

# Philex Mining Corporation and Subsidiaries

Consolidated Financial Statements  
December 31, 2020 and 2019  
and Years Ended December 31, 2020,  
2019 and 2018

and

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Philex Mining Corporation

### Opinion

We have audited the consolidated financial statements of Philex Mining Corporation and its Subsidiaries (the Group) which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

### Basis for Opinion

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

### Key Audit Matters

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



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

#### *Recoverability of Deferred Exploration Costs*

As at December 31, 2020, the carrying value of the Group's deferred exploration costs amounted to ₱27.37 billion. Under PFRS 6, Exploration for and Evaluation of Mineral Resources, these deferred exploration costs shall be assessed for impairment when facts and circumstances suggest that the carrying amounts exceeds the recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves. We considered this as a key audit matter because of the materiality of the amount involved, and the significant management judgment required in assessing whether there is any indication of impairment.

The Group's disclosures about deferred exploration costs are included in Note 13 to the consolidated financial statements.

#### *Audit response*

We obtained management's assessment on whether there is any indication that deferred exploration costs may be impaired. We reviewed the summary of the status of each exploration project as of December 31, 2020. We reviewed the contracts and agreements, and the budget for exploration and development costs. We inspected the licenses/permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired, will not expire in the near future, and will be renewed accordingly. We also inquired about the existing concession areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

#### *Recoverability of the carrying value of property, plant and equipment*

The carrying value of the Group's property, plant and equipment amounted to ₱3.04 billion after allowance for impairment loss amounting to ₱2.47 billion as of December 31, 2020. The impairment mainly relates to mine and mining properties. Under PAS 36, *Impairment of Assets* an entity is required to assess whether indicators for impairment exist and if they exist, an impairment test is required. We consider this as a key audit matter because the assessment of the recoverability of the carrying value of property, plant and equipment requires significant judgment and involves estimation and assumptions about future cash flows and discount rates.

The Group's disclosures about property, plant and equipment are included in Note 10 to the consolidated financial statements.



### *Audit response*

We reviewed management's assessment of the recoverability of the carrying value of mine and mining properties by evaluating whether indicators for potential impairment exist. We compared the assumptions used in forecasting the future cash flows against the budget business plans, published forecasted metal prices, forecasted foreign exchange rates and historical production costs. We compared the forecasted production quantities against the estimated ore reserves declared by the competent person's report. We involved our internal specialist to assist us in testing the parameters used in the determination of the discount rate against market data.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

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

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

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.



### **Auditor's Responsibilities for the Audits of the Consolidated Financial Statements**

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

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

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



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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Alexis Benjamin C. Zaragoza III.

SYCIP GORRES VELAYO & CO.



Alexis Benjamin C. Zaragoza III  
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Accreditation No. 109217-SEC (Group A)  
Valid to cover audit of 2019 to 2023  
financial statements of SEC covered institutions  
Tax Identification No. 246-663-780  
BIR Accreditation No. 08-001998-129-2019,  
November 27, 2019, valid until November 26, 2022  
PTR No. 8534389, January 4, 2021, Makati City

February 24, 2021



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

	December 31	
	2020	2019
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	₱1,191,479	₱795,709
Accounts receivable - net (Note 7)	369,898	416,154
Inventories - net (Note 8)	1,343,366	1,043,748
Other current assets - net (Note 9)	539,950	665,768
<b>Total Current Assets</b>	<b>3,444,693</b>	<b>2,921,379</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 10)	3,042,982	3,185,283
Financial assets measured at FVOCI (Note 11)	113,973	120,898
Investment in associates - net (Notes 12 and 34)	4,161,328	4,208,339
Deferred exploration costs (Notes 1, 13, 20 and 32)	27,365,125	26,616,343
Pension asset - net (Note 21)	310,332	223,775
Other noncurrent assets (Note 14)	500,882	622,710
<b>Total Noncurrent Assets</b>	<b>35,494,622</b>	<b>34,977,348</b>
<b>TOTAL ASSETS</b>	<b>₱38,939,315</b>	<b>₱37,898,727</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Loans payable (Note 15)	₱1,776,851	₱2,531,750
Accounts payable and accrued liabilities (Notes 16 and 32)	1,692,763	1,608,003
Subscription payable (Note 12)	123,345	186,531
Income tax payable	74,300	53,284
Dividends payable (Note 28)	553,610	549,632
<b>Total Current Liabilities</b>	<b>4,220,869</b>	<b>4,929,200</b>
<b>Noncurrent Liabilities</b>		
Loans and bonds payable (Note 15)	8,182,002	7,743,020
Deferred tax liabilities - net (Notes 3 and 27)	2,293,314	2,218,550
Provision for losses and mine rehabilitation costs (Notes 10 and 32)	16,911	39,029
<b>Total Noncurrent Liabilities</b>	<b>10,492,227</b>	<b>10,000,599</b>
<b>Total Liabilities</b>	<b>14,713,096</b>	<b>14,929,799</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>		
Capital stock - ₱1 par value (Note 28)	4,940,399	4,940,399
Additional paid-in capital	1,143,981	1,143,981
Retained earnings (Note 28)		
Unappropriated	4,734,469	3,471,281
Appropriated	10,500,000	10,500,000
Net unrealized gain on financial assets measured at FVOCI (Note 11)	31,859	37,745
Equity conversion option (Note 15)	1,225,518	1,225,518
Net revaluation surplus (Note 4)	1,572,385	1,572,385
Effect of transactions with non-controlling interests	77,892	77,892
	24,226,503	22,969,201
<b>Non-controlling interests</b> (Note 28)	<b>(284)</b>	<b>(273)</b>
<b>Total Equity</b>	<b>24,226,219</b>	<b>22,968,928</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱38,939,315</b>	<b>₱37,898,727</b>

See accompanying Notes to Consolidated Financial Statements.



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands, Except Earnings per Share)

	Years Ended December 31		
	2020	2019	2018
<b>REVENUES</b> (Note 17)	<b>₱7,833,713</b>	<b>₱6,789,566</b>	<b>₱7,640,306</b>
<b>COSTS AND EXPENSES</b> (Note 18)			
Production costs	4,215,573	4,387,787	4,407,889
Depletion, amortization and depreciation	1,252,204	1,814,331	1,600,521
Excise taxes and royalties	543,238	427,211	506,490
General and administrative expenses	287,133	287,334	305,631
	<b>6,298,148</b>	<b>6,916,663</b>	<b>6,820,531</b>
<b>OTHER (CHARGES) INCOME</b>			
Foreign exchange gain (losses) - net (Note 23)	99,115	93,072	(121,176)
Share in net losses of associates (Note 12)	(47,011)	(118,335)	(40,936)
Interest income (Note 6)	981	1,571	2,275
Provisions for impairment losses - net of reversal (Notes 8, 10, 12, and 26)	(1,900)	(848,560)	(67,033)
Others - net	(56,426)	(4,266)	91,160
	<b>(5,241)</b>	<b>(876,518)</b>	<b>(135,710)</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>1,530,324</b>	<b>(1,003,615)</b>	<b>684,065</b>
<b>PROVISION (BENEFIT FROM) FOR INCOME TAX</b> (Note 27)			
Current	234,407	143,019	275,408
Deferred	67,620	(498,841)	(199,799)
	<b>302,027</b>	<b>(355,822)</b>	<b>75,609</b>
<b>NET INCOME (LOSS)</b>	<b>₱1,228,297</b>	<b>(₱647,793)</b>	<b>₱608,456</b>
<b>Net Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	₱1,228,308	(₱647,778)	₱608,456
Non-controlling interests (Note 28)	(11)	(15)	-
	<b>₱1,228,297</b>	<b>(₱647,793)</b>	<b>₱608,456</b>
<b>Basic/Diluted (Loss) Earnings Per Share</b> (Note 30)	<b>₱0.249</b>	<b>(₱0.131)</b>	<b>₱0.123</b>

See accompanying Notes to Consolidated Financial Statements.





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

	Years Ended December 31		
	2020	2019	2018
<b>NET INCOME (LOSS)</b>	<b>₱1,228,297</b>	<b>(₱647,793)</b>	<b>₱608,456</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gains (losses) on pension obligation plans (Note 21)	120,406	(121,270)	9,946
Income tax effect	(36,122)	36,382	(9,073)
Unrealized loss on financial assets measured at FVOCI (Note 11)	(5,886)	2,404	40,872
	<b>78,398</b>	<b>(82,484)</b>	<b>41,745</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>78,398</b>	<b>(82,484)</b>	<b>41,745</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱1,306,695</b>	<b>(₱730,277)</b>	<b>₱650,201</b>
<b>Total Comprehensive Income (Loss) Attributable to:</b>			
Equity holders of the Parent Company	₱1,306,706	(₱730,262)	₱650,201
Non-controlling interests (Note 28)	(11)	(15)	–
	<b>₱1,306,695</b>	<b>(₱730,277)</b>	<b>₱650,201</b>

*See accompanying Notes to Consolidated Financial Statements.*



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
**(Amounts in Thousands)**

	Equity Attributable to Equity Holders of the Parent Company											Total
	Capital Stock (Note 28)	Additional Paid-In Capital	Retained Earnings (Note 28)		Net Unrealized Gain (Loss) on AFS Financial Assets (Note 11)	Net Unrealized Gain on financial asset measured at FVOCI	Equity Conversion Option (Note 15)	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non-controlling Interests	Subtotal	Non-controlling Interests (Note 28)	
			Unappropriated	Appropriated								
<b>BALANCES AT DECEMBER 31, 2017</b>	<b>₱4,940,399</b>	<b>₱ 1,143,981</b>	<b>₱ 5,271,302</b>	<b>₱10,500,000</b>	<b>₱558</b>	<b>₱-</b>	<b>₱1,225,518</b>	<b>₱1,572,385</b>	<b>₱77,892</b>	<b>₱24,732,035</b>	<b>(₱258)</b>	<b>₱24,731,777</b>
Effect of adoption of PFRS 9 - provision for expected credit losses	-	-	(1,312,243)	-	-	-	-	-	-	(1,312,243)	-	(1,312,243)
Reclassification of AFS financial assets to financial assets measured at FVOCI	-	-	-	-	(558)	558	-	-	-	-	-	-
Balances at January 1, 2018	4,940,399	1,143,981	3,959,059	10,500,000	-	558	1,225,518	1,572,385	77,892	23,419,792	(258)	23,419,534
Net income	-	-	608,456	-	-	-	-	-	-	608,456	-	608,456
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>												
Remeasurements of pension obligation, net of tax (Note 21)	-	-	6,962	-	-	-	-	-	-	6,962	-	6,962
Unrealized gain on financial assets measured at FVOCI - net of related deferred income tax (Note 11)	-	-	-	-	-	34,783	-	-	-	34,783	-	34,783
Total comprehensive income	-	-	615,418	-	-	34,783	-	-	-	650,201	-	650,201
Declaration of dividends (Note 28)	-	-	(370,530)	-	-	-	-	-	-	(370,530)	-	(370,530)
<b>BALANCES AT DECEMBER 31, 2018</b>	<b>₱4,940,399</b>	<b>₱1,143,981</b>	<b>₱4,203,947</b>	<b>₱10,500,000</b>	<b>₱-</b>	<b>₱35,341</b>	<b>₱1,225,518</b>	<b>₱1,572,385</b>	<b>₱77,892</b>	<b>₱23,699,463</b>	<b>(₱258)</b>	<b>₱23,699,205</b>
Net loss	-	-	(647,778)	-	-	-	-	-	-	(647,778)	(15)	(647,793)
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>												
Remeasurements of pension obligation, net of tax (Note 21)	-	-	(84,888)	-	-	-	-	-	-	(84,888)	-	(84,888)
Unrealized gain on financial assets measured at FVOCI - net of related deferred income tax (Note 11)	-	-	-	-	-	2,404	-	-	-	2,404	-	2,404
Total comprehensive loss	-	-	(732,666)	-	-	2,404	-	-	-	(730,262)	(15)	(730,277)
<b>BALANCES AT DECEMBER 31, 2019</b>	<b>₱4,940,399</b>	<b>₱1,143,981</b>	<b>₱3,471,281</b>	<b>₱10,500,000</b>	<b>₱-</b>	<b>₱37,745</b>	<b>₱1,225,518</b>	<b>₱1,572,385</b>	<b>₱77,892</b>	<b>₱22,969,201</b>	<b>(₱273)</b>	<b>₱22,968,928</b>



