistent with such policy mandating environmental awareness, there should be focus on the use of efficient and recyclable materials in relation to energy efficiency, shipping materials, content and supplier waste management.

b. Ensuring that the Company adheres to environmental preservation in its mine sites and their environment.

1. Land Resources Management
    - (a) Reforestation and forest protection
        - (i) Forest nursery management
        - (ii) Plantation operation and protection
            1. New plantation establishment
            2. Plantation care and maintenance
            3. Fireline/firebreak construction
    - (b) Slope stabilization and erosion control measures
        - (i) Benching
        - (ii) Wattling
        - (iii) Shotcreting
        - (iv) Toe wall construction
            1. Surface Subsidence Control/Backfilling Operation
            2. Solid waste management
            3. Rehabilitation of mine disturbed areas (PGPI and SMMCI)

2. Water Resources Management
    - (a) Maintenance and operations of tailing ponds
    - (b) Effluent monitoring
    - (c) Chemical waste management and monitoring
    - (d) Used oil and fuel management

3. Air Quality Management
    - (a) Underground ventilation system repair and maintenance
    - (b) Maintenance of dust suppressor
    - (c) Air ambient monitoring

Communities

The Company recognizes the desires and aspirations of the communities and indigenous peoples (IP) hosting the minesites and exploration projects, and respects their cultural practices through the implementation of Community Development Program.

PMC commits that it will act responsibly and will obey the applicable laws, in order to minimize the impact of its projects on the environment, protect the health and safety of those directly affected by its activities, and ensure that communities receive real benefits from its operations.

The Company treats its host communities and IP as partners in the exploration and development of mining projects. Social acceptability is very important for long-term, stable, and beneficial resource development. PMC strives to give the communities and indigenous peoples the real benefits from operations, and leaves them a lasting legacy by adopting programs geared toward sustainable livelihood, as well as their social, cultural, educational, health, safety, and environmental needs.

The Company strives and continues to be a strategic partner for its host and neighboring communities towards economic development. To this end, the Company implements the following programs/activities:

1. Social Development and Management Program (SMDP) for the Company's Padcal Mine in Benguet province; and

2. Community Development Program (CDP) for Philex Gold and Silangan Mindanao projects.

The SMDP and CDP serve as vehicles to attain community self-reliance and development. These focus on five areas under the acronym of I-H.E.L.P.

a. Information Education Communication
   1. Community immersion
   2. Dialogues with local group leaders and focused group discussions with various sectors such as the academe, religious groups, and Non-Government Organizations (NGOs)
   3. Courtesy calls to Local Government Units (LGUs)
   4. Mine visits at operating, exploration and care and maintenance project sites of the stakeholders from host and neighboring communities

b. Health
   1. Medical and dental projects
   2. Free consultation and treatment at Philex Sto. Nino Hospital (PMC-Padcal)
   3. Health trainings and seminars
   4. Provision of accident insurance and health cards

c. Education
   1. Scholarship Program: elementary, high school, college, technical-vocational (includes scholarship programs for IP)
   2. Provision of educational equipment and materials
   3. Construction and improvements of school buildings and facilities
   4. Financial assistance to volunteer teachers
   5. Nutrition program

d. Livelihood
   1. Employment enhancement projects
   2. Provision of technical and financial assistance to various cooperatives and organizations to enhance their projects which include agro-forestry, natural farming, and livestock-raising

e. Public Infrastructure
   1. Construction and improvement of roads
   2. Waterworks and irrigation systems
   3. Electrification
   4. Other public infrastructure support such as construction of health care centers, hanging bridges, waiting sheds, and other community buildings.

General information about the Company's and its subsidiaries' corporate social responsibility (CSR) programs and initiatives can be found on the separate CSR section of this Annual Report.

Anti-corruption Programs and Procedures

The Company formulated a Code of Business Conduct and Ethics which upholds professionalism and ethics in business dealings and transactions. In relation to this, the Company has a Vendor Relations Policy and Policy on Gifts, Entertainment and Sponsored Travel.

a. Policy on Gifts, Entertainment and Sponsored Travel

Issued on February 26, 2014, the Company's Policy on Gifts, Entertainment and Sponsored Travel is available on the Company's website through the following link.

http://www.philexmining.com.ph/userfiles/Policy%20on%20 Gifts%20Entertainment%20and%20Sponsored%20Travels(1).pdf

Under this Policy, directors, employees and consultants shall refrain from putting themselves in situations or acting in a manner that could significantly affect the objective, independent or effective performance of their duties and responsibilities in the Company.

Directors, employees and consultants who have received gifts, entertainment and sponsored travel from any third party, with whom the Company does business or proposes to do business, whether directly or indirectly, shall inform their donor that these were received in behalf of the Company and shall be handled in accordance with Company policy (P4,000 limit). Sponsored travel from third parties requires disclosure and prior approval from the superior, which approval shall conform to the terms of this policy.

b. Supply Chain Management Conduct

Supply chain professionals shall maintain reputation beyond reproach and in accordance with the Institute of Supply Management (ISM) and Philippine Institute for Supply Management (PISM) Standards of Conduct, aligned with industry best practices.

To promote this endeavor, a Supply Chain Management Conduct Policy was adopted to avoid impropriety in the conduct of purchasing supplies and services. The policy also contains provisions to avoid conflict of interest where a employee has an interest in another Company dealings with PMC, among others.

The Supplier Relations Policy puts emphasis on the decorum required when dealing with suppliers. The Policy on Gift & Gratuities is specific on tokens, particularly during the Christmas Season, where suppliers are discouraged to give lavish gifts and tokens. This reminder is relayed to suppliers every November through an official letter from the Company.

Creditors

As matter of policy, the Company upholds the rights of its creditors by publicly disclosing all material information, such as earning results and risk exposures, related to but not limited to loan covenants. Corporate disclosures, controls and procedures include periodic reports to major lenders, such as the latest financial statements, among others.

The Company honors all of its legal and valid obligations. No known case has been filed before a court by any creditor for non-payment of loans or financial obligations.

Programs and Activities

The rights of major creditors are protected by publicly disclosing all material information, such as earnings results and risk exposures relating to loan covenants. PMC's disclosures, controls, and procedures also include periodic reports to creditors, such as the latest certified financial statements, among others. The Company also conducts regular investors', analysts' and press briefings for updates on the Company's operations and current financial position.

C.2 Effective Redress for Violation of Stakeholders' Rights.

The Company provides contact details, via the Company's website, which stakeholders (e.g. customers, suppliers, general public etc.) can use to voice their concerns and/or complaints for possible violation of their rights. Details of the contact persons are as follows:

Corporate Affairs:	Atty. Michael T. Toledo, SVP for Corporate Affairs
Employee Relations:	Mr. Benjamin R. Garcia, SVP for Human Resources
Trade Creditors & Supplier Inquiries:	Ms. Paraluman M. Navarro, Division Manager- Corporate Finance
Telephone No.:	(632) 631-1381 to 88
Email:	philex@philexmining.com.ph

Employees

C.3 Performance-enhancing Mechanisms for Employees

Employee Development Programs

The Company respects the dignity and human rights of its employees, including the rights guaranteed by existing labor laws. PMC promotes safety, non-discrimination, environmental awareness and commitment in the workplace, and supports programs that champion the engagement and development of employees.

In 2014, the Company conducted the following learning sessions and employee development programs. Each program is tailor fit for a specific audience within the organization to ensure focus and generate the best results.

2014 LEARNING AND DEVELOPMENT PROGRAMS	
LEVEL	PROJECT TITLE
Director/Officers	Corporate Governance: What to expect from the SEC and Corporate Governance Trends and Practices in Advance Economics
Managers/Officers	Corporate Governance: Enhanced Session: 21st Century Leadership & Governance: Thriving Amid Change, Complexity and Lots of Choices
Managers/Officers	Project Planning Workshop
Managers/Supervisors	DOLE Rules: From Pre-Employment to Post-Employment
Managers/Supervisors	Performace Management System (PMS) Midyear Review Skill Build Session
Managers/Supervisors	Leadership Excellence
All Levels	New Employee Orientation

Environment, Health & Safety Programs

The Company is committed to maintain at all times good environmental, health and safety (EHS) practices and standards. On a regular basis, management implements risks review of safety procedures and health programs at its operations and exploration sites. The review includes material safety, occupational health, environmental and community risks, to assess whether adequate risk-based controls are in place, how effective they are and what priority actions would be required to substantially improve the EHS performance of the sites.

In April 2015, the Company received an Integrated Management System (IMS) Certification from TUV Rheinland allowing it to restore its environmental ISO 14001 Certification and further affirmed its adherence to strict environmental protection and safety protocols across its operations.

Site Safety Policy

The Company adheres to a Site Safety Policy and is committed to the highest levels of health and safety programs to ensure every stakeholder's safety, and espouses loss prevention as a way of life. PMC strives to maintain a sound and safe working place to prevent injury, illness, property damage and loss to processes, in compliance with all relevant legislations and the preservation of the environment as well.

PMC has adopted safety and health management programs to allow it to undertake projects safely and without endangering the health of employees, host communities, indigenous peoples and those who may be directly or indirectly affected by its mining activities.

2014 SAFETY TRAININGS AND PROGRAMS	
LEVEL	PROJECT TITLE
Drivers of Company Owned Vehicles, PJODAT	Defensive Driving Orientation
All Employees, Housewives, Dependents, Constituents and Local Residents	Fire Safety Seminar for Puroks
Rank and File, Supervisors, Contractors	Accident/Incident Investigation and Analysis Seminar
Rank and File, Supervisors, Managers	Loss Control Management
Rank and File, Supervisors	Fire Emergency Preparedness for Poro Personnel
Rank and File, Supervisors	Overhead Crane Maintenance and Operation Seminar
Rank and File, Supervisors, Managers	STOP,SLAM,LOTOTO Supervisor Training Observation Program; Stop, Look, Assess and Manage; Lockout-Tagout-Test Out-Turn Over
Rank and File, Supervisory, Contractors	Underground Emergency Management
Rank and File, Supervisory, Contractors	First Aid Training
Rank and File, Supervisory, Contractors	Mine Rescue Seminar

The Compensation Philosophy/Principles of the Company are as follows:

1. Pay for performance;
2. Pay for competencies and skills;
3. Pay competitively versus local competitors and other comparative companies;
4. Provide a total rewards package that includes pay, benefits, employee recognition, employee development and a work environment conducive to high performance; and
5. Benchmark against an effective performance management process.

The Company's Stock Option Plan (SOP) which was approved by the board on April 27, 2011, covers managers in accordance with the above philosophies and principles. On April 27, 2011, the Company's Board approved the 2011 Stock Option Plan (the 2011 SOP). The objectives of the 2011 SOP are to:

1. enable qualified participants who are largely responsible for the further growth and development of the Philex Group of Companies to obtain an ownership interest in the Company;
2. encourage long-term commitment to the Group;
3. motivate them to continue their efforts in contributing to the long-term financial success of the Group; and
4. encourage other talents needed for the business to join the Group.

C.4 Means of Communication of Illegal or Unethical Practices by Employees

Whistle Blowing Policy

In accordance with the Company's adherence to the principles of good governance, the Whistle Blowing Policy has been adopted since February 25, 2014 to provide a system and venue for the proper submission, handling or resolution of employees' complaints or disclosures regarding violations of corporate governance rules, questionable accounting or auditing matters, and offenses covered by the Company's existing Code of Discipline or equivalent policy.

Confidentiality

All (whistleblower) complaints, including the identity of the whistleblower, witnesses and employees named in the complaint, will be treated as confidential, unless the Company is otherwise required or compelled by law to release information.

Anonymous Reporting

Any (whistleblower) complaint must be coursed or filed through any of the various reporting channels. To aid further investigation of the (whistleblower) complaint, a whistleblower who makes or files a (whistleblower) complaint anonymously may opt to provide means by which he or she can be contacted without compromising his or her anonymity.

Protection from Retaliation

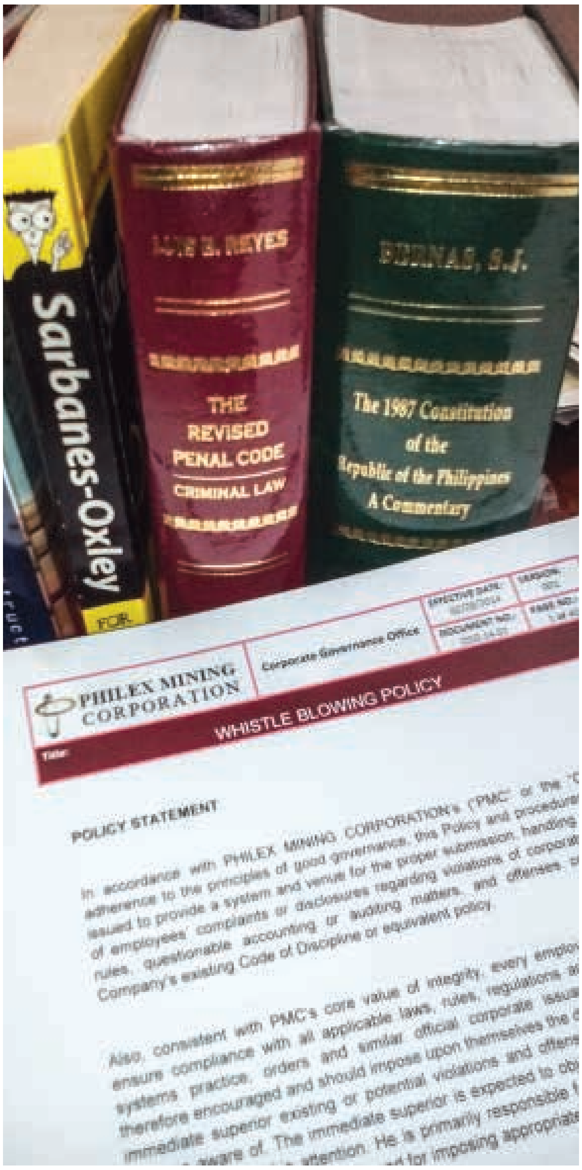
Subject to the provisions of Malicious Allegations and without prejudice to legally-mandated courses of action to protect one's right, baseless and illegal retaliation against any whistleblower or witness is prohibited and will be dealt with in accordance with this Policy, other relevant Company policies and rules, and applicable laws. A whistleblower or witness who will identify himself shall be protected from retaliation.

Malicious Allegations

In case the Appropriate Investigating Unit (AIU), to which a (whistleblower) complaint has been referred to, should determine that, after investigation, the whistleblower and/or witness has made baseless, untruthful, fabricated, malicious, or vexatious allegations, and particularly if he/they persist in making such, disciplinary action may be taken against the whistleblower and witness in accordance with pertinent Company policies and rules and applicable laws in order to protect the good name of persons that may have been unjustly accused or implicated.

For purposes of this Policy, the AIU may either be the Internal Audit, Human Resources, Legal, Security, or a committee composed of representatives from those relevant units, where necessary.

In late December 2014, a whistle-blowing complaint was addressed to the Corporate Governance Officer on the issue of a Philex Executive favoring a specific contractor. With the help of external counsel, the case was deliberated on and investigated by the AIU, which came up with a recommendation in February 2015. The decision was also forwarded to the Corporate Governance (CG) Committee, directors for final disposition.



D. DISCLOSURE AND TRANSPARENCY

D.1 Transparent Ownership Structure

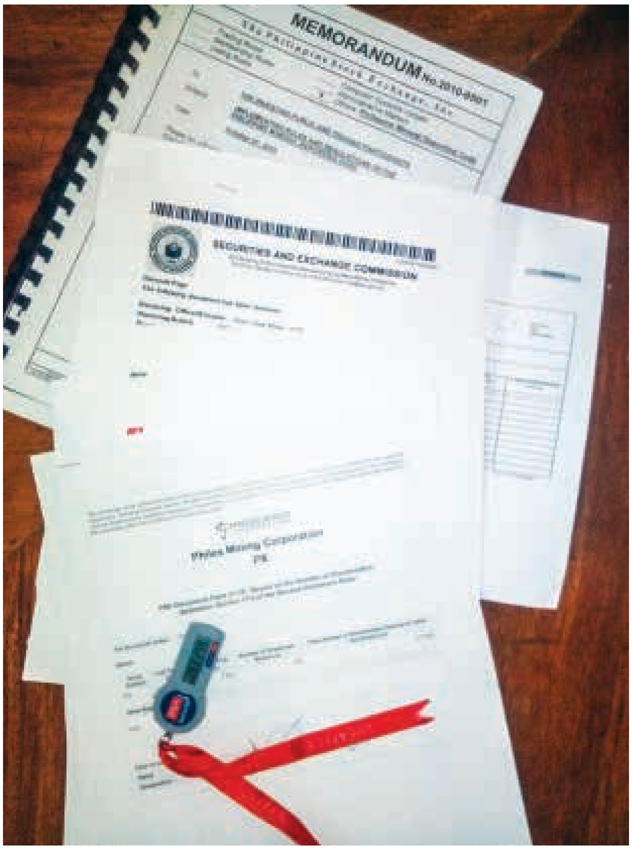
The following stockholders owned more than five percent (5%) directly in PMC as of December 31, 2014:

SHAREHOLDER	NUMBER OF SHARES	PERCENT	BENEFICIAL OWNER
Asia Link BV	1,023,275,990	20.71%	First Pacific Company Limited
Social Security System	1,014,366,028	20.53%	Social Security System
PCD Nominee Corporation	1,010,870,260	20.46%	See note*
Two Rivers Pacific Holdings Corp.	738,871,510	14.96%	Two Rivers Pacific Holdings Corp.

(*)Under SEC and PSE rules, the Company is unable to determine beneficial ownership of shares held under the PCD. However, beneficial owners meeting the 5%/10% thresholds are required to report beneficial ownership.

As of December 31, 2014, there were no participants under PCD account who own more than five percent (5%) of the voting securities.

INFORMATION:	Page
Direct and Indirect Shareholdings of Directors (Section D.4)	170
Direct and Indirect Shareholdings of Senior Management (Section D.4)	170
Corporate Structure	3



D.2. Quality of Annual Report

The Company's Annual Report contains the following information, which can be found on the sections and pages specified below:

INFORMATION:	Page
Major Business Risks	176-177
Corporate Objectives	8-9
Key Performance Indicators (Financial and Non-Financial)	67
Dividend Policy	160
Details of Whistle Blowing Policy	168
Biographical Details of Directors	14-19
Training and/or continuing education programs attended by each director	179
Number of Board of Directors meetings held and attendance during the year	174
Details of remuneration of each Director	175
Corporate Governance Confirmation Statement	159

D.3. Disclosure of Related Party Transactions

Related Party Transactions

In December 2014, the CG Committee reviewed and endorsed for Board approval, with the concurrence of all independent directors, the issuance of P7.2 billion convertible notes by Silangan Mindanao Exploration Co. Inc. (SMECI) to fund the definitive feasibility study (DFS) of the Silangan project. The notes, convertible to shares of the Company's wholly-owned subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI), were offered and issued to First Pacific (through Asia Link B.V.) and the Philippine Social Security System (SSS), major shareholders of the Company, based on the valuations conducted by an independent financial institution.

On February 25, 2015, the board amended the RPT policy by requiring mandatory endorsement of all independent directors before the same can be forwarded to the board for approval.

The Company has extended loans and advances to some of its subsidiaries, which were presented under Notes 13 and 23 of the Notes to the Company's Consolidated Financial Statements on Related Party Transactions.

D.4 Directors' and Officers' Dealings in Company Shares

Directors Dealings and Shareholdings

NAME OF DIRECTOR	NUMBER OF DIRECT SHAREHOLDINGS AS OF DECEMBER 31, 2013	CHANGES IN YEAR 2014	NUMBER OF DIRECT SHAREHOLDINGS AS OF DECEMBER 31, 2014	NUMBER OF INDIRECT SHARES	% OF CAPITAL STOCK
Manuel V. Pangilinan	4,655,000	0	4,655,000	None	0.09%
Juan B. Santos	1	0	1	None	0.00%
Eliza Bettina R. Antonino	1	0	1	None	0.00%
Marilyn A. Victorio-Aquino	500,100	0	500,100	None	0.01%
Oscar J. Hilado	173	0	173	None	0.00%
Bienvenido E. Laguesma	1	0	1	None	0.00%
Robert C. Nicholson	1,250	0	1,250	None	0.00%
Edward A. Tortorici	3,285,100	0	3,285,100	None	0.07%
Wilfredo A. Paras	1	0	1	None	0.00%
Eulalio B. Austin, Jr.	1,360,937	0	1,360,937	None	0.03%
Barbara Anne C. Migallos	203,875	0	203,875	None	0.00%

Beneficial Ownership and Dealings of the Company's Senior Management for 2014

NAME OF SENIOR MANAGEMENT	NUMBER OF DIRECT SHAREHOLDINGS AS OF DECEMBER 31, 2013	CHANGES IN YEAR 2014	NUMBER OF DIRECT SHAREHOLDINGS AS OF DECEMBER 31, 2014	NUMBER OF INDIRECT SHARES	% OF CAPITAL STOCK
Eulalio B. Austin, Jr., *President and CEO*	1,360,937	0	1,360,937	None	0.28%
Michael T. Toledo, *Senior Vice President, Corporate Affairs*	0	0	0	None	0.00%
Benjamin R. Garcia, *Senior Vice President, Human Resources*	149,500	0	149,500	None	0.00%
Barbara Anne C. Migallos, *Corporate Secretary*	203,875	0	203,875	None	0.00%
Danny Y. Yu, *SVP and Chief Financial Officer*	40,000	0	40,000	None	0.00%
Manny A. Agcaoili, *SVP for Operations*	0	0	0	None	0.00%
Redempta P. Baluda, *VP- Exploration*	20	0	20	None	0.00%
Victor A. Francisco, *VP-Environment and Community Relations*	155,000	0	155,000	None	0.00%
Enrique C. Rodriguez, Jr., *VP-Legal (*)*	615,000	0	615,000	None	0.01%
Raymund Brett C. Medel, *VP-Information and Technology*	0	0	0	None	0.00%

*Resigned as of December 31, 2014

D.5 Audit Fees

Audit and Audit-Related Fees

For 2014, the Company's external auditors were engaged primarily to express an opinion on the fairness of the Company's financial statements as well as its subsidiaries. The audit, however, included the review of the Company's preparation of its income tax return. The audit fee for the entire Philex group (excluding Philex Petroleum Corporation and its subsidiaries) was P5.03 million for 2014.

Non-Audit Fees

The Company has not engaged the external auditors for any other services other than the above mentioned activities.

D.6 Medium of Communications

Quarterly Reports

http://www.philexmining.com.ph/Company-disclosure/sec-form-17-q

PMC addresses the various information requirements of the investing public through the Investor Relations Division. The Company dutifully accomplishes and submits quarterly and annual reports on or even before the deadline prescribed by the regulatory agencies.