Equity Attributable to Equity Holders of the Parent Company

	Capital Stock (Note 28)	Additional Paid-In Capital	Retained Earnings (Note 28)		Net Unrealized Gain (Loss) on AFS Financial Assets (Note 11)	Net Unrealized Gain on financial asset measured at FVOCI	Equity Conversion Option (Note 15)	Net Revaluation Surplus (Note 4)	Effect of Transactions with Non- controlling Interests	Subtotal	Non- controlling Interests (Note 28)	Total
			Unappropriated	Appropriated								
<b>BALANCES AT DECEMBER 31, 2019</b>	₱4,940,399	₱ 1,143,981	₱ 3,471,281	₱10,500,000	₱-	₱37,745	₱1,225,518	₱1,572,385	₱77,892	₱22,969,201	(₱273)	₱22,968,928
Net income	-	-	1,228,308	-	-	-	-	-	-	1,228,308	(11)	1,228,297
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>												
Remeasurements of pension obligation, net of tax (Note 21)	-	-	84,284	-	-	-	-	-	-	84,284	-	84,284
Unrealized loss on financial assets measured at FVOCI - net of related deferred income tax (Note 11)	-	-	-	-	-	(5,886)	-	-	-	(5,886)	-	(5,886)
Total comprehensive income	-	-	1,312,592	-	-	(5,886)	-	-	-	1,306,706	(11)	1,306,695
Declaration of dividends (Note 28)	-	-	(49,404)	-	-	-	-	-	-	(49,404)	-	(49,404)
<b>BALANCES AT DECEMBER 31, 2020</b>	<b>₱4,940,399</b>	<b>₱1,143,981</b>	<b>₱4,734,469</b>	<b>₱10,500,000</b>	<b>₱-</b>	<b>₱31,859</b>	<b>₱1,225,518</b>	<b>₱1,572,385</b>	<b>₱77,892</b>	<b>₱24,226,503</b>	<b>(₱284)</b>	<b>₱24,226,219</b>

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱1,530,324	(₱1,003,615)	₱684,065
Adjustments for:			
Depletion, amortization and depreciation (Note 20)	1,268,738	1,832,801	1,622,566
Unrealized foreign exchange (gains) losses and others - net	(145,143)	(133,433)	106,831
Share in net losses of associates (Note 12)	47,011	118,335	40,936
Movement in pension assets - net	33,017	14,842	13,961
Impairment losses on deferred exploration costs, property, plant and equipment and other assets - net (Notes 8, 10, 12, and 13)	1,900	1,586,375	1,379,276
Interest income (Note 6)	(981)	(1,571)	(2,275)
Gain on reversal of advances to a related party previously written off (Note 26)	-	(737,815)	-
Reversal of provision for expected credit losses on PXP receivables (Notes 2, 3, and 26)	-	-	(1,312,243)
Operating income before working capital changes	2,734,866	1,675,919	2,533,117
Decrease (increase) in:			
Inventories - net	(404,518)	93,833	379,516
Other current assets - net	125,818	91,524	249,708
Accounts receivable - net	46,256	(116,138)	690,588
Increase (decrease) in accounts payable and accrued liabilities	178,088	(182,936)	141,460
Cash generated from operations	2,680,510	1,562,202	3,994,389
Income taxes paid	(213,391)	(89,753)	(505,069)
Interest paid	(93,328)	(242,096)	(204,091)
Interest received	981	1,571	2,275
Net cash flows generated from operating activities	2,374,772	1,231,924	3,287,504
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment (Note 10)	(1,048,411)	(1,105,797)	(1,914,032)
Increase in deferred exploration costs and other noncurrent assets	(162,166)	(633,818)	(437,610)
Payment of subscription payable to PXP (Notes 12 and 26)	(63,186)	(2,126,450)	-
Payment of mine rehabilitation costs	(25,628)	(42,895)	(59,889)
Collections of advances to a related party (Note 26)	-	2,125,185	781,262
Decrease (increase) in financial assets measured at FVOCI	-	66	(1,125)
Additional investment in associate (Note 12)	-	-	(770,250)
Proceeds from sale of Property, plant and equipment	-	-	160,354
Net cash flows used in investing activities	(1,299,391)	(1,783,709)	(2,241,290)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of short-term loans (Note 33)	304,960	3,681,384	1,033,790
Payments of:			
Short-term bank loans (Note 33)	(942,655)	(3,206,711)	(1,449,290)
Dividends (Note 28)	(45,426)	(1,363)	(348,371)
Net cash flows (used in) from financing activities	(683,121)	473,310	(763,871)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	3,510	3,217	5,086
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>395,770</b>	<b>(75,258)</b>	<b>287,429</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>795,709</b>	<b>870,967</b>	<b>583,538</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱1,191,479</b>	<b>₱795,709</b>	<b>₱870,967</b>

See accompanying Notes to Consolidated Financial Statements.



# PHILEX MINING CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### Corporate Information

Philex Mining Corporation (PMC; the Ultimate Parent Company) was incorporated on July 19, 1955 in the Philippines and is listed in the Philippine Stock Exchange on November 23, 1956. Having reached the end of its 50 years corporate life, the Parent Company's Philippine Securities and Exchange Commission (SEC) registration was renewed on July 23, 2004. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary incorporated in the Philippines), Lascogon Mining Corporation (LMC, a subsidiary of PGPI and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary by the Parent Company and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI, a wholly-owned subsidiary by the Parent Company 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. Because of low metal prices prevailing at the time, Bulawan mine was decommissioned and has since been kept under care and maintenance. LMC conducts exploration work in Taganaan, Surigao del Norte. SMMCI owns the Silangan Project covering the Boyongan and Bayugo deposits.

The Parent Company's registered business address is 2nd floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila.

#### Status of Business Operations

##### *Padcal Mine Operations*

The Parent Company has the Padcal Mine as its main source of revenue. The Padcal Mine produces copper concentrates containing gold, copper and silver.

The Parent Company continues to explore various globally-accepted mining practices and employ engineering interventions as well as operational efficiency improvements as the challenges of operating the mature Padcal Mine persist.

The Group continues to look for sources of funding to finance its exploration activities, pre-development and working capital requirements (see Note 15).

In light of the Coronavirus Disease 2019 (COVID-19) pandemic that started in March 2020, the Company's Padcal mine site, which is allowed to remain operational under all community quarantine categories, continues to function in strict compliance with the applicable government mandated operating guidelines to prevent the spread of the virus.

PMC was momentarily affected by the limited disruption in its supply chain during the first two weeks of the implementation of strict government community quarantine protocols in the National Capital Region (NCR) and Region IV-A, where most of the Company's supplies pass through. With the strong government support for export-oriented enterprises like PMC, the potential significant impact to the Company's business of the supply chain disruptions were mitigated and partially eliminated. Alternative supply chain sources were put in place to ensure continued and unhampered business operations of the Company.



The changes in the community quarantine category of the NCR, the latest category with a more relaxed quarantine guidelines allowed PMC employees at head office (HO) to start reporting to the office in Mandaluyong City. All HO employees were required to undergo a rapid antigen test prior to officially returning to work onsite for the first time, and another test after two (2) months to ensure reporting employees were free from the virus. The testing conducted showed no COVID-19 positive among the HO employees.

However, despite stringent observance of health and safety protocols at Padcal mine site and at the HO, some employees were infected by the virus. Few HO employees that later on turned positive whose cases were unrelated to each other were required to undergo the minimum 14-day quarantine before reporting to work.

In October 2020, an employee at Padcal mine site also reported positive which triggered the implementation of tracing for close contacts and subsequent testing in accordance with Inter Agency Task Force (IATF) - Department of Health (DOH) health protocols. As a result of the contact tracing and the Company's proactive program to immediately implement an expanded testing, the Company subjected its entire workforce at the camp to Reverse Transcription Polymerase Chain Reaction (RT-PCR) test, starting with the employees and contractors at the underground mine operations and subsequently to the mill operations. Other administrative and support departments were also tested. Operation at the underground area was temporarily suspended for a few days to allow the conduct and completion of the expanded testing. The underground operation resumed gradually from 50% at the later part of October 2020 to full operation in early November 2020.

The Company also identified and prepared quarantine facilities within the camp to isolate COVID-19 infected employees and prevent further spread of the virus. These facilities surpassed the minimum requirement set by the DOH and the Local Government Units (LGUs). The Company will continue to extend assistance in fighting the virus not only for the Company but also to lessen the risk exposure of communities in and near the LGUs where the mine operates.

#### *PGPI*

PGPI operated the Bulawan mine in Negros Occidental from 1996 to 2002, when it was decommissioned due to unfavorable metal prices. Exploration projects in the Vista Alegre area include the Nagtalay project and the Laburan/Skid 9 project. The geological modeling and preliminary resource estimation were completed and resulted to a Philippine Mineral Reporting Code (PMRC) compliant Measured and Indicated Mineral Resource Estimate of 12.1Mt @ 1.10g/t Au equivalent to 430,000 oz of contained Au in near surface mineralization. PGPI also developed the Sibutad Project in Zamboanga del Norte in 1997 to 1999 but the Project did not reach commercial production phase. The remaining mineral resource of Sibutad Project for its two gold deposits, Larayan and Lalab, is at 17Mt @ 0.81g/t Au equivalent to 460,000 oz of contained Au. PGPI currently holds 98.9% of LMC.

#### *SMMCI*

SMMCI finalized the definitive feasibility study (DFS) for an underground sub-level cave mining method for the Silangan Project. The DFS that was approved at the Group's Board meeting on July 31, 2019 cover 81 million tonnes (Mt) of ore reserves of the Boyongan deposit carrying high-quality copper and gold grades from a total mineral resource of 571 Mt. Financial advisers were engaged to secure funding for the project to proceed with its development plan.

Also, in July 2019, the Silangan Copper-Gold Project was granted an Environmental Compliance Certificate (ECC) for underground sub-level cave mining method. Following the grant of ECC, the Department of Environment and Natural Resources (DENR), through the Mines and Geosciences Bureau (MGB), in a letter dated September 26, 2019, has approved the underground sub-level cave mining method in connection with the previously issued Order dated April 10, 2015 approving the



Declaration of Mining Project Feasibility (DMPF) of the Silangan Copper-Gold Project under MPSA No. 149-99-XII.

The approval of the underground sub-level cave mining method under the DMPF included the ECC Three Year Development and/or Utilization Work (3YD/UWP) Program for years second-half (2H) of 2019 to first-half (1H) of 2020, the Environmental Protection and Enhancement Program (EPEP), Final Mine Rehabilitation and Decommissioning Plan (FMRDP) and Social Development and Management Program (SDMP). A revised 3YD/UWP covering three (3) years was submitted to MGB Central Office on December 27, 2020.

The search for investors for the Silangan Project continues and is faced with challenges in light of the global pandemic brought about by COVID-19.

On December 7, 2020, the Department of Environment and Natural Resources (DENR) approved the renewal for another 25-year term of Mineral Production Sharing Agreement (MPSA) No. 149-99-XIII. The additional 25-year term shall commence from December 29, 2024 subject to the same terms and conditions provided under MPSA No. 149-99-XIII and the applicable laws, rules and regulations that are existing or may be promulgated and the continuing compliance therewith from the date of the DENR's order up to the expiration of the initial term of MPSA No. 149-99-XIII.

#### Recovery of Deferred Exploration Costs

The Group's ability to realize its deferred exploration costs with carrying value amounting to ₱27,365,125 and ₱26,616,343 as at December 31, 2020 and 2019, respectively (see Note 13), depends on the success of exploration and development work in proving the viability of its mining properties to produce minerals in commercial quantities, and the success of converting the Group's Exploration Permits (EPs) or Application for Production Sharing Agreements to new mineral agreements, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

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

The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 24, 2021.

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## **2. Basis of Preparation, Statement of Compliance, Changes in Accounting Policies and Disclosures and 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 financial assets measured at fair value through other comprehensive income (FVOCI) and derivative financial instruments that are measured at fair value through profit or loss (FVTPL). The consolidated financial statements are presented in Philippine Peso, which is the Group's functional and presentation currency, rounded off 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 (PFRSs), except for the Parent Company's mine product 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 accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group:

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

### Future Changes in Accounting Policies

Pronouncements issued but not yet effective are listed below. The Parent Company intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Parent Company's financial statements unless otherwise indicated.

#### *Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

#### *Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

#### *Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

#### *Deferred effectivity*

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

### Summary of Significant Accounting Policies

#### Presentation of Consolidated Financial Statements

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





### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2020 and 2019. 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 reassesses whether 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 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.

### *Subsidiary*

Subsidiary is an entity over which the Group has control.

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

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



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

Subsidiaries	Nature of Business
PGPI	Incorporated in the Philippines on August 9, 1996 as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. In 2015, PGPI was acquired and 100% owned by the Parent Company. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both on care and maintenance status since 2002. PGPI currently owns 98.9% of the outstanding shares of LMC.
LMC	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, particularly the Lascogon Project in Surigao.
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources; currently the holding company of SMMCI.
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.
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.
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. On January 31, 2017, the Board of Directors approved to shorten the corporate term of PIAI to be until June 30, 2018.
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines on August 28, 1996 to serve as an intermediary holding company through which its subsidiaries and the Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owned 100% of the outstanding shares of PGPI effective April 27, 2010. In 2015, PGHI sold 100% of its ownership in PGPI to the Parent Company.

The ownership of the Parent Company and subsidiaries over the foregoing companies in 2020 and 2019 are summarized as follows:

	Percentages of Ownership			
	2020		2019	
	Direct	Indirect	Direct	Indirect
PGHI	100.0	–	100.0	–
PGPI	100.0	–	100.0	–
LMC	–	98.9	–	98.9
SMECI	100.0	–	100.0	–
SMMCI	–	100.0	–	100.0
FSTI	100.0	–	100.0	–

(Forward)



	Percentages of Ownership			
	2020		2019	
	Direct	Indirect	Direct	Indirect
PLI	100.0	–	100.0	–
PXP	30.4	–	30.4	–

*NCI*

NCI represents the 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.

Business Combination

Business combinations, except for business combinations 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 PFRS 9 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.

Foreign Currency Translation of Foreign Operations

The Group’s consolidated financial statements are presented in Philippine Peso, which is also the Group’s functional currency. Each subsidiary in the Group determines its own functional currency and items included in the consolidated financial statements of each subsidiary are measured using that functional currency. The Group has elected to recognize the translation adjustment that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation. Transactions in foreign currencies are initially recorded in the functional currency rate on the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the end of the reporting period. All exchange differences are recognized in the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.



### 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 - Initial Recognition and Subsequent Measurement

#### *Financial assets*

#### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### *Embedded Derivatives*

An embedded derivative in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the FVTPL category.

#### *Subsequent measurement*

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

#### Financial assets at FVTPL

Trade receivables subject to provisional pricing are measured at FVTPL, with subsequent changes in fair value recognized in the statements of income and other comprehensive income each period until final settlement.

Included under this category are the Group's trade receivables.



#### Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding

The details of these conditions are outlined below:

#### *Business model assessment*

The Group determined the business model at the level that best reflects how the Group manages its financial assets to achieve business objective.

The business model assessment is based on reasonably expected scenarios without taking ‘worst case’ or ‘stress case’ scenarios into account. If cash flows after initial recognition are realized in a way that is different from original expectations, the Group do not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### *The SPPI test*

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group apply judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial assets is required to be measured at FVTPL.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group’s financial assets at amortized cost include cash in banks, short-term deposits and advances to a related party.

#### Hedging

The Group applied hedge accounting prospectively. All of the Group’s existing hedging relationships were eligible to be treated as continuing hedging relationships. The Group designates only the spot element of forward contracts as hedging instrument. The forward element is recognized in OCI.

Gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets.



## Financial liabilities

### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

This category includes the Group's accounts payables and accrued liabilities.

### *Subsequent measurement*

After initial recognition, payables are subsequently measured at amortized cost using the EIR method.

## Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For other receivables (not subject to provisional pricing) due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by PFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognizes a loss allowance based on the financial asset's lifetime ECL at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. For any other financial assets carried at amortized cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

The Group considers a financial asset in default when contractual payments are 30 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.



At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial assets*

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

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

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

##### *Financial liabilities*

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

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

#### Debt Issuance Costs

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

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.



The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### “Day 1” Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market 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 statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability.

#### Inventories

Mine products inventory, which consist of copper concentrates containing copper, gold and silver, are stated at NRV. 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 statements of financial position date.

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.

#### Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

#### *Tax Credit Certificates (TCCs)*

TCCs are input VAT that can be utilized as payment for income taxes provided they are approved by the Bureau of Internal Revenue and properly supported by certificates of creditable withholding tax withheld at source subject to the rules in Philippine income taxation. TCCs are expected to be utilized as payment for income taxes within 12 months and are classified as current assets.

#### *Deferred Input VAT*

Deferred input VAT represents input VAT on purchase of capital goods exceeding one (1) million pesos. The related input VAT is recognized over five (5) years or the useful life of the capital goods, whichever is shorter.

#### 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.

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 statements 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 statements of income.

Depletion or amortization of mine and mining 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 or mine life whichever is shorter as follows:

	No. of Years
Buildings	10 to 40
Building improvements	5 to 10
Machinery and equipment	2 to 20
Surface structures	10

Depreciation or depletion of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or depletion ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, 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 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 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 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 mineral resource) are deferred as incurred and included under "Deferred exploration costs" account in the consolidated statements of financial position. If and when recoverable reserves are determined to be present in commercially producible quantities, the deferred exploration expenditures,



and subsequent mine development costs are capitalized as part of the mine and mining properties account classified under property, plant and equipment.

A valuation allowance is provided for unrecoverable deferred 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 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 directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for intended use or sale are capitalized as part of the asset. Borrowing costs consist of interest on borrowed funds used to finance the construction of the asset and other financing costs that the Group incurs in connection with the borrowing of funds. 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, investment in associate 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 (VIU), 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 VIU, 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 statements of income in the expense categories consistent with the function of the impaired asset.

An assessment is made at least on each consolidated statements 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 asset's 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 statements 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.



### 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 statements 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.

### 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 when control passes to the customer, which occurs at a point in time when the ore concentrates is physically transferred onto a shipping vessel. The revenue is measured at the amount to which the Group expects to be entitled, being estimate of the price expected using forward price, and a corresponding receivable is recognized.



*Revenue from sale of mine products*

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

*Provisional pricing adjustments*

The terms of metal in copper concentrates sales contracts with third parties contain provisional arrangements whereby the selling price for the metal is based on prevailing spot prices on a specified future date after shipment to the customer (the quotation period). These provisional arrangements are considered embedded derivatives. 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. Depending on the arrangement with the buyer, initial payment could be ninety percent (90%) or hundred percent (100%) of the provisional shipment value is collected within a week from shipment date, while the remaining balance 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. Provisional price adjustments are mark-to-market adjustments and not part of revenue from contracts with customers but are presented as other revenues.

*Smelting charges*

Contract terms on the sale of copper, gold and silver includes smelting charges deducted on the invoice price. Smelting charges are deducted from revenue to arrive at revenue from contracts with customers since smelting charges are considered as consideration payable to a customer in order to transform the unprocessed ore concentrates into its marketable form.

*Interest income*

Interest income is recognized as the interest accrues, taking into account the effective yield of the asset.

Cost and Expense Recognition

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

*Production costs*

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

*Excise taxes and royalties*

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

*General and administrative expenses*

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



### Retirement 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 benefits*

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 the Parent Company, 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 29.

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

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

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

#### Foreign-Currency-Denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the consolidated statements of financial position date. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchanges rates at the date when the fair value was determined.

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



or loss, any exchange component of that gain or loss shall be recognized in the consolidated statements of income.

### Income Taxes

#### *Current income tax*

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

Current income tax relating to items recognized directly in the statement of changes in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred tax*

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred 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; and
- 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 tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits in the form of minimum corporate income tax (MCIT) and unused tax losses in the form of net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income 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 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 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 tax asset to be utilized. Unrecognized deferred 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 tax asset to be recovered.

Deferred 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 tax assets and deferred 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 taxes relate to the same taxable entity and the same taxation authority.

#### Provisions

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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

#### 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 statements of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs.

#### Events After the Reporting Period

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 events) 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.





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### 3. 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.

#### *Recognition of Deferred 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, 2020 and 2019, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱162,088 and ₱166,623, respectively (see Note 27). As at December 31, 2020 and 2019, no deferred income tax assets were recognized on deductible temporary differences amounting to about ₱3,407,661 and ₱3,376,191, respectively (see Note 27), 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.

#### Accounting Estimates and Assumptions

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

#### *Measurement of Mine Products Revenue*

Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable



quotational period. Total revenues amounted to ₱7,833,713, ₱6,789,566, and ₱7,640,306 in 2020, 2019 and 2018, respectively (see note 17).

*Provision for expected credit losses on advances to a related party*

The Group uses the general approach model in the calculation of its ECL. An assessment of the ECL relating to advances to a related party is undertaken upon initial recognition and each financial year by examining the financial position of the related party and the market in which the related party operates applying the general approach of the ECL impairment model of PFRS 9. The general approach of the ECL impairment model involves exercise of significant judgment. Key areas of judgment include: defining default; determining assumptions to be used in the ECL model such as timing and amounts of expected net recoveries from defaulted accounts; debtor's capacity to pay and incorporating forward-looking information in calculating ECL. Total carrying value of other receivables and advances to a related party amounted to ₱86,139 and ₱78,279 as of December 31, 2020 and 2019, respectively (see notes 7 and 26).

*Valuation of Financial Instruments*

The Group carries certain financial assets and financial liabilities (i.e., quoted and unquoted shares) 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 (e.g., 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 22.