Company Website

http://www.philexmining.com.ph/

The Company is committed to the highest standards of disclosure, transparency and fairness in information dissemination. The Company provides the public with strategic, operating and financial information through adequate and timely disclosures to the regulatory authorities, such as the SEC and the PSE. Along with regular periodic reports, PMC discloses all material information about the Company that may have an impact on the valuation, stock price and trading volume of its securities. All financial and nonfinancial disclosures are immediately posted at the Company Disclosures section in the Company's website.

Analysts Briefings

http://www.philexmining.com.ph/investor-relations/company-presentations

Analyst briefings, physical or via teleconference, are conducted on a regular basis to provide timely update on the financial and operating performance of the Company to the investing community. Copies of the analysts' briefing materials as well as investor presentations can be found in the above link in the Company website.

Media Briefings/Press Conference

http://www.philexmining.com.ph/newsroom/press-release

The Company's Corporate Affairs Group (now called the Public and Regulatory Affairs Group) handles the Company's public, media and government relations functions. Media briefings are conducted after the Annual Shareholders' Meeting. Copies of the media releases can be found in the above link in the Company's website.

D.7 Timely Filing/Release of Annual/Quarterly Financial Reports

The Company's annual results (audited) were released within 60 days from the end of the reporting financial yearend on February 25, 2015 and its Audited Financial Statements (AFS) were published (in the Company website and disclosed to the PSE and SEC) on February 27, 2015. This can be accessed on the link below in the Company website.

http://www.philexmining.com.ph/company-disclosure/audited-financial-statement-fy-2014

The Company's SEC Form 17-A Annual Report was released on April 1, 2015 to the PSE and SEC. The true and fair representation of the AFS / Annual Report has been affirmed by the Chairman of the Board of Directors, the President/CEO and the CFO in the Statement of Management Responsibility.

Company Website

The Company's website provides the following information accessible through links indicated:

INFORMATION:	
Business operations	http://www.philexmining.com.ph/about-us/our-business/padcal
Financial statements/reports (current and prior years)	http://www.philexmining.com.ph/company-disclosure/sec-form-17-a
Materials provided in briefings to analysts and media	http://www.philexmining.com.ph/investor-relations/company-presentations
Shareholding structure	http://www.philexmining.com.ph/about-us/our-company/shareholding-structure
Group corporate structure	http://www.philexmining.com.ph/about-us/our-company/organizational-chart
Downloadable annual report	http://www.philexmining.com.ph/investor-relations/annual-reports http://www.philexmining.com.ph/company-disclosure/sec-form-17-a
Notice of ASM and/or EGM	http://www.philexmining.com.ph/comp any-disclosure/notice-of-annual-or-special-stockholders-meetings
Minutes of ASM and/or EGM	http://www.philexmining.com.ph/company-disclosure/minutes-of-all-general-or-special-stockholders-meetings
Company's By-laws and Articles of Incorporation)	http://www.philexmining.com.ph/about-us/our-company/articles-of-incorporation-and-by-laws

D.8 Investor Relations

The contact details of the officer responsible for investor relations are as follows:

Mr. Rolando S. Bondoy
Division Manager - Investor Relations
Telephone No.: (632) 631-1381 to 88
Email: philex@philexmining.com.ph

E. RESPONSIBILITIES OF THE BOARD

E.1 Board Duties and Responsibilities

Corporate Governance Manual

In February 2011, the Company filed its Revised CG Manual with the PSE and SEC, further revised on 31 July 2014 to comply with SEC Memorandum Circular No. 9 Series of 2014.

The structures and processes set forth in the Revised CG Manual, the Articles of Incorporation and By-Laws, in conjunction with the Company's commitment to the corporate governance principles of transparency, accountability, fairness and integrity, the various corporate governance policies adopted by the Board, and the charters of the different committees, form the Company's basic framework of governance by which its Board of Directors, officers, executives and employees conform with in order to adhere to the Company's strategic objectives, create value for all its shareholders and sustain its long-term viability.

Types of Decisions that Require Board Approval

The types of decisions that require the approval of the Board of Directors pertain to the Company's business transactions that extend beyond the management of extraordinary corporate affairs, but not above the limits of its authority as provided by law.

Roles and Responsibilities of the Board

Each director has a three-fold duty of obedience, diligence and loyalty to the corporation he serves. A director shall:

a. Act within the scope of power and authority of the Company and the Board as prescribed in the Articles of Incorporation, By-Laws, and under existing laws, rules and regulations;

b. Exercise his best care, skill, and judgment, and observe utmost good faith in the conduct and management of the business and affairs of the Company; and

c. Act in the best interest of the Company and for the common benefit of the Company's shareholders and all other stakeholders.

Faithful compliance with the principles of good corporate governance is the paramount responsibility of, and shall start with, the Board. Furthermore, the Board is required to exercise corporate powers, conduct the business and control the properties of the Company in compliance with the corporate governance principles instituted in the Company's CG Manual. The Board shall also be responsible for fostering the long-term success of the Company and securing its sustained competitiveness.

Vision and Mission

The Company's management and Board of Directors review and approve the Company's vision, mission and corporate strategy on an annual basis and monitor/oversee the implementation of such corporate strategy.

The Company's vision is to be a highly respected, world-class natural resource Company, committed to deliver excellent value to its investors, employees, and other stakeholders. Its mission is to become a responsible mining corporation that discovers and processes minerals and energy resources for the use of society.

E.2 Board Structure

Code of Business Conduct and Ethics

The details of the Company's Code of Business Conduct and Ethics approved last February 26, 2014 are available in the following link in the Company website:

http://www.philexmining.com.ph/corporate-governance/code-of-business-conduct-and-ethics

The Company is dedicated to doing business in accordance with the highest standards of ethics. The Company, its directors, officers, and employees shall comply with the Code and shall endeavor to promote a culture of good corporate governance by observing and maintaining its core business principles of integrity, teamwork, work excellence, respect for individuals, corporate responsibility, and social and environmental responsibility in their relationships among themselves and with the Company's customers, suppliers, competitors, business partners, other stakeholders, government regulators, and the general public.

Board Structure and Composition

Independent Directors

The Company adopts the common and ordinary meaning of the term "independence" and defines an independent director as a person independent of management. He or she, apart from his or her shareholdings, is free from any business dealings or other relationship with the Company which could, or could reasonably be perceived to materially interfere in the exercise of independent judgment in carrying out his/her duties and responsibilities to the Company.

The Board has two (2) independent non-executive directors in accordance with the Philippine laws and regulations, specifically Section 38 of the Securities Regulations Code of the Philippines. An independent director is allowed to serve as such for five (5) consecutive years, and shall be ineligible for election as such in the same Company unless he/she has undergone a "cooling-off" period of two (2) years. After serving as such for nine (9) years, the independent director shall be perpetually barred from being elected as such in the same Company, in accordance with the SEC Memorandum Circular No. 9, Series of 2011, effective January 2, 2012.

The Board Committees

The Committees will monitor the activities and undertake a regular review of matters under their respective areas. The different Committee Charters set forth its purposes, authority, duties and responsibilities, structure and procedures in accordance with PMC's Revised Code of Corporate Governance.

Nomination Committee

- *Charter*

  The complete text of the Nomination Committee's Charter can be found on the following link in the Company website:

  http://www.philexmining.com.ph/userfiles/Charter%20of%20the%20Nominations%20Committee(2).pdf

- *Work Done and Issues Addressed*

  The Nomination Committee screen the nominees to determine whether they have all the qualification and none of the disqualifications for election to the Company's Board of Directors and prepared the final list of candidates for election at the Annual Stockholders' meeting.

Compensation Committee

- *Charter and Purpose*

  The following link provides the details of the Remuneration/Compensation Committee Charter:

  http://www.philexmining.com.ph/userfiles/Charter%20of%20the%20Compensation%20Committee(2).pdf

- *Work Done and Issues Addressed*

  The Renumeration/Compensation Committee reviewed the per diem and profit sharing policies of the members of the Board of Directors. It also reviewed and approved the compensation packages of the Company's senior officers as well as the total employee remuneration package and incentive plan for 2014. During a meeting held last February 25, 2015, the committee recommended for board approval, increase the per diem to P40,000 per board meeting and P30,000 per committee meeting attendance.

  In the event that financial results warrant the payment of 1.5% director's compensation, such directors' compensation shall be exclusive of the annual total per diem paid to directors. Thus, the amount earned shall be deducted from the annual directors' compensation.

Audit Committee

- *Charter*

  The full transcript of the Audit Committee Charter is available in the Company's website on the following link:

  http://www.philexmining.com.ph/userfiles/PX%20Audit%20Committee%20Charter%20As%20Revised(1).pdf

- *Work Done and Issues Addressed*

  The Audit Committee reviewed the 2013 AFS, discussed with the external auditor the various issues relating thereto and recommended for Board approval the financial reports and financial disclosures. It likewise reviewed and approved the external auditor's work and all audit fees related thereto, the Internal Audit Plan, the Quarterly Financial Statements, the Internal Audit Quarterly Accomplishment Report, and various Internal Audit findings. In addition, the Committee also adopted the Revised Audit Committee Charter and performed a self-assessment of the effectiveness and performance of Internal Audit as per SEC memo Circular No.4 Series 2012.

Corporate Governance Committee

- *Charter*

  The complete details of the Company's Corporate Governance Committee Charter can be accessed through the following link in the Company's website:

  http://www.philexmining.com.ph/userfiles/Corporate%20Governance%20Committee%20Charter%20(1)(1).pdf

- *Work Done and Issues Addressed*

  The CG Committee reviewed and approved the following: RPT Policy, Amended Policy on Dealings in Company shares of stock, other corporate governance best practices based on the ASEAN Corporate Governance Scorecard, PSE Compliance Surveys and SEC Memorandum Circulars, and the Directors' and Officers' Training Policy. It also facilitated the creation and spin-off of the Risk Committee from the Audit Committee and reviewed and endorsed to the Board for approval the P7.2 billion convertible notes issuance of SMECI to fund the Silangan project DFS, as discussed earlier.

Finance Committee

- *Purpose*

  The Finance Committee has the primary oversight responsibility of the Company's corporate finance activities, including the management of its equity, financial risks, and the financing of major acquisitions.

- *Work Done and Issues Addressed*

  The Committee reviewed the P7.2 billion convertible notes issuance of SMECI in terms of its financial risk and capability to finance the Silangan project DFS.

  The committee also reviewed the company's hedging strategies.

Executive Committee

- *Purpose*

  Sec. 35 of the Corporation Code states the purpose of the Executive Committee:

- *Members*

OFFICE	NAME
Chairman Non-Executive Director	Manuel V. Pangilinan
Member Non-Executive Director	Eulalio V. Austin, Jr.
Member Non-Executive Director	Robert C. Nicholson
Member Non-Executive Director	Juan B. Santos
Member Independent Director	Edward A. Tortiricci

Risk Committee

- *Charter*

  The complete details of the Company's Risk Committee Charter can be accessed through the following link in the Company's website:

  http://www.philexmining.com.ph/userfiles/PX%20Risk%20Committee%20Charter(1).pdf

- *Members*

OFFICE	NAME
Chairman Independent Director	Oscar J. Hilado
Member Non-Executive Director	Robert C. Nicholson
Member Non-Executive Director	Eliza Bettina R. Antonino
Member Non-Executive Director	Marilyn A. Victorio-Aquino
Member Independent Director	Wilfredo A. Paras

The first Risk Committee meeting was held last February 25, 2015, where the major risks affecting the Company were presented and discussed.

E.3 Board Processes

Attendance

The Board has a pre-determined schedule of meetings at the beginning of the calendar year. Discussions during these meetings are open and independent views are given due consideration. As necessary, the Board likewise holds meetings through telecommunications or other electronic medium.