*Valuation of Financial Assets measured at FVOCI*

Fair value measurement requires the use of accounting estimates and judgment. At initial recognition, the fair value of quoted financial assets measured at FVOCI is based on its quoted price in an active market, while the fair value of unquoted financial assets measured at FVOCI 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.

Changes in fair value of its financial assets measured at FVOCI is recognized in the consolidated statements of comprehensive income with no recycling to profit or loss, cumulative changes in the fair value of the financial asset is closed to retained earnings upon disposal. The Group has net cumulative unrealized gain or loss on its financial assets measured at FVOCI amounting to a gain of ₱31,859 and ₱37,745 in December 31, 2020 and 2019, respectively. The carrying value of the Group's financial assets measured at FVOCI amounted to ₱113,973 and ₱120,898 as at December 31, 2020 and 2019, respectively (see Note 11).

*Measurement of NRV of Mine Products Inventory*

The NRV of mine products inventory is the estimated sales value less costs to sell, which can be derived from such inventory based on its weight and assay for metal content, and the LME and LBMA for prices, which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as at December 31, 2020 and 2019 amounted to ₱610,734 and ₱128,525, 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 Materials and Supplies Inventories*

The Group carries 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. The carrying value of materials and supplies inventories amounted to ₱732,632 and ₱915,223, net of provision for impairment loss of ₱104,900 and nil as at December 31, 2020 and 2019, respectively (see Note 8).

*Impairment of Mine and Mining Properties*

The Group assesses, at each reporting date, whether there is an indication that mine and mining properties may be impaired. If any indication exists, or when annual impairment testing for mine and mining properties is required, the Group estimates the mine and mining and properties' recoverable amount. An asset's recoverable amount is the higher of asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Assessments require the use of estimates and assumptions such as future cash flows, discount rates, estimated ore reserves, forecasted metal prices, and production quantities. 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.

Reversal of impairment loss amounting to ₱103,000 was recognized in 2020 while impairment loss amounting to ₱1,457,381 was recognized in 2019. The carrying value of mine and mining properties amounted to ₱1,253,505 and ₱1,204,545 as at December 31, 2020 and 2019, respectively (see Note 10).

*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 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 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, 2020 and 2019, carrying value of property, plant and equipment amounted to ₱3,042,982 and ₱3,185,283, net of accumulated depreciation, depletion and impairment amounting to ₱20,361,858 and ₱20,596,840, respectively (see Note 10).

*Estimation of Ore Reserves*

Ore reserves were determined using various factors such as market price of metals and production costs among others. These are economically mineable reserves based on the current market condition and concentration of mineral resource. Reserves are key inputs to depletion, amortization and decommissioning provisions. On June 30, 2011, the Padcal Mine life had been extended from 2017 to 2020. On March 20, 2015, the Padcal Mine life has been extended from 2020 to 2022. The extension of mine life is due to the additional reserves from the mineral resources delineated below the current mining level.



As at December 31, 2020 and 2019, the carrying value of the mine and mining properties of the Parent Company amounted to ₱1,253,505 and ₱1,204,545, net of related accumulated depletion and impairment amounting to ₱15,229,292 and ₱14,747,552, respectively (see Note 10).

#### *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 ₱14,569 and ₱36,687 as at December 31, 2020 and 2019, respectively (see Note 10).

#### *Impairment of Deferred Exploration Costs*

The Group reviews the carrying values of its deferred exploration costs whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. The ability of the Group to recover its deferred exploration costs would depend on the commercial viability of the reserves.

An impairment loss is recognized when the carrying values of these assets are not recoverable and exceeds their fair value. Impairment loss ₱47,500 was recognized in 2018. The carrying value of deferred exploration costs amounted to ₱27,365,125 and ₱26,616,343, net of allowance of impairment loss amounting to ₱3,825,412 as at December 31, 2020 and 2019, respectively (see Note 13).

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

The Group's non-financial assets include input tax recoverable, property, plant and equipment, other noncurrent asset and investment in associates. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses amounting to nil, ₱1,586,375 and ₱1,331,776 were recognized in 2020, 2019 and 2018, respectively. As at December 31, 2020 and 2019, the carrying value of non-financial assets amounted to ₱8,161,763 and ₱8,597,576, respectively (see Notes 9, 10, 12 and 14).

#### *Convertible Bonds*

The Group's convertible bonds, treated as a compound financial instrument, are separated into liability and equity components based on the terms of the contract. On issuance of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds



is allocated to the conversion option that is recognized and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized (see Note 15).

#### *Provisions for Losses*

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each end of the reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information (see Note 31).

#### *Estimation of Retirement Costs*

The Group's net retirement costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Parent Company's net excess retirement plan asset amounted to ₱315,042 and ₱227,165 as at December 31, 2020 and 2019, respectively (see Note 21). SMMCI's retirement liability amounted to ₱4,710 and ₱3,390 as at December 31, 2020 and 2019, respectively (see Note 21).

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## 4. Business Combinations

### *Acquisition of SMECI and SMMCI*

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

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## 5. Segment Information

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

Core net income (loss) is presented because the Group believes it is an important measure of its 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 (losses) gains that, through occurrence or size, are not considered usual operating items, such as foreign exchange (losses) gains, (losses) gains on derivative instruments, (losses) gains on disposal of investments, and other non-recurring (losses) gains.

Core net income (loss) is not a uniform or legally defined financial measure. The Group relies primarily on the results in accordance with PFRSs and uses core net income (loss) only as supplementary information.

Operating results of the Group is regularly reviewed by the Group's President and Chief Financial Officer (CFO), with the authority from the BOD, for the purpose of making decisions about resource allocation and performance assessment.



The following table shows the Group's core net income used for internal reporting purposes that is provided and reviewed by the Group's President and CFO for the years ended December 31, 2020, 2019, and 2018.

	2020	2019	2018
Revenues	₱7,833,713	₱6,789,566	₱7,640,306
Production costs	(4,215,573)	(4,387,787)	(4,407,889)
Depletion and depreciation	(1,252,204)	(1,814,331)	(1,600,521)
Mine products taxes and royalties	(543,238)	(427,211)	(506,490)
General and administrative expenses	(287,133)	(287,334)	(305,631)
Other recurring (expenses) income	(373,413)	282,722	(219,675)
<b>Core net income</b>	<b>₱1,162,152</b>	<b>₱155,625</b>	<b>₱600,100</b>

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2020, 2019 and 2018:

	2020	2019	2018
Core net income	₱1,162,152	₱155,625	₱600,100
Non-recurring (losses) gains:			
Foreign exchange gains (losses) and others	99,115	93,072	(121,176)
Retrenchment costs	-	(17,590)	-
Share in Provision for impairment of PXP assets	(1,894)	(63,760)	-
Net tax effect of aforementioned adjustments	(29,165)	362,820	36,353
Provisions for impairment of assets - net	(1,900)	(1,177,945)	93,179
Net (loss) income attributable to equity holders of the Parent Company	1,228,308	(647,778)	608,456
Net income attributable to NCI (Note 28)	(11)	(15)	-
<b>Consolidated net (loss) income</b>	<b>₱1,228,297</b>	<b>(₱647,793)</b>	<b>₱608,456</b>

Core net income per share is computed as follows:

	2020	2019	2018
Core net income	₱1,162,152	₱155,625	₱600,100
Divided by weighted average number of common shares outstanding during year (Note 30)	4,940,399,068	4,940,399,068	4,940,399,068
<b>Core net income per share</b>	<b>₱0.235</b>	<b>₱0.032</b>	<b>₱0.121</b>

Sales of the Parent Company are made to Pan Pacific Copper Co., Ltd. (Pan Pacific), which is covered by a Sales Agreement (signed on March 11, 2004), and to IXM Pte. Ltd. (IXM and formerly known as Louis Dreyfuss Commodities Metals Suisse SA) for the remaining copper concentrates. In addition, the Parent Company entered into a Sales Agreement with Transamine Trading SA (Transamine) (signed on July 1, 2018), whereby Transamine agreed to buy copper concentrates starting November 2018.



Gross revenue, including provisional pricing adjustments, from Pan Pacific, IXM and Transamine for the years ended December 31, 2020, 2019 and 2018 are presented below:

	2020	2019	2018
IXM	₱6,509,276	₱4,019,407	₱5,230,121
Pan Pacific	1,457,901	1,393,017	2,052,282
Transamine	—	1,927,889	1,321,053
	<b>₱7,967,177</b>	<b>₱7,340,313</b>	<b>₱8,603,456</b>
Adjustments from smelting, changes in the NRV of mine products, and other related charges	<b>(133,464)</b>	<b>(550,747)</b>	<b>(963,150)</b>
<b>Net revenues</b>	<b>₱7,833,713</b>	<b>₱6,789,566</b>	<b>₱7,640,306</b>

## 6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2020	2019
Cash on hand	₱1,646	₱1,453
Cash with banks	974,156	315,952
Short-term deposits	215,677	478,304
	<b>₱1,191,479</b>	<b>₱795,709</b>

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 ₱981, ₱1,571 and ₱2,275 in 2020, 2019 and 2018, respectively.

## 7. Accounts Receivable - net

Accounts receivable consist of:

	2020	2019
Trade	₱283,759	₱337,875
Others, net of allowance for impairment losses amounting to ₱1,405 as at December 31, 2020 and 2019	<b>86,139</b>	78,279
	<b>₱369,898</b>	<b>₱416,154</b>

The Group's trade receivables carried at FVTPL consist of the Parent Company's trade receivables arising from shipments of copper concentrates to Pan Pacific, IXM and Transamine.

Pan Pacific and IXM trade receivables are initially paid based on 90% of their provisional value, currently within one week from shipment date. The 10% final balance does not bear any interest until final settlement, which usually takes around three months from shipment date for Pan Pacific and IXM. Transamine's trade receivables are paid based on 100% of their provisional value, within one week before shipment date. Transamine is a new customer contracted by the Group starting in 2018. The Group has US dollar (US\$) accounts receivable amounting to US\$5,909 and US\$6,673 as at December 31, 2020 and 2019, respectively (see Note 25).



Other receivables include advances to employees, and other non-trade receivables. These advances are noninterest-bearing cash advances for business-related expenditures that are subject to liquidation. Other non-trade receivables are noninterest-bearing and are generally collectible on demand.

As at December 31, 2020 and 2019, the Parent Company has embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts. 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. Open or provisionally priced commodity sales contract amounted to ₱2,237,702 and ₱3,244,778 as at December 31, 2020 and 2019, respectively. Fair value adjustments for these open or provisionally priced sales contract at yearend amounted to net gain of ₱81,440, ₱15,189, ₱20,014 in 2020, 2019 and 2018, respectively, which was included under revenue and adjusted against receivables.

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#### 8. Inventories - net

Inventories consist of:

	2020	2019
Mine products - at NRV	₱610,734	₱128,525
Materials and supplies:		
On hand - at cost	837,532	895,281
In transit - at cost	-	19,942
	1,448,266	1,043,748
Less allowance for inventory obsolescence	104,900	-
	<u>₱1,343,366</u>	<u>₱1,043,748</u>

As at December 31, 2020 and 2019, the NRV of materials and supplies inventories amounted to ₱732,632 and ₱915,223 respectively.

Provision for inventory losses amounting to ₱104,900 were recognized in 2020 and included in “provisions for impairment losses - net of reversal” in the consolidated statements of income.

Materials and supplies recognized as expense amounted to ₱1,710,025, ₱1,841,857 and ₱1,846,050 in 2020, 2019 and 2018, respectively (see Note 18).

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#### 9. Other Current Assets - net

Other current assets consist of:

	2020	2019
Input tax recoverable - net	₱456,571	₱581,244
Prepaid expenses and others	83,379	84,524
	<u>₱539,950</u>	<u>₱665,768</u>

Allowance for impairment losses on input tax amounted to ₱9,045 as at December 31, 2020 and 2019.





## 10. Property, Plant and Equipment - net

Property, plant and equipment consist of:

December 31, 2020						
	Mine, and Mining Properties	Land, Buildings and Improvements	Machinery and Equipment	Surface Structures	Construction in Progress	Total
<b>Cost:</b>						
January 1	₱15,952,097	₱794,996	₱6,749,228	₱149,419	₱136,383	₱23,782,123
Additions	522,253	–	326,546	–	199,612	1,048,411
Disposals	–	(57,547)	(1,337,632)	(30,515)	–	(1,425,694)
Reclassifications	8,447	–	30,700	–	(39,147)	–
<b>December 31</b>	<b>16,482,797</b>	<b>737,449</b>	<b>5,768,842</b>	<b>118,904</b>	<b>296,848</b>	<b>23,404,840</b>
<b>Accumulated Depletion and Depreciation:</b>						
January 1	14,747,552	409,346	5,303,431	136,511	–	20,596,840
Depletion and depreciation for the year (Note 20)	584,740	53,134	651,392	4,446	–	1,293,712
Reversal of Impairment	(103,000)	–	–	–	–	(103,000)
Disposals	–	(57,547)	(1,337,632)	(30,515)	–	(1,425,694)
<b>December 31</b>	<b>15,229,292</b>	<b>404,933</b>	<b>4,617,191</b>	<b>110,442</b>	<b>–</b>	<b>20,361,858</b>
<b>Net Book Values</b>	<b>₱1,253,505</b>	<b>₱332,516</b>	<b>₱1,151,651</b>	<b>₱8,462</b>	<b>₱296,848</b>	<b>₱3,042,982</b>
December 31, 2019						
	Mine, And Mining Properties	Land, Buildings and Improvements	Machinery And Equipment	Surface Structures	Construction in Progress	Total
<b>Cost:</b>						
January 1	₱15,390,811	₱831,403	₱8,576,084	₱162,741	₱262,756	₱25,223,795
Additions	551,727	–	321,701	–	232,369	1,105,797
Disposals	(204,623)	(36,407)	(2,285,183)	(21,256)	–	(2,547,469)
Reclassifications	214,182	–	136,626	7,934	(358,742)	–
<b>December 31</b>	<b>15,952,097</b>	<b>794,996</b>	<b>6,749,228</b>	<b>149,419</b>	<b>136,383</b>	<b>23,782,123</b>
<b>Accumulated Depletion and Depreciation:</b>						
January 1	12,569,395	395,400	6,705,628	149,323	–	19,819,746
Depletion and depreciation for the year (Note 20)	925,398	50,353	881,149	8,444	–	1,865,344
Impairment	1,457,381	–	–	–	–	1,457,381
Disposals	(204,622)	(36,407)	(2,283,346)	(21,256)	–	(2,545,631)
<b>December 31</b>	<b>14,747,552</b>	<b>409,346</b>	<b>5,303,431</b>	<b>136,511</b>	<b>–</b>	<b>20,596,840</b>
<b>Net Book Values</b>	<b>₱1,204,545</b>	<b>₱385,650</b>	<b>₱1,445,797</b>	<b>₱12,908</b>	<b>₱136,383</b>	<b>₱3,185,283</b>

Mine and mining properties as at December 31, 2020 and 2019 include mine development costs of the 908 Meter Level, 798 Meter Level, 782 Meter Level and 760 Meter Level project amounting to ₱9,112,328 and ₱8,717,374, respectively. In 2015, with the discovery of additional resources, the estimated mine life of the Padcal Mine was extended until 2022, or an additional five years from the original estimated mine life of up until 2017. Correspondingly, the extensions in mine life were considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

The impairment loss and reversal is presented under “Provision for impairment losses - net of reversal” in the consolidated statements of income. The Parent Company recognized a reversal of impairment loss amounting to ₱103,000 in 2020 due to more favorable metal prices. Impairment loss on Padcal mine and mining properties of ₱1,457,381 was recognized in 2019 due to adverse effect of decline in ore grades.

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱24,974, ₱32,543 and ₱116,309 in 2020, 2019 and 2018, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 20).



Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine from 2023 up to 2030, discounted at a rate of 2.79%. Accretion of interest amounting to ₱3,510, ₱3,217 and ₱3,510 were recorded in 2020, 2019 and 2018, respectively.

The Group's provision for mine rehabilitation costs amounted to ₱14,569 and ₱36,687 as at December 31, 2020 and 2019, respectively.

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#### 11. Financial assets measured at FVOCI

The Group's financial assets measured at FVOCI as of December 31, 2020 and 2019 consist of quoted and unquoted investment in share of stock as follows:

	<b>2020</b>	2019
Investments in quoted shares	<b>₱60,938</b>	₱67,863
Investments in unquoted shares of stock	<b>53,035</b>	53,035
	<b>₱113,973</b>	₱120,898

The cumulative change in value of financial assets measured at FVOCI amounted to a ₱31,859 and ₱37,745 in December 31, 2020 and 2019, respectively. These changes in fair values have been recognized and shown as "Net unrealized gain on financial assets measured at FVOCI" account in the equity section of the consolidated statements of financial position and are also shown in the consolidated statements of comprehensive income.

The following table shows the movement of the "Net unrealized gain on financial assets measured at FVOCI as follows:

	<b>2020</b>	2019
January 1	<b>₱37,745</b>	35,341
Increase in fair value of financial assets measured at FVOCI	<b>(5,886)</b>	2,404
December 31	<b>₱31,859</b>	₱37,745

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#### 12. Investment in Associates - net

Investment in associates consist of:

	<b>2020</b>	2019
Acquisition cost	<b>₱4,814,941</b>	₱4,814,941
Accumulated equity in net losses:		
Balances at January 1	<b>₱257,315</b>	₱138,980
Equity in net losses	<b>47,011</b>	118,335
Total	<b>304,326</b>	257,315
Balances at the end of the year	<b>4,510,615</b>	4,557,626
Less allowance for impairment loss	<b>349,287</b>	349,287
Investment in associates - net	<b>₱4,161,328</b>	₱4,208,339



The following table is a rollforward analysis of the allowance for impairment losses recognized on investment in associates:

	2020	2019
January 1	₱349,287	₱220,293
Provision during the year	–	128,994
December 31	₱349,287	₱349,287

#### Lepanto

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

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

Allowance for impairment loss on investment in Lepanto amounted to ₱349,287 as at December 31, 2020 and 2019. Provision for impairment losses amounting to nil, ₱128,994 and nil in 2020, 2019 and 2018, respectively, are included under "Provision for impairment losses - net of reversal" in the consolidated statements of income.

The following table summarizes the financial information of Lepanto:

	2020*	2019
Current assets	₱1,932,321	₱1,841,208
Non-current assets	14,613,742	14,714,371
Current liabilities	(2,525,496)	(1,990,896)
Non-current liabilities	(7,731,686)	(7,729,338)
Equity	₱6,288,881	₱6,835,345

\*Balances are based on unaudited September 30, 2020 interim financial statements submitted by Lepanto to PSE.

	2020*	2019	2018
Revenue	₱1,090,043	₱2,047,384	₱2,120,642
Cost and expenses	(1,643,225)	(3,040,249)	(2,810,737)
Finance costs	(8,191)	(99,378)	(107,731)
Other income	13,824	35,503	11,115
Loss before income tax	(547,549)	(1,056,740)	(786,711)
Income tax benefit	1,083	29,376	11,741
Loss for the year	₱546,466	1,027,364	₱774,970

Total comprehensive loss	₱546,466	₱1,046,278	₱422,928
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Group's share of loss for the year (annualized)	₱23,825	₱27,980	₱22,300
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\*Balances are based on unaudited September 30, 2020 interim financial statements submitted by Lepanto to PSE.



PXP

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

On October 26, 2018, PXP, PMC and Dennison Holdings Corp. (DHC), signed a subscription agreement wherein the PMC and DHC will subscribe to 260 million and 340 million common shares of PXP, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250 million. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018. The 75% balance of subscription payable to PXP amounting to ₱2,310,750 is included in the subscription payable of the Group totaling ₱2,312,981 as at December 31, 2018.

On January 7, 2019, DHC paid an initial downpayment of ₱40,290, with the remaining balance due on March 31, 2019. However, DHC failed to pay the remaining balance, thereby forfeiting its downpayment in favor of PXP.

In 2019, PMC paid subscription payable to PXP amounting to ₱1,386,450 and ₱740,000 on February 11, 2019 and December 31, 2019, respectively. The outstanding balance of subscription payable with PXP after the series of payments amounted to ₱184,300 as at December 31, 2019.

In 2020, PMC paid subscription payable to PXP amounting to ₱19,700, ₱21,864, and ₱21,622 on July 29, 2020, October 31, 2020, and December 17, 2020, respectively. The outstanding balance of subscription payable with PXP after the series of payments amounted to ₱121,114 as at December 31, 2020.

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

	2020	2019	
Current assets	<b>₱195,339</b>	₱302,571	
Non-current assets	<b>6,560,249</b>	6,562,708	
Current liabilities	<b>(24,853)</b>	(74,615)	
Non-current liabilities	<b>(1,261,782)</b>	(1,274,103)	
Equity	<b>₱5,468,953</b>	₱5,516,561	

  

	2020	2019	2018
Revenue	<b>₱30,250</b>	₱72,499	₱107,924
Cost and expenses	<b>(98,663)</b>	(190,596)	(221,390)
Other (expenses) income	<b>(16,649)</b>	(180,279)	21,405
Loss before income tax	<b>(85,062)</b>	(298,376)	(92,061)
Income tax benefit (expense)	<b>8,792</b>	1,156	(4,370)
Loss for the year	<b>(₱76,270)</b>	(₱297,220)	(₱96,431)
Total comprehensive loss	<b>(₱76,270)</b>	(₱297,220)	₱10,052
Group's share of loss for the year	<b>₱23,186</b>	₱90,355	₱18,636



### 13. Deferred Exploration Costs - net

Deferred exploration costs consist of:

	2020	2019
Deferred exploration costs	<b>₱31,190,537</b>	₱30,441,755
Less allowance for impairment losses	<b>3,825,412</b>	3,825,412
	<b>₱27,365,125</b>	₱26,616,343

Deferred exploration costs attributable to the Group's Silangan Project amounted to ₱25,066,827 and ₱24,384,637 as of December 31, 2020 and 2019, respectively.

Deferred 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. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable. Impairment recognized are included under "Provision for impairment losses - net" in the consolidated statements of income amounting to nil, nil, and ₱47,500 in 2020, 2019, and 2018, respectively.

### 14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2020	2019
Input tax - noncurrent portion	<b>₱434,279</b>	₱433,429
Others	<b>66,603</b>	189,281
	<b>₱500,882</b>	₱622,710

Noncurrent portion of input VAT pertains to SMMCI's input VAT that cannot be realized within twelve (12) months after the date of the reporting period.

Others include 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.