A separate meeting of non-executive directors without the presence of the CEO or any of the executive officers is held at least once a year. A separate meeting without the presence of CEO and other executive officers was held on April 23, 2014.

Access to Information

The Company regularly sends soft copies of the complete set of Board materials to directors via e-mail at least five days in advance. The hard copies are physically distributed on the day of the Board meeting or earlier upon request of director/s.

Corporate Secretary

The Corporate Secretary is Atty. Barbara Anne C. Migallos, a Filipino and a resident of the Philippines. She brings with her many years of relevant experience in the corporate law and legal practice, and has sufficient understanding of the financial reporting rules, standards and practices.

The Company's Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities. Among her functions are safekeeping and preservation of the integrity of the minutes of the meetings; informing the members of the Board of the agenda of their meetings and ensuring that the members have before them accurate information; ensuring that all Board procedures, rules and regulations are strictly followed by the members; assisting the Chairman in the preparation of the Board agenda, facilitating trainings of directors; and keeping directors updated on relevant statutory and regulatory changes, such as new policies or rules of the SEC and the PSE.

Board Appointments and Re-election

The directors are elected by the shareholders at the ASM. Each director shall serve a one-year term and until their successors are elected and qualified. Any vacancy in the Board before the end of their terms shall be filled in accordance with applicable law and rules. As needed, the Board may use professional search firms to fill in the vacancies of the Board. The guidelines are set forth in the link provided below:

http://www.philexmining.com.ph/userfiles/PX%20Guidelines%20on%20SearchScreening%20and%20Selection%20of%20Directors%20-%20Clean.pdf

The Board considers it appropriate that its structure comprises ethical and honest experts who are knowledgeable, experienced and skillful in diverse fields relevant to the conduct of the business. Members are selected with no discrimination for gender, race, religion, age, professional skill, or other qualifications.

Remuneration Matters

Remuneration Policy

As matter of policy, the remuneration of directors and other officers must be competitive and at a level that will attract and retain talent and will motivate them to continue their efforts in contributing to the long-term success of PMC. Such renumeration is in accordance with the Corporation Code of the Philippines, Company By-Laws, or as approved by the shareholders.

President and CEO

The President/CEO is entitled to receive fixed and variable remuneration, in accordance with the compensation plans approved by the Board. Variable remuneration includes: (1) equity-based benefits and (2) productivity or performance-based bonus scheme or under an approved plan.

DIRECTORS' ATTENDANCE IN BOARD AND BOARD COMMITTEE MEETINGS FOR 2014

DIRECTORS	BOARD	NOMINATION	RENUMERATION	AUDIT	CORPORATE GOVERNANCE	FINANCE
Manuel V. Pangilinan*	8/9	2/2				
Juan B. Santos	8/9	2/2	2/2			1/1
Eliza Bettina R. Antonino	7/9			4/5		
Marilyn A. Victorio-Aquino**	9/9	2/2		5/5	3/3	
Oscar J. Hilado**	8/9		2/2	3/5	2/3	1/1
Bienvenido E. Laguesma	8/9					1/1
Robert C. Nicholson	9/9	2/2	2/2	5/5		1/1
Edward A. Tortiricci	4/9		1/2			
Wilfredo A. Paras	8/9	2/2	2/2	5/5	3/3	
Eulalio B. Austin, Jr.	8/9					1/1
Barbara Anne C. Migallos	9/9					

*The Chairman and the CEO are held separately by unrelated individuals.

**Mr. Oscar J. Hilado, Independent Director, has extensive experience in mining and natural resources industry as former Chairman of Holcim Philippines Inc. Atty. Marilyn V. Aquino, who is a non-executive director, also brings a wealth of experience from legal practice where she has extensive experience in mining and natural resources industry. She has represented a number of natural resource companies and other participants in the mining sector of the Philippines. She is presently a member of the Finance Committee of the Chamber of Mines of the Philippines (COMP).

Key Officers

Key officers are entitled to receive fixed and variable remuneration, in accordance with the compensation plans approved by the Board. Variable remuneration includes (1) equity-based benefits and (2) productivity or performance based bonus scheme or under an approved plan.

Total Remuneration of Directors:

In 2014, a total of P11.17M was paid to all executive and non-executive directors. This represented the per diems of P8,000 per meeting attended and equivalent to 1% of income before tax of the year 2013, in accordance with the Company By-Laws .

NAME	POSITION	AMOUNT (P Millions)
Manuel V. Pangilinan	Chairman	1.03
Barbara Anne C. Migallos	Non-Executive Director	0.57
Marilyn A. Victorio-Aquino	Non-Executive Director	1.13
Robert C. Nicholson	Non-Executive Director	1.13
Wilfredo A. Paras	Non-Executive Director	1.10
Edward A. Tortorici	Non-Executive Director	1.03
Oscar J. Hilado	Independent Director	1.09
Social Security System Juan B. Santos	Non-Executive Director	1.05
Social Security System Atty. Bienvenido E. Laguesma	Non-Executive Director	0.89
Social Security System Eliza Bettina R. Antonino	Non-Executive Director	1.07
Eulalio B. Austin, Jr.	Executive Director	1.07
TOTAL		11.17

Internal Audit

The Internal Audit Group (IAG) is a separate and independent unit, which directly reports to the Audit Committee and is headed by Ms. Geraldine B. Ateo-an.

In accordance with Company's employment requirements and policies, the Internal Auditor functionally reports directly to the Audit Committee. The role of the internal auditor is to provide independent, objective assurance, and consulting services to the management designed to add value and improve the Company's operations. The role also includes ensuring the adequacy of the network of risk management, control, and governance processes.

As provided in the Audit Committee Charter, the IAG provides an annual report to the Audit Committee on the internal audit organization's activities, purposes, authorities, responsibilities, and performance relative to the audit plans and strategies approved by the Audit Committee. Such annual report include significant risk exposures and control issues, corporate governance issues, evaluation of compliance with the Code of Conduct for the management and other matters requested by the Committee or the Board.

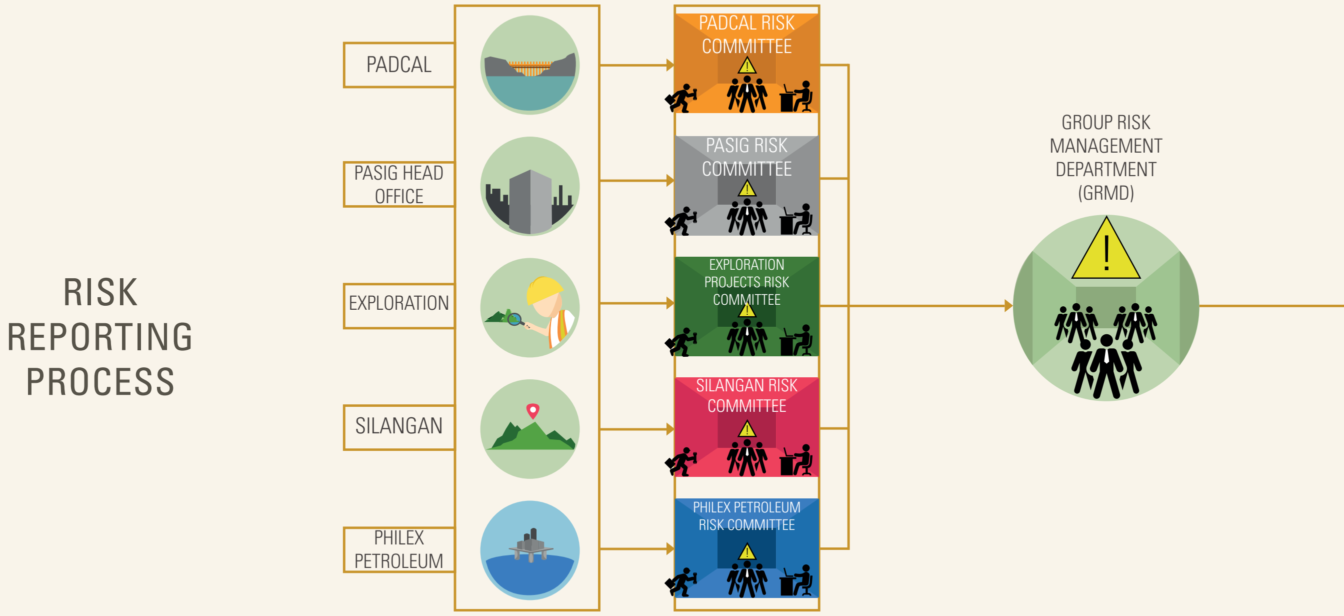
Risk Oversight

Risk Management System

An effective management of risk is vital to the continued growth and success of the Group and the Company is committed to manage risks in a proactive and effective manner across the organization. This commitment is embodied in the Philex Group Risk Management Philosophy Statement, as follows:

"The Philex Group shall undertake a Risk Management Program that will mitigate or eliminate identified physical, socio-ecological and economic risks inherent in its mining business thereby ensuring a productive and profitable operation."

*Statement of adequacy of the Company's internal controls and risk management system can be found on page 57 of this Annual Report.



Key Risk and How These are Managed:

a. Regulatory and Tax Environment

The local mining industry is heavily regulated under the current regime and the level of regulation dictates the behavior of mining operations and investments into the sector. Currently, the government is perceived to be seeking greater control of and a higher tax take from the local industry. These proposed changes in government policy towards mining have delayed major projects in the country due to the altered risk-reward equation. At present, there is an on-going move from the Mining Industry Coordinating Counsel (MICC) and related agencies to amend the Fiscal Regime and Revenue Sharing Arrangement for Large-Scale Metallic Mining operations in the Philippines. Effectively, the current draft proposal aims to increase tax payments of PMC by about 80-100%.

To mitigate these, the Company continues to build strong working relationships with the government, directly and indirectly, through the Chamber of Mines of the Philippines (COMP). PMC is also increasing the transparency of its tax payments to the government to heighten public awareness. In relation to this, the Company has joined the EITI (Extractive Industries Transparency Initiative) being advocated by the COMP to express strong support for responsible mining practices. In addition, the Company constantly makes representations to the government through different public forums and continues to effectively communicate the positive impact of mining through various media.

b. Exploration and Development of Mineral Deposits

The exploration for and development of mineral properties involve significant risks, which may not be completely eliminated even with a combination of careful evaluation, experience and knowledge. While the discovery of an ore body may result in substantial rewards, only a few properties explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, develop metallurgical processes, and construct mining and processing facilities at a particular site.

There can be no assurance that the exploration of mining tenements, where the Company has interests in, during the exploration stage (or of any other tenement in which the Company may acquire an interest in the future) will result in the establishment of commercially viable mining operations. An apparently viable mineral deposit, even when identified, is no guarantee that the same can be exploited profitably.

If the exploration of the Company's existing tenements prove to be unsuccessful, this may result in a reduction of the value of those tenements, diminution in the Company's cash reserves and possible relinquishment of the tenements. Similarly, there can be no assurance that the exploration of mining tenements currently under development will result in the establishment of commercially viable mining operations.

The success of the Company depends on, among others, the delineation of the economically mineable reserves, access to required development capital, securing and maintaining title to its exploration and mining tenements and obtaining all consents and approvals necessary for the conduct of its exploration activities. The Company has a competent team of legal and technical personnel who handle and manage these matters.

c. Mineral Agreements, Permits and Licenses, and Operating and/or Royalty agreement

The Company relies on permits, licenses (including Mineral Production Sharing Agreements ("MPSAs"), operating and/or royalty agreements with third-party claim owners and land access agreements to conduct its mining operations. The MPSAs and operating and/or royalty agreements covering the Company's mineral properties expire at different times and require renewal upon expiration.