### 15. Loans and Bonds Payable

	2020	2019
Current Loans:		
Bank loans:		
Philippine National Bank	<b>₱912,437</b>	₱1,316,510
Banco de Oro (BDO)	<b>384,184</b>	708,890
Bank of the Philippine Islands	<b>480,230</b>	506,350
	<b>1,776,851</b>	2,531,750
Noncurrent Loans:		
Bonds payable	<b>8,182,002</b>	7,743,020
	<b>₱9,958,853</b>	₱10,274,770



### Bank Loans

The Group obtains short-term, unsecured loans from various local banks. These loans have terms of ninety (90) days to one hundred eighty (180) days until maturity and are renewable subject to monthly repricing of interest. Interest rates of these short-term loans ranges from 3.50% to 4.50%.

### Bonds Payable

On December 18, 2014, SMECI, with PMC as the co-issuer, issued 8-year convertible bonds with a face value of ₱7,200,000 at 1.5% coupon rate p.a. payable semi-annually to Asia Link B.V. and Social Security System (SSS) wherein the former holds 20% ownership of PMC. The bonds are convertible into 400,000 common shares of SMECI at ₱18 per share 12 months after the issue date (“Standstill Period”). On the last day of the Standstill Period, the Issuer shall have a one-time right to redeem the bonds from the holders in whole or in part. After the Standstill Period, the noteholders may exercise the conversion right, in whole but not in parts, at any time but no later than the maturity date. At redemption/maturity date, the bonds can be redeemed together with the principal or face value of the bonds at a premium, payable at a rate of 3% per annum compounded semi-annually based on the face value of the bonds and unpaid accrued interest (if there be any). The proceeds of the bonds were used to repay the SMECI’s advances from PMC and fund further exploration works of SMMCI.

At the date of issuance, the carrying amount of the bonds payable and equity conversion options amounted to ₱5,974,482 and ₱1,225,518, respectively. The carrying value of convertible bonds payable amounted to ₱8,182,002 and ₱7,743,020, including accrued interest payable amounting to ₱2,207,520 and ₱1,768,538 as at December 31, 2020 and 2019, respectively.

Interest amortization amounted to ₱438,982 and ₱409,924 in 2020 and 2019, respectively. Bonds amortization is calculated on the effective interest basis by applying EIR rate of 6.97% per annum (compounded semi-annually) for an equivalent nonconvertible bonds at the date of issue of the convertible bond to the liability component of the convertible bonds.

Finance expense pertaining to the convertible bonds amounting to ₱560,101 and ₱531,168 in 2020 and 2019, respectively, was capitalized as deferred exploration costs. The rate used to determine the amount of borrowing costs eligible for capitalization was 5.61%.

The Group’s loans and bonds payable has no covenants imposed by banks and creditors as of December 31, 2020 and 2019.

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## 16. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	<b>2020</b>	2019
Trade	<b>₱797,623</b>	₱869,429
Accrued expenses	<b>361,596</b>	332,491
Provisions (Note 32)	<b>151,479</b>	151,713
Accrued royalties and excise taxes	<b>135,523</b>	112,955
Withholding taxes	<b>23,759</b>	17,364
Other nontrade liabilities	<b>222,783</b>	124,051
	<b>₱1,692,763</b>	₱1,608,003

Trade payables are noninterest-bearing and are generally settled within 30 to 120 day terms. Accrued expenses consist of accrued operating and administrative expenses are settled monthly, while



contracted and outside services are settled within the terms of their respective contracts. Other nontrade liabilities include payroll-related liabilities.

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

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

## 17. Revenues

	2020			2019			2018		
	Revenue from contracts with customers*	Other Revenue - Provisional pricing adjustment	Total revenue	Revenue from contracts with customers*	Provisional pricing adjustment	Total revenue	Revenue from contracts with customers*	Provisional pricing adjustment	Total revenue
Gold	₱4,675,766	(₱16,302)	₱4,659,464	₱3,628,958	₱7,527	₱3,636,485	₱4,125,531	(₱16,434)	₱4,109,097
Copper	3,099,063	7,025	3,106,088	3,018,588	75,166	3,093,754	3,540,981	(65,485)	3,475,496
Silver	68,753	(592)	68,161	58,226	1,101	59,327	59,538	(3,825)	55,713
			<b>₱7,833,713</b>			<b>₱6,789,566</b>			<b>₱7,640,306</b>

\*net of smelting charges amounting to ₱616,086, ₱609,629, and ₱674,107 in 2020, 2019, and 2018, respectively.

All revenue from sale of gold, copper and silver are recognized at a point in time when control transfers.

## 18. Costs and Expenses

Costs and expenses include the following:

	2020	2019	2018
Production costs			
Materials and supplies (Note 8)	₱1,710,025	₱1,841,857	₱1,846,050
Communications, light and water	1,127,212	1,202,927	1,249,876
Personnel (Note 19)	903,129	874,003	908,115
Contracted services	244,876	273,232	216,388
Others	230,331	195,768	187,460
	<b>₱4,215,573</b>	<b>₱4,387,787</b>	<b>₱4,407,889</b>
Depletion, amortization and depreciation (Note 10 and 20)			
Depreciation	₱667,464	₱888,933	₱738,926
Depletion and amortization	584,740	925,398	861,595
	<b>₱1,252,204</b>	<b>₱1,814,331</b>	<b>₱1,600,521</b>



	2020	2019	2018
Excise taxes and royalties			
Royalties	<b>₱320,323</b>	₱155,954	₱204,373
Excise taxes	<b>222,915</b>	271,257	302,117
	<b>₱543,238</b>	₱427,211	₱506,490
General and administrative expenses			
Personnel (Note 19)	<b>₱184,937</b>	₱184,804	₱185,434
Contracted services	<b>16,585</b>	17,795	20,015
Depreciation (Notes 10 and 20)	<b>16,534</b>	18,470	22,045
Taxes and licenses	<b>9,582</b>	16,693	5,162
Repairs and maintenance	<b>8,471</b>	2,033	2,412
Communications, light and water	<b>5,299</b>	7,820	8,641
Travel and transportation	<b>2,897</b>	5,315	9,681
Office supplies	<b>240</b>	2,073	3,366
Others	<b>42,588</b>	32,331	48,875
	<b>₱287,133</b>	₱287,334	₱305,631

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

## 19. Personnel Cost

Details of personnel costs are as follows:

	2020	2019	2018
Production costs (Note 18)			
Salaries and wages	<b>₱589,632</b>	₱635,329	₱634,076
Employee benefits	<b>285,102</b>	226,563	254,566
Retirement costs (Note 21)	<b>28,395</b>	12,111	19,473
	<b>₱903,129</b>	₱874,003	₱908,115
General and administrative expenses (Note 18)			
Salaries and wages	<b>₱116,057</b>	₱128,853	₱135,501
Employee benefits	<b>64,258</b>	53,980	46,764
Retirement costs (Note 21)	<b>4,622</b>	1,971	3,169
	<b>184,937</b>	184,804	185,434
	<b>₱1,088,066</b>	₱1,058,807	₱1,093,549

The Parent Company recognized retirement costs amounting to ₱33,017, ₱14,082 and ₱22,641 in 2020, 2019 and 2018, respectively (see Note 21).





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## 20. Depletion, Amortization and Depreciation

Details of depletion and depreciation expense are as follows:

	2020	2019	2018
Production costs (Note 18)	<b>₱1,252,204</b>	₱1,814,331	₱1,600,521
General and administrative (Note 18)	<b>16,534</b>	18,470	22,045
	<b>₱1,268,738</b>	₱1,832,801	₱1,622,566

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱24,974, ₱32,543 and ₱116,309 in 2020, 2019 and 2018, respectively, is capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI (see Note 10).

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## 21. Pension asset - net

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, under trust accounts with BDO and Union Bank of the Philippines. 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:

2020												
Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income						
	January 1, 2020	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2020
Present value of defined benefit obligation	₱873,634	₱43,285	₱37,624	₱-	₱954,543	(₱66,940)	₱-	(₱132,865)	₱35,049	(₱97,816)	₱-	₱789,787
Fair value of plan assets	(1,100,799)	-	(47,892)	-	(1,148,691)	66,940	(23,078)	-	-	(23,078)	-	(1,104,829)
	<u>(₱227,165)</u>				<u>(₱194,148)</u>	<u>₱-</u>	<u>(₱23,078)</u>	<u>(₱132,865)</u>	<u>₱35,049</u>	<u>₱120,894</u>	<u>₱-</u>	<u>(₱315,042)</u>
2019												
Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income						
	January 1, 2019	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2019
Present value of defined benefit obligation	₱831,256	₱39,291	₱54,206	₱-	₱924,753	(₱150,686)	₱38,638	(₱2,309)	₱63,238	₱99,567	₱-	₱873,634
Fair value of plan assets	(1,193,446)	-	(79,415)	-	(1,272,861)	150,686	21,376	-	-	21,376	-	(1,100,799)
	<u>(₱362,190)</u>				<u>(₱348,108)</u>	<u>₱-</u>	<u>₱60,014</u>	<u>(₱2,309)</u>	<u>₱63,238</u>	<u>₱120,943</u>	<u>₱-</u>	<u>(₱227,165)</u>
2018												
Net benefit cost in charged to consolidated statements of income						Remeasurements in other comprehensive income						
	January 1, 2018	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2018
Present value of defined benefit obligation	₱ 874,111	₱40,889	₱42,307	₱-	₱957,307	(₱47,201)	₱-	(₱66,373)	(₱12,477)	(₱78,850)	₱-	₱831,256
Fair value of plan assets	(1,251,144)	-	(60,555)	-	(1,311,699)	47,201	71,052	-	-	71,052	-	(1,193,446)
	<u>(₱377,033)</u>				<u>(₱354,392)</u>	<u>₱-</u>	<u>₱71,052</u>	<u>(₱66,373)</u>	<u>(₱12,477)</u>	<u>(₱7,798)</u>	<u>₱-</u>	<u>(₱362,190)</u>



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

	2020	2019
<b>Assets</b>		
Cash and cash equivalents	₱14,781	₱22,072
Receivables	5,274	16,247
Investment in debt securities	562,785	582,344
Investment in equity securities	367,712	353,753
Other investments	154,973	127,018
	<b>1,105,525</b>	1,101,434
<b>Liabilities</b>		
Accrued trust fees payables	696	535
	<b>₱1,104,829</b>	₱1,100,899

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

Actuarial valuation assumptions	2020	2019
Discount rate	1.71%	4.52%
Future salary increases	5.00%	5.00%
Expected rate of return on plan assets	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 reasonable 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%	(₱12,793)
	(1.00%)	13,159
Future salary increases	1.00%	₱13,601
	(1.00%)	(13,487)

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

	Expected benefit payments
Less than one year	₱155,841
One to less than five years	717,900

The average duration of the defined benefit obligation at the end of the reporting period is 0.82 years.

The Parent Company's actuarial funding requirement in 2020 and 2019 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, 2020.

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

Actuarial valuation assumptions	2020	2019
Discount rates	3.92%	4.97%
Future salary increases	4.00%	4.00%

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

	2020	2019	2018
January 1	₱3,390	₱2,302	₱3,184
Current service cost	664	592	1,083
Past service cost	–	–	–
Interest cost	168	169	183
	832	761	1,266
Remeasurements in other comprehensive income			
Experience adjustments	25	(358)	(1,200)
Actuarial changes from changes in demographic assumptions	–	–	(570)
Actuarial changes from changes in financial assumptions	463	685	(378)
	488	327	(2,148)
December 31	₱4,710	₱3,390	₱2,302

Retirement expense amounting to nil, ₱761, and ₱1,266 in 2020, 2019, and 2018, respectively, were capitalized as part of the deferred exploration costs.

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

	Increase (decrease)	Effect on defined benefit obligation
Discount rates	1.00%	(₱442)
	(1.00%)	523
Future salary increases	1.00%	₱542
	(1.00%)	(466)



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

	2020	2019
Less than 1 year	P223	P-
More than 1 year to 5 years	2,896	1,835
More than 5 years to 10 years	1,321	2,654
More than 10 years to 15 years	2,568	2,560
More than 15 years to 20 years	10,179	3,673
More than 20 years	6,300	12,239

The average duration of the defined benefit obligation at the end of the reporting period is 17.19 years.

## 22. Financial Instruments

The table below summarizes management's evaluation of business model and subsequent measurement for each financial assets and liabilities of the Group:

Financial Assets	Business Model	Subsequent Measurement	Remarks
Cash with banks and short-term deposits	Hold to collect	Amortized cost	NA
Trade receivable	NA	FVTPL	NA
Advances to related parties	Hold to collect	Amortized cost	Conditional fair value option not elected.
Quoted equity investments	NA	FVOCI (no recycling)	Not held for trading and FVTPL not opted.
Unquoted equity investments	NA	FVOCI (no recycling)	Not held for trading and FVTPL not opted.

### *Credit Risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. However, the Group is not exposed to credit risk from its operating activities (primarily trade receivables) since the historical default rate of its customers is 0%.

### Trade Receivables from Sale of Concentrates

As of December 31, 2020, the Group has current outstanding trade receivables from its customers amounting to P283,759 arising from revenue from contracts with three (3) customers, namely Pan Pacific, IXM, and Transamine. These contracts are within the scope of PFRS 15.

Based on historical transactions with the customers, there has been no instance that these customers have defaulted on their payments (historical default rate of 0%). PPC is a customer since start of commercial operations in the 1950s, IXM is a customer since year 2007, and Transamine is a new customer that always pays in full. Moreover, the Group's trade receivables have a credit period of three months, indicating that the time value of money is immaterial. With these facts, ECL is not material.



## 23. 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, financial assets measured at FVOCI, short-term bank loan and accounts payable and accrued liabilities. The main purpose of these financial instruments is to provide financing for the Group's operations and capital-intensive projects.

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

### Financial Risks

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

#### *Credit and Concentration Risks*

Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 72% of the Parent Company's annual production of concentrates is sold to Pan Pacific. The balance of the Parent Company's annual production of concentrates is contracted with IXM up to March 2021.

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, 2020 and 2019:

	2020	2019
Cash and cash equivalents		
Cash with banks	₱974,156	₱315,952
Short-term deposits	215,677	478,304
Accounts receivable		
Trade	283,759	337,875
Others	83,904	73,365
Advances to a related party	-	-
Financial asset measured at FVOCI		
Quoted equity investments	60,938	67,863
Unquoted equity investments	53,035	53,035
<b>Gross maximum credit risk exposure</b>	<b>₱1,671,469</b>	<b>₱1,326,394</b>



The following tables show the credit quality of the Group's financial assets by class as at December 31, 2020 and 2019 based on the Group's credit evaluation process:

December 31, 2020				
	<u>Neither Past Due nor Impaired</u>		<u>Past Due and</u>	
	High-Grade	Standard	Individually	Total
			Impaired	
Cash and cash equivalents				
Cash with banks	₱974,156	₱-	₱-	₱974,156
Short-term deposits	215,677	-	-	215,677
Accounts receivable				
Trade	283,759	-	-	283,759
Others	82,499	-	1,405	83,904
Financial asset measured at FVOCI				
Quoted equity investments	60,938	-	-	60,938
Unquoted equity investments	53,035	-	-	53,035
<b>Total</b>	<b>₱1,670,064</b>	<b>₱-</b>	<b>₱1,405</b>	<b>₱1,671,469</b>

  

December 31, 2019				
	<u>Neither Past Due nor Impaired</u>		<u>Past Due and</u>	
	High-Grade	Standard	Individually	Total
			Impaired	
Cash and cash equivalents				
Cash with banks	₱315,952	₱-	₱-	₱315,952
Short-term deposits	481,652	-	-	481,652
Accounts receivable				
Trade	337,875	-	-	337,875
Others	71,960	-	1,405	73,365
Financial asset measured at FVOCI				
Quoted equity investments	67,863	-	-	67,863
Unquoted equity investments	53,035	-	-	53,035
<b>Total</b>	<b>₱1,328,337</b>	<b>₱-</b>	<b>₱1,405</b>	<b>₱1,329,742</b>

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

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

Liquidity Risk

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



The tables below summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contracted undiscounted repayment obligations (including interest) as at December 31, 2020 and 2019, respectively:

	December 31, 2020			Total
	On Demand	Within 1 Year	More than 1 Year	
Other financial liabilities				
Short-term loans				
Principal	₱-	₱1,776,851	₱-	₱1,776,851
Interest	-	2,843	-	2,843
Long-term loans				
Principal	-	-	7,200,000	7,200,000
Interest	-	-	540,000	540,000
Accounts payables and accrued liabilities	-	1,382,014	-	1,382,014
Dividends payable	553,610	-	-	553,610
<b>Total undiscounted financial liabilities</b>	<b>₱553,610</b>	<b>₱3,161,708</b>	<b>₱7,740,000</b>	<b>₱11,455,318</b>

	December 31, 2020			Total
	On Demand	Within 1 Year	More than 1 Year	
Loans and receivables				
Cash and cash equivalents	₱1,191,479	₱-	₱-	₱1,191,479
Accounts receivable				
Trade	-	283,759	-	283,759
Others	-	82,499	-	82,499
Financial assets measured at FVOCI				
Quoted equity investments	67,863	-	-	67,863
Unquoted equity investments	53,035	-	-	53,035
<b>Total undiscounted financial assets</b>	<b>₱1,312,377</b>	<b>₱366,258</b>	<b>₱-</b>	<b>₱1,678,635</b>

	December 31, 2019			Total
	On Demand	Within 1 Year	More than 1 Year	
Other financial liabilities				
Short-term loans				
Principal	₱-	₱2,531,750	₱-	₱2,531,750
Interest	-	3,042	-	3,042
Long-term loans				
Principal	-	-	7,200,000	7,200,000
Interest	-	-	540,000	540,000
Accounts payables and accrued liabilities	-	1,325,983	-	1,325,983
Dividends payable	549,632	-	-	549,632
<b>Total undiscounted financial liabilities</b>	<b>₱549,632</b>	<b>₱3,860,775</b>	<b>₱7,740,000</b>	<b>₱12,150,407</b>

*Forward*





	December 31, 2019			Total
	On Demand	Within 1 Year	More than 1 Year	
Loans and receivables				
Cash and cash equivalents	₱795,709	₱-	₱-	₱795,709
Accounts receivable				
Trade	-	337,875	-	337,875
Others	-	71,960	-	71,960
Financial assets measured at FVOCI				
Quoted equity investments	67,863	-	-	67,863
Unquoted equity investments	53,035	-	-	53,035
<b>Total undiscounted financial assets</b>	<b>₱916,607</b>	<b>₱409,835</b>	<b>₱-</b>	<b>₱1,326,442</b>

*Market Risks*

*Foreign Currency Risk*

Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency. All of the Parent Company's sales are denominated in US dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US dollar-denominated cash and cash equivalents, trade receivables and loans payable. The Group recognized net foreign exchange gain of ₱99,115 for the year ended December 31, 2020, net foreign exchange gain of ₱93,072 for December 31, 2019 and net foreign exchange loss of ₱121,176 for December 31, 2018, 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 reasonable 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, 2020	
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax
29%	(₱172,496)
-29%	172,496
Year Ended December 31, 2019	
US\$ Appreciate (Depreciate)	Effect on Income before Income Tax
5%	(₱78,335)
-5%	78,335

There were no outstanding currency derivatives as of December 31, 2020 and 2019.

*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, which are classified in the consolidated statements of financial position as financial assets measured at FVOCI (see Note 11). Investment in quoted shares totaling ₱60,938 and ₱67,863 represent 0.01% of the total assets of the Group as at December 31, 2020 and 2019, 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 financial assets measured at FVOCI as at December 31, 2020 and 2019 that could be brought by changes in equity indices with all other variables held constant is as follows:

<b>December 31, 2020</b>		
<b>Currency</b>	<b>Change in Quoted Prices of Investments Carried at Fair Value</b>	<b>Effect on Equity</b>
<b>Peso</b>	<b>Increase by 2%</b>	<b>₱61.05</b>
	<b>Decrease by 2%</b>	<b>(61.05)</b>
<b>December 31, 2019</b>		
<b>Currency</b>	<b>Change in Quoted Prices of Investments Carried at Fair Value</b>	<b>Effect on Equity</b>
Peso	Increase by 1%	₱30.53
	Decrease by 1%	(30.53)

#### *Commodity Price Risk*

The Parent Company's mine products revenues are valued based on international commodity quotations (e.g., primarily on the LME and LBMA 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 Parent Company as at December 31, 2020 and 2019. The change in metal prices is based on 1-year historical price movements.

<b>December 31, 2020</b>	
<b>Change in Metal Prices</b>	<b>Effect on Income before Income Tax</b>
<b>Gold</b>	
<b>Increase by 19%</b>	<b>₱910,923</b>
<b>Decrease by 19%</b>	<b>(910,923)</b>
<b>Copper</b>	
<b>Increase by 23%</b>	<b>₱823,055</b>
<b>Decrease by 23%</b>	<b>(823,055)</b>
<b>December 31, 2019</b>	
<b>Change in Metal Prices</b>	<b>Effect on Income before Income Tax</b>
<b>Gold</b>	
Increase by 12%	₱448,817
Decrease by 12%	(448,817)
<b>Copper</b>	
Increase by 28%	₱1,005,688
Decrease by 28%	(1,005,688)

#### Derivative Financial Instruments

##### *Gold Derivatives*

In September 2017, the Parent Company entered into gold collar hedging contracts covering 2,300 ounces of monthly gold production from September to December 2017 at a strike price of US\$1,300 per ounce for the put options and US\$1,395 per ounce for the call options. This contract was also designated as cash flow hedge.



In January 2018, the Parent Company entered into gold collar hedging contracts covering 2,200 ounces of monthly gold production from January to June 2018 at a strike price of US\$1,300 per ounce for the put options and US\$1,350 per ounce for the call options. Further in April 2018, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly production from July to September 2018 at a strike price of US\$1,330 per ounce for the put options and US\$1,400 per ounce for the call options. These contracts were also designated as cash flow hedges.

In February 2019, the Parent Company entered into gold collar hedging contracts covering 2,000 ounces of monthly gold production from February to April 2019 at a strike price of US\$1,300 per ounce for the put options and US\$1,327 per ounce for the call options. Further in June 2019, the Company entered into gold collar hedging contract covering 2,000 ounces of monthly production from July to December 2019 at a strike price of US\$1,330 per ounce for the put options and US\$1,390 per ounce for the call options.

In January 2020, the Parent Company entered into gold put option contract covering 1,500 ounces of monthly gold production from January to June 2020 at a strike price of US\$1,450 per ounce. Premium paid amounted to US\$4.20 per ounce or a total of US\$37,800 put option premium. Premium is amortized over the term of the contract.