Regulatory authorities can exercise considerable discretion in the terms and timing of permit issuance or whether a permit may be issued at all. Accordingly, the approvals needed for mining operations may not be issued or renewed or, if issued or renewed, may not be issued in a timely fashion, or may involve requirements that may be changed or interpreted in a manner which restricts the Company's ability to conduct mining operations profitably.

Furthermore, new laws or regulations, or changes in the enforcement or interpretation of existing laws or regulations, may require substantial increases in equipment and operating costs in order to obtain approvals required by, or to otherwise comply with the conditions imposed by, such new or revised laws and regulations. The need to obtain such new or revised approvals or to comply with additional conditions may also cause material delays or interruptions in one or more of the Company's current or planned operations or developments or, to the extent such approvals or conditions cannot be obtained or met on an economical basis, the curtailment or termination of such operations or developments.

The local governments where the Company's mines or exploration properties are located may also impose additional restrictions on its operations. There can be no assurance that any such local government supervision or regulation will not interrupt current or planned operations.

In addition, the Company's ability to explore or develop its mining tenements may be subject to prior informed consent of indigenous people (IP) that have ancestral domain title over such tenements. The operation of such mining tenements may also require acquisition of surface rights from third parties. There is no certainty that the Company will be able to acquire all surface rights that are necessary for the exploration and development of its mining tenements on a timely basis or at all.

Typically, however, the Department of Environment and Natural Resources ("DENR") would write and afford a tenement holder an opportunity to address alleged breaches of the terms of, or challenges to, its mineral agreements, permits or licenses before issuing an order to cancel or terminate such mineral agreements, permits, or licenses. As a practical matter, the MGB would move to have a mineral agreement, permit or license cancelled or terminated only when there is an irremediable material breach on the part of the tenement holder.

To address the foregoing risks, the Company employs a team of legal and technical personnel, who exercises the requisite due diligence with respect to the ownership of mining and surface rights, and the enforceability of the Company's rights over its mining properties. Mining and surface rights are reviewed for ownership and location verification.

d. Operational Risk for Mining Operations

Mining operations are subject to all the hazards and risks normally encountered in exploration, development and production, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage, increased costs and possible legal liability. Additional costs are incurred by the Company for items such as labor, transport, costs of consumables and movement of plant and equipment.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, volcanic eruptions, landslides, and earthquakes that may materially disrupt and adversely affect the Company's business operations. The Company cannot give any assurance that it will be able to obtain and maintain insurance coverage for the catastrophe or that such insurance coverage will be adequate to compensate the Company for all damages and economic losses resulting from these natural catastrophes.

The Padcal tailings storage facilities have been designed to provide safety zones in cases of cave-ins. Emergency procedures are set up in case of a tailings storage facility overtopping. The Company maintains a warning system to alert its workers in cases of landslides, major earthquakes, and potential cave-ins. The Company schedules underground blasting activities and plans drilling activities to ensure employee safety. The Company ensures compliance by all of its staff and visitors with underground safety standards that include wearing the proper gear and carrying the proper equipment. It provides periodic training on underground mining safety and survival. The Company likewise has a highly commended team of underground rescue staff who had assisted in the country's past landslides and major earthquakes disasters.

Although the Company maintains insurance to cover some of these risks and hazards in amounts it believes to be reasonable, such insurance may not provide adequate coverage in all circumstances. There is no assurance that the Company's insurance will continue to be available at economically feasible premiums or that it will provide sufficient coverage for losses related to these or other risks and hazards.

e. Price Risks

The Company's revenue is largely dependent on the world market prices for gold and copper and the factors affecting the behavior of these are beyond the Company's control.

If the sales price of these commodities fall and remain below the production costs for a prolonged period, the Company will sustain losses. If losses continue, the Company may curtail or suspend some or all of its mining and exploration activities. This would have an adverse impact on the Company's business, results of operations, stated reserves and financial condition.

To mitigate these price risks, the Company constantly evaluates the advantages and disadvantages of hedging a portion of the annual production.

f. Environmental and Natural Events Risks

As a natural resource operating entity, the Company is inherently subject to potential environmental concerns. The Company is also subject to Philippine laws and regulations governing the environmental impact of its operations.

To manage the risk, the Company puts a great amount of effort and invests a substantial amount of resources into environmental protection and rehabilitation. As a manifestation of its commitment to responsible and sustainable mineral resource development, the Company has adopted an environmental policy statement which is consistent with ISO 14001 Certification on Environmental Management Systems. The Company was also covered by a pollution liability insurance to answer for claims against it by reason of environmental pollution caused by its Padcal mining operation.

While the Company believes it is in substantial compliance with all material environmental regulations, it can give no assurance that changes in these regulations will not be effected or environmental incidents will not happen, which may adversely impact its operation and/or impose added costs to the Company. For example, on August 1, 2012, the Company voluntarily suspended its Padcal operations when it was discovered that nontoxic water and sediment had discharged accidentally from its tailings pond due to heavy rainfall brought about by successive typhoons. As a result of the accident, the Company paid the local government in February 2013 ₱1.034 billion in fees to cover costs of remediation and rehabilitation activities and ₱92.8 million to the Pollution Adjudication Board on January 18, 2013.

In addition, natural disasters, such as earthquakes, floods and landslides, could also severely hamper operations of the Company. Such natural disasters could, among other things, damage the Company's facilities and surrounding infrastructure, block the access to its mining assets, injure its personnel and result in a suspension of its operations for an unpredictable period of time, all of which could materially and adversely affect its business, financial condition, results of operations and prospects.

E.4 People on the Board

Chairman's Role

The Chairman of the Board ensures that the Board functions effectively. He assists in ensuring compliance with best practices in corporate governance policies and practices. He provides leadership to the Board and ensures that the Board works effectively. He discusses key issues in a timely manner – taking into account proposals and recommendations of the CEO and management. In addition, the Chairman ensures that an open line of communication and a free flow of information between Management and the Board are maintained.

The President and the Chief Executive Officer

The President and CEO shall be responsible for the general care, management, and administration of the business of the Company. He ensures that the operational and financial affairs of the Company are managed in a sound and prudent manner and that financial and internal controls are adequate and effective to ensure reliability and integrity of financial and operational information. Further, he oversees the effectiveness and efficiency of operations and safeguards assets in compliance with laws, rules and regulations. The President and CEO provides leadership to the management in developing and implementing business strategies, policies, processes and budgets to the extent approved by the Board and takes the lead in identifying and managing operational, financial, and other business risks.

Board Diversity Policy

The Company embraces and promotes diversity at all levels, including the Board. The Company recognizes that human capital remains as its most valuable asset and as such, is committed to fostering, cultivating, and preserving a culture of diversity and inclusivity. The collective sum of its diversity - in terms of background, race, ethnicity, religion, gender, life experiences, knowledge, inventiveness, innovation, self-expression, unique capabilities, and talents - represents a significant part of PMC's culture, reputation and achievements.

E.5 Board Performance

Performance Appraisal / Assessment Policy

The objective of this Policy, which was approved on February 25, 2015, is to enable the Board to periodically identify overall strengths and specific areas for improvements based on the results of assessment, and to obtain important feedback and views from the members of the Board, which will collectively form part of the Company's overall strategy, and/or its future directions or endeavors.

Directors will be requested to complete a standard self-assessment, which will be evaluated as follows:

PERFORMANCE EVALUATION	SELF-ASSESSMENT	EVALUATED BY
Board of Directors	/	Individual Director/s
Director	/	Individual Director/s
Board Committees	/	Member of Committee
President and CEO	N/A	Individual Director/s

The different forms and criteria can be viewed in the following link in the Company's website:

http://www.philexmining.com.ph/userfiles/PX%20BOD%20Appraisal%20Policy%20(2).pdf

Directors' and Officers' Orientation and Training Policy

The full text of Directors' and Officers' Orientation and Training Policy approved on October 29, 2014 can be accessed through the following link in the Company website:

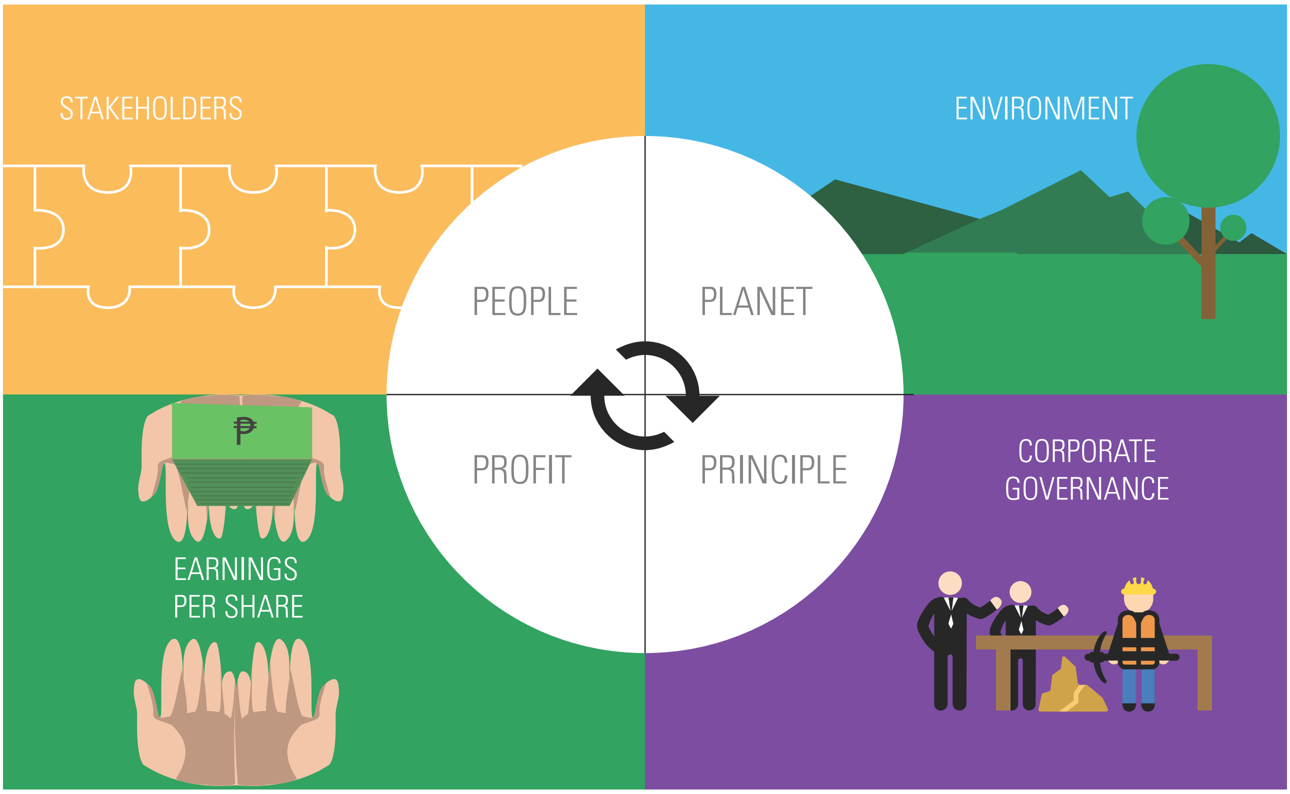
http://www.philexmining.com.ph/userfiles/Directors%20and%20Officers'%20Orientation%20and%20Training%20Policy.pdf

As a matter of rule, each member of the Board of Directors shall undertake the requirements set out in this Policy with respect to the orientation programs for new directors and the mandatory annual training programs for all the members of the Board of Directors. The mandatory annual training program shall also apply to executive officers with the rank of Vice President and above. The said training programs are in compliance with the Philippine SEC Memorandum Circular 20, Series of 2013.

Training and/or continuing education program attended by each director

NAME OF DIRECTOR/OFFICER	DATE OF TRAINING	PROGRAM	NAME OF TRAINING INSTITUTION/ SPONSOR
Manuel V. Pangilinan Chairman; Director	4/1/2014	Briefing on Corporate Governance Requirements Under U.S. Laws and Regulations and Foreign Corrupt Practices Act of 1997	Philippine Long Distance Telephone Co.,
	12/4/2014	Corporate Governance : What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
Juan B. Santos Vice Chairman; Director	4/1/2014	Briefing on Corporate Governance Requirements Under U.S. Laws and Regulations and Foreign Corrupt Practices Act of 1997	Philippine Long Distance Telephone Co.,
	12/4/2014	Corporate Governance : What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
Eulalio B. Austin, Jr. President & CEO Director	11/28/2014	"Going for the Gold: Competing Successfully in the ASEAN Corporate Governance Scorecard."	Institute of Corporate Directors
Oscar J. Hilado Independent Director	7/8/2014	Corporate Governance Programs	SGV & Co./PHINMA Corporation
Marilyn A. Victorio-Aquino Director	11/13/2014	Corporate Governance Programs	SGV & Co./Lepanto Consolidated Min-ing Company
Robert C. Nicholson Director	5/8 /2014	Hong Kong Corporate & Regulatory Update and Reading Market Presentation of May Board Paper	First Pacific Co. Ltd.
	10/15/2014	First Pacific Corporation Directors' Training	First Pacific Co. Ltd.
	11/26/2014	Hong Kong Corporate & Regulatory Update and Reading Market Presentation of May Board Paper	Gibson, Dunn & Crutcher/ First Pacific Co. Ltd
Edward A. Tortorici Director	12/4/2014	Corporate Governance : What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
Wilfredo A. Paras Independent Director	11/20/2014	Distinguished Corporate Governance Seminar Speaker Series	Institute of Corporate Directors
Eliza Bettina R. Antonino Director	12/4/2014	Corporate Governance : What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation
Bienvenido E. Laguesma Director	10/10/2014	Corporate Governance Seminar for GOCC's	Institute of Corporate Directors
Barbara Anne C. Migallos Corporate Secretary/ Director	9/3/2014	Corporate Governance Seminar	SGV & Co.
	12/4/2014	Corporate Governance : What to Expect from SEC and Corporate Governance Trends and Practices in Advanced Economies	Philex Mining Corporation

From left to right: Danny Yu, Christopher Young, Edward Tortorici, Robert Nicholson,Geoffrey Stapylton,Juan Santos, Eulalio Austin, Jr., Marilyn Victorio-Aquino, Wilfredo Paras and Yulo Perez


STAKEHOLDERS
ENVIRONMENT
PEOPLE
PLANET
PROFIT
PRINCIPLE
₱
EARNINGS
PER SHARE
CORPORATE
GOVERNANCE

CORPORATE SOCIAL RESPONSIBILITY

PMC has been a conscientious mineral resource company from the time it started its operations in Benguet, Mountain Province more than five decades ago. Over the years, the Company has committed itself to further strengthen the Company's corporate social responsibility (CSR) platform, with the ultimate objective of making Philex the face of responsible mining in the country.

Being a pioneer in the industry, Philex is very much aware of the importance of the community and the environment in the success of any enterprise, particularly mining, and understands very well how mining operations could strike the optimum balance between posting profits, preserving the planet, and progressing people.

The Company oversees every aspect of operation and gives particular emphasis on the long-term sustainability of its mines, which Philex believes depend largely on the continued progress and conservation of the social and environmental communities surrounding Philex's areas of operation.

For Philex, CSR is more than just providing financial support to families, delivering free health care and educational services, and protecting the environment. For more than half a century, the Company's CSR platform has been committed to preserve lives, conserve Mother Nature, and uplift the well-being of communities within and outside its areas of operation. Philex adopts a holistic approach to and goes beyond the traditional notion of CSR, seamlessly incorporating it into its corporate culture. In 2014, the Company spent more than ₱500 million for its CSR initiatives, largely exceeding what is mandated by the government, both in terms of monetary value and benefits to the community.

PROMOTING ENVIRONMENTAL STEWARDSHIP

In the area of environmental responsibility, Philex ensures that its environmental practices adhere to the principles of a socially and environmentally responsible mining company. In all project areas, the Company implements environmental management programs alongside the attainment of production targets. This includes, first and foremost, the development of mineral resources while at the same time minimize, if not totally eliminate, the operations' harmful impact to the environment. A total of ₱433 million was spent last year alone for these activities under the Company's Environmental Protection and Enhancement Program (EPEP).

The Company is also engaged in the rehabilitation of un-minable lands and disturbed areas within its tenements by adopting sustainable development strategies that focus on:

1. poverty reduction, through the generation of job opportunities and alternative livelihood sources;
2. food security, through agro-forestry, silvo-pasture and food forestation;
3. bio-diversity conservation, through poly-cropping, endemic species planting and silvicultural treatments; and
4. climate change mitigation and adaptation, through ecological waste management and forest protection.

On top of these, the Company is also engaged in the provision of safe and efficient utilities by constantly improving water quality and ensuring an effective water treatment system. In addition, it also manages the direct impact of its operations on the ground, literally, by preventing soil erosion and managing the impact of ground drilling, in general. Finally, the Company promotes an active waste disposal system, anchored on the Reduce, Reuse and Recycle program, which is being implemented across its operations.

Kindly see the following pages for specific activities per site:

Site	Page
Padcal	37
Silangan	31
Sibutad	41
Bulawan	44

CREATING SUSTAINABLE COMMUNITIES

PMC has also been a constant and strong partner in nation building by faithfully fulfilling its obligations to the national government and strategically working with local units to push countryside development. Every year, PMC is mandated to invest 1.5% of its total operating costs, before interest and taxes, to fund initiatives that benefit local communities under the government's Social Development Management Program (SDMP).

In 2014, the Company sustained the provision of health care, educational assistance and livelihood programs, supported by infrastructure projects, which improve the overall quality of life of host communities.

Cognizant of the fact that people rely on natural resources to sustain modern living, PMC believes that the basic pillars to development are economic stability, environmental conservation, and sound education. As such, PMC's strategy is anchored on health, education, livelihood, public infrastructure, and environmental management to contribute to national progress and development.

I. HEALTH

PMC cares for the physical health and well-being of everyone as the Company implements different health programs tailor-fit for the communities where it operates. The Company allocates an average annual budget of ₱35 million to help supply and address the medical needs of the community where it operates, especially in the remote mountainous areas. These health programs include conduct of regular medical and dental clinics and provision of trainings on health awareness, first-aid treatment and use of herbal medicines for communities that are far from the hospital.

For more details on the Company's health programs, kindly refer to the following pages:

Site	Page
Padcal	36
Silangan	30
Bulawan	40

II. EDUCATION

The Company gives high premium on education and believes that quality education will help ensure a better life and brighter future. The educational support PMC has provided to its employees, their dependent and to people from its host communities is a noteworthy achievement, having produced professionals who are gainfully employed, not only in the Philippines' but around the globe as well.

The specific programs on education for each site can be found on the following pages:

Site	Page
Padcal	36
Silangan	30
Bulawan	40

III. LIVELIHOOD

The Company's livelihood program is focused on building partnerships, empowering individuals, and promoting stakeholder accountability to help create self-reliant and sustainable communities. Through these initiatives, PMC is espousing the view that the Company is more than just an "obligated provider" but a partner for development. There are several projects implemented under this livelihood program, which range from farming to other agroforestry practices, establishing cooperatives and running small-scale trading.

For more information on the Company's livelihood generation initiatives for each site, kindly refer to the following pages:

Site	Page
Padcal	36
Silangan	31
Bulawan	40

IV. INFRASTRUCTURE

The Company also provides critical public infrastructure support by sponsoring high and low impact projects, geared towards the development of the countryside. Among the significant activities under this campaign are the roll-out of farm-to-market roads, the construction of water systems, multi-purpose buildings, churches, educational facilities, health centers, public comfort rooms, hanging bridges, and the provision of rural electrification.

The following pages discuss the different activities under the Company's infrastructure support program for each site:

Site	Page
Padcal	37
Silangan	31

Over and above these concrete and tangible aspects, PMC ensures that its CSR programs are continuously learned, shared and nurtured. The Company believes that CSR is essential in its exploration activities, mine development, and mining operations, so much so that it has become part of the Company's DNA – advocated by the Chairman and the Board, exemplified by the CEO and management, and championed by every member of the organization.

PHILEX GROUP FOUNDATION INC.

Recognizing that its mine life is finite, the Company decided to establish a corporate foundation that would implement programs to ensure the continued socio-economic development industry as well as its host and neighboring communities.

In September 28, 2010, PMC established the Philex Group Foundation, Inc. (PGFI or the Foundation), which is mandated to implement the necessary social and economic interventions that will provide income and employment opportunities to the community long after its mining operations cease.

Currently, there are two communities that directly benefit from the initiatives of PGFI. The first one is the mining community at the Padcal Mine site in Tuba, Benguet, consisting of PMC employees and their dependents. At an estimated three (3) children per family, the total number of beneficiaries in its mining community alone is estimated to be more than 6,000.

Moreover, around 80-85% of these employees are not indigent to Benguet and will eventually go back to their roots either upon their retirement or after the closure of mining operations. Thus, the task for the Foundation is to provide an alternative livelihood and entrepreneurial opportunities for the employees and their dependents that will provide a sustainable source of income even back in their home provinces.

The second direct beneficiary of PGFI is its host and neighboring communities around the Company's operations. The Philippine Mining Act identifies the host and neighboring communities as "those communities directly impacted by mining operations and the adjacent communities". In most cases, members of the communities are farmers living at subsistence levels, where most of the male population is engaged in small-scale mining. To make ends meet, some members seek employment with the Company as miners or clerical workers.

Over times, the farms have been left uncared for, with the community foregoing the chance to earn additional income from their produce. To maximize resources, there is thus a need to train the communities on how to care for and increase yields in and their farmlands. In this manner, members of the host and neighboring communities can improve their economic well-being and, at the same time, reduce their dependence on the mining operations for their socio-economic development. Approximately 500 families are expected to benefit from PGFI's assistance and guidance. Last year, the Foundation focused on the following key priorities:

1. RE-LAUNCH OF THE MEAT PROCESSING CENTER

The Foundation concluded the Meat Processing Training Program in April 2014 for operator-trainers, in partnership with Benguet State University. The program yielded 15 graduates, who are now employed in Px Community Foods and Marketing, Inc. (PxCFMI). On September 1 and 2, 2014, the Meat Processing Center was re-launched both as a business venture and a training center. As a business center, the operator-trainers produce and sell the following products:

- Pork Morcon
- Chicken Pork Roll
- Chicken Inasal
- Regular Pork Sisig
- Spicy Pork Sisig

As a training center, the operator-trainers developed modules, accredited by Benguet State University College of Home Economics & Technology (BSU-CHET), for home-based meat processing. Aside from the meat recipes formulated, the training courses also include the following:

- Safe and proper food handling
- Attire and proper hand washing
- Packaging and labeling
- Process of registering a business
- Pricing

In 2014, the home-based Meat Processing Training Program had two runs, with two sessions each, in 2014 and attracted a total of 99 trainees. All four sessions were conducted in partnership with Barangay Camp 3 in Tuba, Benguet and the PMC Community Credit Cooperative, in order to link the participants to the credit cooperative network and enable them to start their own businesses in meat processing.

2. KAPEBUHAYAN PROGRAM

KapeBuhayan is a coffee livelihood program with a two-pronged approach: coffee farming and coffee roasting. The former is a part of a bigger program, "Organic Vegetable Farming," which will be discussed later.

For coffee farming, the Foundation hired Ms. Adela Damaso as consultant with the recommendation of Bote Central, Inc. (BCI). Under Ms. Damaso, the five partner-farmers of the Foundation were given on-field training activities on coffee farm renovation, rehabilitation, and growing.

Meanwhile, PGFI, in partnership with BCI, has set up a Coffee Roasting Facility in Padcal with the same setup as the Meat Processing Center, serving both as a training complex and a business center. Through the facility, roasting has become more accessible to farmers and coffee farming has been more engaging for members of the mining community as well as its host and the neighboring communities of Padcal. In fact, farmers now sell their own coffee products under the KapeBuhayan brand of PxCFMI.

With the assistance from BCI, the Foundation also conducts post-harvest training programs for the coffee farmers to provide them with tools to someday become coffee entrepreneurs as well.

4. ORGANIC VEGETABLE FARMING

The Foundation, in partnership with the PMC's Community Relations Division in Padcal, conceptualized a farm management program to augment the partner-farmers' income, given that Arabica coffee is harvested only during the last quarter of the year.

The Foundation hired Mr. Pat Acosta, founder of the La Trinidad Organic Producers' Cooperative, to teach farmers techniques on organic vegetable farming specifically suited for highland agriculture. To date, the initiative has enabled the partner-farmers to grow, harvest and sell the following vegetables, through PxCFMI, in Benguet and in Metro Manila:

- Pechay and its variety
- Lettuce and its variety
- Cabbage and its variety
- Carrots
- Potatoes
- French beans
- Broccoli
- Cauliflower

3. LEAGUE OF CORPORATE FOUNDATIONS MEMBERSHIP

On April 7, 2014 PGFI officially became a member of the League of Corporate Foundations (LCF). Membership to this network helps establish and enhance the Foundation's image and reputation among the private and non-government sectors. The LCF holds an annual Corporate Social Responsibility (CSR) Expo, which PGFI participated in for the first time as an exhibitor last year and allowed it to showcase both PMC's and the Foundation's social development programs and other meaningful CSR projects.

3. SHORE IT UP 2014

Shore It Up is an annual CSR activity by the corporate foundation of Metro Pacific Investment Corporation (MPIC Foundation). The event is a rescue-restore-revive campaign for underwater and coastal clean-up activities in various areas in the Philippines. PGFI supported the activity held in Bohol and Surigao del Norte on June 20-21, 2014 by sponsoring the participation of 10 PMC employee volunteers in the affair.

HUMAN RESOURCES CAPITAL

Collective Bargaining Agreements

The Company is affiliated with several labor unions across its operations affiliated with the Trade Union Congress of the Philippines (TUCP). Employees are also covered by a number of collective bargaining agreements (CBAs).

In Padcal, employees belong to two unions. The rank and file employees belong to the Philex Rank-and-File Employees Union-Association of Labor Unions (PREEU-ALU) while supervisors are members of the Philex Mining Supervisory Employees Union-Association of Professional Supervisory Office Technical Employees Union (PMSEU-APSOTEU). The duly signed five-year CBAs with both unions are expiring in 2015.

On the other hand, Pasig rank-and-file employees are members of the Philex Pasig Metro Manila Employees Union (PPMEU), who are covered by the signed and executed CBA that covers a period of five years expiring in August 2016. There has been no major labor dispute or strike by any of the Company's unions in the past five years. In addition, the Company has no other supplemental benefits or incentive arrangements under the CBAs signed with the unions other than the usual employee benefits, such as vacation and sick leave pays, among others.

Manpower Rightsizing Program

A Manpower-Rightsizing Program (MRP) was implemented in the Padcal Mine and Pasig Head Office on November 12, 2014, which reduced the overall manpower complement by 512, from 2,575 to 2,063 beginning December 31, 2014. An organizational review to further rightsize and streamline the Pasig Head Office operations was conducted shortly thereafter, which resulted in a further reduction in the head office headcount by 16%, from 137 to 115, during the first quarter of 2015.

The overall average tenure of employees after the MRP was 15 years, with an average age of 42 years old. The employee population's gender distribution was 90% male and 10% female. The Company anticipates no material change in the number and type of employees within the ensuing twelve months.

The Company's remains committed to the continuous development of its employees through constant learning and development programs for employees, which are discussed in more detail in the succeeding pages.

Program Name	Program Description/Objective	Date(s) Held	Attendees
Defensive Driving Orientation	Help improve driving habits to avoid driving-related accidents	January 14 -16, 2014	102 Philex Padcal Company Drivers
Fire Safety Seminar for Puroks	Continuously promote Fire Safety Awareness to all Purok Officers and Residents in a year-long activity	February 11-21, 2014	607 Employee Dependents and people in Padcal
Accident/Incident Investigation and Analysis Seminar	Equip the knowledge and skill of all participants on the prompt and proper accident/incident reporting and analysis,	February 24-26, 2014 February 27-March 1, 2014 March 3-5, 2014 March 6-8, 2014 March 8-10, 2014	341 Employees from all departments
Loss Control Management	Enable concerned personnel to identify hazards, evaluate and correct them.	February 25-28, 2014 April 25-28, 2014 May 14-17, 2014	113 Managers and selected supervisors
Fire Emergency Preparedness Seminar for Poro Personnel	Promote accountability and responsibility on members of the Fire Brigade Organization	March 15-16, 2014	29 Poro Point based Employees
Overhead Crane Safety Operation Seminar	Gain knowledge and skills to establish a uniform safety procedure for conducting and recording safety checks on cranes, hoists, wire ropes, etc.	May 5-16, 2014	411 Employees from selected departments
STOP, SLAM, LOTOTO Seminar: Supervisor Training Program	Improve safety performance by making skilled focus observation of people a sustained habit by all levels of supervision.	June 5-7, 2014	129 Supervisors from all departments
Underground Emergency Management Seminar	Equip the training needs of newly regularized underground employees in emergency readiness.	July 7-9, 2014 July 10-12, 2014 July 17-19, 2014 July 21-23, 2014	140 Employees from the Mine Division
First Aid Training	Enhance the participants with the knowledge and skills required to properly respond during emergencies to control or minimize loss.	July 23-27, 2014 July 30-August 3, 2014 August 16-20, 2014 August 22-27, 2014	333 Employees from all departments

MANPOWER TRAINING AND DEVELOPMENT PROGRAMS

Recognizing the importance of its human capital to the achievement of its short and long term goals, the Company continues to invest in its people through various programs and initiatives at its two major sites: Padcal Mine Operations in Tuba, Benguet and the Silangan Project in Surigao del Norte.

Human capital development programs and initiatives encompass multi-disciplines including technical/functional competencies as well as soft skills. Various program delivery approaches are utilized, such as the use of internal and/or external resource persons or groups and individual training, classroom and on-the-job knowledge transfer. In 2014, greater emphasis was placed on Safety, Security, Sports and Wellness. Following are highlights of the Company's human capital develop program:

Padcal Mine

Safety

Safety is of paramount importance at PMC. The Company ensures that employees, their dependents and people in the mine site community continue to observe and improve safety awareness and practices through various activities, some of which were shown in the table above.

Other Development Programs

As a responsible corporate citizen, PMC provides development programs to various parts of society to create a pipeline of talent for itself, the mining industry and the rest of the business community. The following are the key programs that the Company has embarked on:

Philex Mining Academy (PMA)

The PMA was established in 2011, with the objective of developing mining professionals and strengthen the talent pipeline for PMC's projects and operations. Thirteen mining and metallurgical engineers from Batch 2 of PMA cadets completed their 18 month program last November 2014. These young mining and metallurgical engineers were offered with and accepted supervisory positions at the Padcal Mine. A total of 14 fresh mining engineer graduates qualified for Batch 3 of the PMA cadetship program, who entered the program in July 2014. Four of these cadets have applied for and were selected to continue their cadetship program in the Silangan Project, where they will gather additional training in mine development.

PMA also partnered with Meralco Power Academy (MPA) to conduct the Electrical Management Program to strengthen the power and electrical systems capability of Padcal. As a result of the months training, several Padcal employees passed the licensure exam for Master Electrician and Professional Electrical Engineering.

Mine and Mill Student Program

The mine and mill practicum for students is an institutional program that extends training and development services to aspiring engineers in the fields of mining, geology, and metallurgy. This has been an integral part of the Company's CSR that has become both an exposure and immersion program with different partner institutions. In 2014, PMC accepted a total of 57 engineering students into this program coming from nine universities across various parts of the country.

Sports and Employee Events

The Padcal community looks forward to a number of annual events intended to recognize achievements and promote physical wellness within the PMC workforce as outlined in the table below:

Program Name	Program Description/Objective	Date(s) Held	Attendees
2014 Gabi ng Parangal	An annual event to give recognition to employees who achieved milestones in terms of work performance and years of dedicated service to the Company.	January 18, 2014	Awardees w/ their family, Union Officers, Philex Management Team, Community
2014 Inter Division Basketball/Volleyball Tournament	To promote physical fitness, camaraderie, unity, sportsmanship to all employees.	April to May, 2014	Teams representing different divisions, departments and contractors

Program Name	Program Description/Objective	Date(s) Held	Attendees
Behavioral - based Safety Training	To teach participants how to adapt a systematic application of the understanding of human behavior to the problems of safety in the workplace.	Feb. 24 – March 1, 2014	All SMMCI Managers and Supervisors
Job Hazard Analysis Training	To analyze jobs in the workplace and spot possible sources of accidents in these different tasks	March 03 – 08, 2014	All SMMCI Managers and Supervisors
Firefighting Training	To train Emergency Response Team (ERT) and Rank and File employees to be prepared in terms of fire emergencies	March 24- 26, 2014	Emergency Response Team
Basic First Aid & BLS-CPR	To train Emergency Response Team (ERT) and Rank and File employees to be prepared in terms of lifesaving circumstances	March 27-29, 2015	Emergency Response Team
Safety and the Supervisor Seminar	Another way of strengthening the Company's Safety Culture towards our goal of having a safe operation. This event focuses on the significance of good and competent supervision in any work activity.	August 28 – September 04, 2014	Supervisors and Rank and File employees who are being appointed as team leaders/foremen
Drug Awareness Seminar	Understand our Drug-Free Workplace Policy and the employees' obligations under that policy.	November 17-19, 2014	All SMMCI employees
Emergency Evacuation Drill	To enable participants to react appropriately during emergencies and reduce fear by responsible reporting and appropriate relaying of orders.	December 26, 2014	All SMMCI employees

Silangan Project

Safety and Security

While still in an advanced exploration stage, safety and security already remain as top priority areas in the Silangan Project. The table above details some of the programs implemented throughout the year to further this cause.

Other Skills Building Programs

Silangan also focused on strengthening the IT skills of its workforce by launching the IT's BEST program, which stands for Basic Education for SMMCI Employees Training, in November 2014, with the objective of helping employees and their relatives to improve and widen their knowledge and competencies in the field of IT. The training offers three subjects: computer troubleshooting, Microsoft Office, and Web Designing, in beginner and intermediate as well as advanced levels. Silangan also partnered with TESDA to elevate the skill level of its heavy equipment operators, where 35 employees were involved with the assessment procedures for hydraulic excavators, rigid highway dump trucks and wheel loaders.

Sports and Wellness

Silangan employees also participated in internal and external sports events as a means to enhance physical well-being, promote teamwork and foster camaraderie within the organization, as follows:

Program Name	Program Description/ Objective	Date(s) Held	Attendees
1st Chamber of Mines Inter Mining Competition/ tournament	Promote sportsmanship and camaraderie among mining companies in CARAGA region in the hope to have a better cooperation and coordination	September 2014	SMMCI Basketball Team and supporters
SMMCI Sports Festival	Showcase Silangan talents and wellness among employees	December 2014	All employees

INVESTOR RELATIONS

DISCLOSURE & TRANSPARENCY

The Company is committed to the highest standards of disclosure, transparency and fairness in information dissemination. The Company provides the public with strategic, operating and financial information through adequate and timely disclosures to the regulatory bodies, such as the Philippines' Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). Along with regular periodic reports, PMC discloses all material information about the Company that may have an impact on valuation, stock price and trading volume of its listed securities. All financial and non-financial, structured and unstructured disclosures are immediately posted on the Company Disclosures section of the Company's website:
http://www.philexmining.com.ph .

INTERIM AND ANNUAL RESULTS

PMC addresses the various information requirements of the investing public through its Investor Relations, Shareholder Concerns and Corporate Governance Division. The Company dutifully accomplishes and submits interim and annual reports on or even before the deadline prescribed by the regulatory agencies.

FINANCIAL REPORTING

The Company's financial statements comply with the Philippine Accounting Standards (PAS) and the Philippine Financial Reporting Standards (PFRS), which are in general compliance with International Accounting Standards. The accounting policies adopted in 2014 are consistent with those of the previous financial year, except for the implementation of new and amended PFRS and Philippine interpretations of International Financial Reporting Interpretations Committee (IFRIC). The changes in Accounting Policies are fully explained in the Notes to the Audited Consolidated Financial Statements.

INVESTOR MEETINGS AND ENGAGEMENTS

The Chief Executive Officer, the Chief Financial Officer, and the Head of Investor Relations and Corporate Governance, together with the Chief Financial Adviser, make themselves available throughout the year for meetings with institutional investors through pre-arranged company and site visits, and teleconferences. The Company attended local and international investor conferences, corporate days and non-deal roadshows, to expand the Company's investor base and coverage. The Investor Relations desk likewise directly communicates with these investors through one on-one meetings, calls and written communications.

Furthermore, the Company's Investor Relations and Corporate Governance Division has been further strengthened to address the concerns of the investing community. In addition to the interim financial statements provided quarterly, operating statistics and other vital information are also disseminated to both equity and credit analysts, in a convenient and handy presentation format, to aid in their analysis and valuation of the Company. Analyst briefings, through physical meetings and teleconferences, were also conducted to offer a more personal interaction with the investment community.

REPORTING OF TRANSACTIONS AND TRADING BLACK -OUTS

The Company strictly adheres to the guidelines covering securities dealings to promote fairness and comply with existing government regulations. Changes in personal shareholdings of directors and key officers of the Company, resulting from open market transactions or the grant of shares from incentive-based schemes implemented by the Company, are reported to the SEC and PSE within the specified deadlines.

The Company strictly enforces and monitors compliance with its policy on insider trading, which prohibits trading of Company securities during prescribed periods by the following covered persons:

- Members of the Board of Directors;
- Members of the Management Team; and
- Employees who have been made aware of undisclosed material information with respect to the Company and its operations

The blackout period begins thirty (30) calendar days prior to the disclosure of the Annual Financial Results until two full trading days thereafter. For the quarterly results, the blackout period begins fifteen (15) calendar days before the release of the structured disclosure until two (2) full trading days after the date of the disclosure. Shown in the next page is the schedule of release of the Company's interim and full year results for the calendar year 2015.

SCHEDULE OF PRESS RELEASE ON INTERIM AND FULL-YEAR FINANCIAL RESULTS	
DATE	REPORTING PERIOD
February 25, 2015	FULL-YEAR 2014 RESULTS
April 29, 2015	1st QUARTER 2015 RESULTS
July 29, 2015	2nd QUARTER 2015 RESULTS
October 28, 2015	3rd QUARTER 2015 RESULTS

In cases of non-structured disclosures of other material information, employees in possession of price sensitive information are reminded not to trade in the Company's shares from the time they come into possession of any material information and up to two (2) full trading days after the information is disclosed to the public. The blackout period for employees not previously privy to such material information shall commence on the date the information is disclosed and until two full trading days from such disclosure. Reminders on these guidelines are provided periodically.

INSIDER TRADING

PMC consistently enforces a policy encompassing share transactions, in compliance with existing government laws against insider trading. In 2014, there was no case of insider trading involving Company directors or management.

COMPLIANCE OFFICER

Danny Y. Yu, the Company's CFO and Senior Vice President for Finance, is also the Compliance Officer designated to ensure adherence with best practices as well as compliance with all regulations that cover the Company. Rolando S. Bondoy, who is the Head for Investor Relations and Corporate Governance, is the Deputy Compliance officer.

SHAREHOLDERS

Disclosure of Ownership Structure

The Company regularly discloses the Top 100 Holders of its Common Shares, the Security Ownership of Beneficial Owners Holding More Than 5% of the Company's Total Outstanding Stock, and the Shareholdings of Members of the Board of Directors and Key Management and Officers of the Company, as prescribed by the PSE and the SEC.

This information is submitted to the concerned regulatory bodies and made available to the general public in a timely and regular basis through postings on the Company's website, under the Company Disclosures section, and annually in the Definitive Information Statement sent to shareholders. The Percentage of Foreign Ownership in the Company as well as the Number of Board Lots are also submitted to the PSE and the SEC on a monthly basis.

The Company's common equity, which was initially classified into Class A and Class B common shares until it was declassified into a single class in 2006, is traded in the Philippine Stock Exchange under the code PX. The Company's public float as of December 31, 2014 was 33.04% and had a market capitalization of ₱37.794B as of the same date.

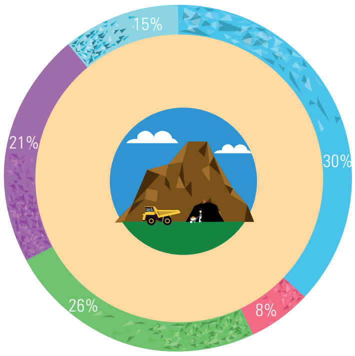
Dividend Declaration and Payment Policy

Since the beginning 2010, the Company's Board of Directors has adopted a policy to declare cash dividends of up to 25% of the Company's core net income of the previous year, should circumstances allow for its declaration. The figure below shows the cash dividends declared and paid by the Company since 2009. No dividends were declared in 2013 as a result of the net loss recorded in 2012. In 2014, a cash dividend of ₱0.05/share was declared on February 26, 2014 and paid out in March 26, 2014 following the Company's return to profitability in 2013.

Another cash dividend of ₱0.03/share was declared on October 29, 2014 to shareholders of record as of November 12, 2014, and paid on November 28, 2014. In 2015, a cash dividend of ₱0.02/share was declared on February 25, 2015 and paid out March 25, 2015. The timing of payment was well within the 30-day period prescribed under corporate governance best practices.

Shareholding Structure

The Company had a total of 37,055 shareholders as of December 31, 2014, with 4,940,399,068 common shares issued and outstanding. The ownership structure of these outstanding shares is shown in the chart below:



Top 20 Stockholders

STOCKHOLDER	NATIONALITY	NO. OF SHARES HELD	%
1. Asia Link B.V.	Dutch	1,023,275,990	20.71
2. Social Security System (inclusive of 142,921,099 shares under PDTC Account)	Filipino	1,014,366,028	20.53
3. PCD Nominee Corp	Filipino/ Other Alien	1,010,870,260	20.46
4. Two Rivers Pacific Holdings Corp.	Filipino	738,871,510	14.96
5. Kirtman Limited	British	242,011,062	4.90
6. Maxella Limited	British	239,479,900	4.85
7. The First National Investment Co. Inc.	Filipino	12,195,042	0.25
8. Makati Supermarket Corp.	Filipino	8,353,226	0.17
9. Estate of Allen Cham	Filipino	6,720,476	0.14
10. Estate of Eudaldo Boix	American	5,025,422	0.10
11. Philippine Remnants Co., Inc.	Filipino	4,875,000	0.10
12. Manuel V. Pangilinan	Filipino	4,655.000	0.09
13. Frank Pao	Foreign	3,639,260	0.07
14. Religious of the Virgin Mary-B	Filipino	3,125,777	0.06
15. Estate of Eudaldo Boix & Petra Hernando	American	3,093,203	0.06
16. Paulino De Ugarte &/or Elena E. De Ugarte	Filipino	3,068,143	0.06
17. Carol Joan Reif	American	2,974,086	0.06
18. Robin John Pettyfer	Foreign	2,644,747	0.05
19. Estate of Jose Tan Yan Doo	Filipino	2,569,251	0.05
20. Lucio W. Yan &/or Clara Yan	Filipino	2,437,500	0.05

OFFICERS & MANAGERS

Standing from L-R: VICTOR A. FRANCISCO, Vice President for Environment and Community Relations; BENJAMIN R. GARCIA, Senior Vice President for Human Resources; MANUEL A. AGCAOILI, Senior Vice President & Padcal Resident Manager; BARBARA ANNE C. MIGALLOS, Corporate Secretary; EULALIO B. AUSTIN, JR., President & Chief Executive Officer; DANNY Y. YU, Senior Vice President for Finance & Chief Financial Officer; MICHAEL T. TOLEDO, Senior Vice President for Public and Regulatory Affairs; REDEMPTA P. BALUDA, Vice President for Exploration; RAYMUND BRETT C. MEDEL, Vice President and Chief Information Officer

PASIG HEAD OFFICE STAFF

Geraldine B. Ateo-an
Division Manager - Internal Audit

Francis Joseph G. Ballesteros, Jr.
Division Manager - Legal

Rolando S. Bondoy
Division Manager - Investor Relations

Elisa R. Dungca
Division Manager - Risk Management & Export

Victor B. Maglambayan
Division Manager - Exploration

Paraluman M. Navarro
Division Manager - Corporate Finance

Noel C. Oliveros
Division Manager - Exploration

Reynaldo C. Estacio
Group Manager - Exploration

Erwin Dennis P. Lacson
Group Manager - Supply Chain

John Reaner I. Nocum
Group Manager - Financial Projects & Management Services

Eileen C. Rodriguez
Group Manager - Corporate Treasury

PADCAL OPERATIONS STAFF

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Assistant Resident Manager

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Division Manager - Mill & Poro Point Operations

Eduardo M. Aratas
Division Manager - Legal

Ricardo S. Dolipas, II
Division Manager - Mine

William D. Agustin
Group Manager - Mine Mechanical

Roselyn M. Dahilan
Group Manager - Padcal Finance

Paul P. Lumpias
Group Manager - Mine Operations

Jun Leon A. Monterola
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Siguion Reyna, Montecillo & Ongsiako
Sycip Salazar Hernandez & Gatmaitan
Picazo Buyco Tan Fider & Santos

BANKERS

BDO Unibank, Inc.
Bank of Commerce
Bank of the Philippine Islands
BNP Paribas
Citibank, N.A.
Credit Suisse
Deutsche Bank
Goldman Sachs International
JP Morgan Chase Bank, N.A.
Land Bank of the Philippines
Mizuho Corporate Bank, Ltd.
Philippine National Bank
Standard Chartered Bank
The Hongkong and Shanghai
Banking Corp. Ltd.
Union Bank of the Philippines

CORPORATE WEBSITE

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PHILIPPINE STOCK EXCHANGE CODE: PX

PHILEX MINING
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