In May 2020, the Parent Company entered into gold collar hedging contracts covering 1,900 ounces of monthly gold production from July to December 2020 at a strike price of US\$1,650 per ounce for the put options and US\$1,855 per ounce for the call options.

Realized net loss from put and gold collar in 2020 amounted to ₱24,146 consisting of ₱1,917 put premium paid and ₱22,229 net loss from gold collar hedging contracts. Realized net loss from gold collar hedging contracts in 2019 amounted to ₱52,679.

There were no outstanding gold derivatives as at December 31, 2020 and 2019.

#### *Copper Derivatives*

In January 2018, the Parent Company entered into a copper collar hedging contract covering 360 metric tonnes per month for the month of February and July 2018 at a strike price of US\$7,650 per metric tonne for the call options and US\$6,615 per metric tonne for the put options.

In May 2020, the Parent Company entered into a copper collar hedging contract covering 450 metric tonnes per month for the months of July to September 2020 at a strike price of US\$5,725 per metric tonne for the call options and US\$4,630 per metric tonne for the put options

The effect of the fair value adjustments arising from the outstanding copper derivatives as at December 31, 2020 amounted to nil. There were no outstanding copper derivatives as at December 31, 2020 and 2019.

Realized net loss from copper collar amounted to ₱51,712 and nil in 2020 and 2019, respectively.

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## **24. 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:

	2020	2019
Capital stock	<b>₱4,940,399</b>	₱4,940,399
Additional paid-in capital	<b>1,143,981</b>	1,143,981
Retained earnings		
Unappropriated	<b>4,734,469</b>	3,471,281
Appropriated	<b>10,500,000</b>	10,500,000
	<b>₱21,318,849</b>	₱20,055,661

## 25. Foreign-Currency-Denominated Monetary Assets and Liabilities

The Group's foreign-currency-denominated monetary assets and liabilities as at December 31, 2020 and 2019 are as follows:

	2020		2019	
	US\$	Peso Equivalent	US\$	Peso Equivalent
<b>Assets</b>				
Cash and cash equivalents	<b>\$18,705</b>	<b>₱898,292</b>	\$12,386	₱627,165
Trade receivables	<b>5,909</b>	<b>283,759</b>	6,673	337,887
	<b>\$24,614</b>	<b>₱1,182,051</b>	\$19,059	₱965,052

	2020		2019	
	US\$	Peso Equivalent	US\$	Peso Equivalent
<b>Liabilities</b>				
Accounts payable	\$-	₱-	\$-	₱-
Bank loans	<b>37,000</b>	<b>1,776,851</b>	50,000	2,531,750
	<b>37,000</b>	<b>1,776,851</b>	50,000	2,531,750
Liabilities - net	<b>(\$12,386)</b>	<b>(₱594,800)</b>	(\$30,941)	(₱1,566,698)

The exchange rates of Peso to US dollar were ₱48.023 to US\$1 as at December 31, 2020 and ₱50.635 to US\$1 as at December 31, 2019.

## 26. 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, enter 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.

*PXP*

On July 15, 2016, PMC ceases to have control over PXP (Notes 12). Previously, advances to PXP are eliminated in the consolidated financial statements.

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

Upon the adoption of PFRS 9, the Group recognized impairment on the Group's advances to PXP amounting to ₱1,312,243 which was charged directly to retained earnings as at January 1, 2018. Such amount represents the difference between the carrying value of the advances which carries an on-demand feature, and the fair value of the pledged shares.

On October 26, 2018, PXP, PMC and Dennison Holdings Corp. (DHC), signed a subscription agreement wherein PMC and DHC will subscribe to 260 million and 340 million common shares of PXP, respectively, for a total consideration of ₱3,081,000 and ₱4,029,000, respectively.

Each share is valued at ₱11.85, which represents a 20% discount to the 90-day volume weighted average price (VWAP) of PXP shares. The agreement was approved by the Board of Directors on October 25, 2018.

On December 27, 2018, PMC paid the 25% downpayment of ₱770,250 million. As a result of the transaction, PMC's total ownership interest in PXP increased from 19.76% to 30.40% as at December 31, 2018.

PXP's proceeds from the subscription agreement will be utilized for the repayment of its advances from the Parent Company. In December 2018, PXP made payments to PMC amounting to ₱781,262 while in 2019, PXP fully paid the cash advances from PMC. As a result, the related pledge was extinguished.

The subscription agreement in October 2018 and subsequent payments made by PXP to PMC resulted in enhancement of credit quality of the advances to PXP. As a result, the provision for expected credit losses on advances to a related party amounting to ₱1,312,243 was reversed in 2018. The reversal is included in the "Provision for impairment losses - net of reversal" in the consolidated statements of income.

On January 7, 2019, DHC paid an initial downpayment of ₱40,290, with the remaining balance due on March 31, 2019. However, DHC failed to pay the remaining balance, thereby forfeiting its downpayment in favor of PXP.

PMC paid subscription payable to PXP amounting to ₱1,386,450 and ₱740,000 on February 11, 2019 and December 31, 2019, respectively. The balance of subscription payable in relation to the subscription agreement with PXP amounted to ₱184,300 as at December 31, 2019.

On August 5, 2019, a Deed of Assignment was entered into by Brixton Energy & Mining Corporation (BEMC; a subsidiary of PXP) and PXP transferring BEMC's advances from PMC to PXP amounting to ₱737,815. Upon assignment, PMC reversed its previously written-off advances to BEMC. The reversal is included in the "Provision for impairment losses - net of reversal" in the consolidated statements of income. The transferred advances were then paid by PXP to PMC on December 19, 2019.



In 2020, PMC paid subscription payable to PXP amounting to ₱19,700, ₱21,864, and ₱21,622 on July 29, 2020, October 31, 2020, and December 17, 2020, respectively. The outstanding balance of subscription payable with PXP after the series of payments amounted to ₱121,114 as at December 31, 2020.

*SMECI*

On December 18, 2014, SMECI, with PMC as the co-issuer, issued 8-year convertible bonds with a face value of ₱7,200,000 at 1.5% coupon rate p.a. payable semi-annually to Asia Link B.V. and Social Security System (SSS) wherein the former holds 20% ownership of PMC (see Note 15).

Compensations of Key Management Personnel

Compensations of the members of key management personnel are as follows:

	2020	2019	2018
Short-term employee benefits	<b>₱94,093</b>	₱85,430	₱75,465
Pension costs	<b>6,052</b>	6,847	4,988
	<b>₱100,145</b>	92,277	₱80,453

**27. Income Taxes**

- a. The (benefit from) provision for income tax consists of:

	2020	2019	2018
Current	<b>₱234,407</b>	₱143,019	₱275,408
Deferred	<b>67,620</b>	(498,841)	(199,799)
	<b>₱302,027</b>	(₱355,822)	₱75,609

The Group is subject to regular corporate income tax (RCIT) or MCIT, whichever is higher. The provision for current income tax in 2020, 2019, and 2018 represent RCIT.

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

	2020	2019
Deferred tax assets on:		
Provision for losses and others	<b>₱90,336</b>	₱90,336
Unrealized foreign exchange losses - net	<b>42,774</b>	73,625
Materials and supplies obsolescence	<b>31,470</b>	-
Accumulated accretion of interest on provision for mine rehabilitation costs	<b>(1,028)</b>	2,107
Unamortized past service costs	<b>(1,464)</b>	555
Total deferred tax assets	<b>₱162,088</b>	166,623

Deferred tax liabilities on:

Difference in fair value and carrying value of the net assets of subsidiary acquired	<b>(1,665,513)</b>	(1,665,513)
Accelerated deduction	<b>(595,724)</b>	(622,678)
Net retirement plan assets	<b>(94,542)</b>	(68,149)
Mine inventory at year-end	<b>(73,056)</b>	(6,782)
Unrealized foreign exchange gain	<b>(8,557)</b>	(9,080)

*Forward*



	2020	2019
OCI portion of retirement liability	(12,466)	(6,882)
Changes in FV of financial assets measured at FVOCI	(5,544)	(6,089)
Total deferred tax liabilities	(2,455,402)	(2,385,173)
Net deferred tax liabilities	(P2,293,314)	(P2,218,550)

- c. The reconciliation of the Group's provision for income tax computed at the statutory income tax rates based on income before income tax is as follows:

	2020	2019	2018
Provision (Benefit from) income tax at statutory income tax rate of 30%	P459,097	(P301,085)	P205,220
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses and non-taxable income - net	(P158,461)	P362,268	(P687)
Unrecognized DTA, NOLCO and excess MCIT	1,576	2,238	32,197
Interest income already subjected to final tax	(185)	(579)	(679)
Reversal of temporary difference on impairment of Padcal mine and mining properties	-	(418,664)	(160,442)
	P302,027	(P355,822)	P75,609

- d. As at December 31, 2020 and 2019, no deferred tax assets were recognized on deductible temporary differences amounting to P3,407,661 and P3,376,191, respectively.
- e. On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover as One Act" which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As at December 31, 2020, significant NOLCO and MCIT of the Parent Company's subsidiaries for which no deferred income taxes were recognized are as follows:

#### SMMCI

As at December 31, 2020, SMMCI has incurred NOLCO before taxable year 2020 and excess MCIT during taxable year 2020 that can be claimed as deduction from regular taxable income for the next three (3) consecutive years:

Year Incurred	Available Until	NOLCO		Excess MCIT
		Amount	Tax Effect	
2018	2021	P107,648	P32,294	P18
2019	2022	4,072	1,222	70
2020	2023	-	-	76
		P111,720	P33,516	P164



As at December 31, 2020, SMMCI has incurred NOLCO in taxable year 2020 which can be claimed from regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act.

Year Incurred	Available Until	NOLCO	
		Amount	Tax Effect
2020	2025	₱2,696	₱809

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

	NOLCO		Excess MCIT	
	2020	2019	2020	2019
At January 1	₱111,720	₱119,618	₱255	₱185
Additions	2,696	4,072	76	70
Expirations	–	(11,970)	(167)	–
At December 31	₱114,416	₱111,720	₱164	₱255

*PGPI*

As at December 31, 2020, PGPI has incurred NOLCO in taxable year 2020 which can be claimed from regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan to Recover As One Act.

Year Incurred	Available Until	NOLCO	
		Amount	Tax Effect
2020	2025	₱4,624	₱1,387

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

	NOLCO		Excess MCIT	
	2020	2019	2020	2019
At January 1	₱7,090	₱–	₱–	₱–
Additions	4,624	–	–	–
Applications	–	7,090	–	–
Expirations	–	–	–	–
At December 31	₱11,714	₱7,090	₱–	₱–

f. *CREATE Bill*

On February 3, 2021, the Senate and House of Representatives ratified the bicameral conference committee report on the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) bill, which seeks to gradually reduce the corporate income tax while modernizing incentives and making it “performance-based, targeted, time-bound, and transparent” for companies. The CREATE bill is awaiting approval from the President of the Philippines to be formally enacted into law.

The bill, if enacted on or before April 15, 2021, will have a retroactive effect on the Group's current income taxes as a result of the reduction in the applicable rate from 30% to 25% effective July 1, 2020.





## 28. Equity

### Capital Stock

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

	Number of Shares	
	2020	2019
Authorized common stock - ₱1 par value	<b>8,000,000,000</b>	8,000,000,000
Issued, outstanding and fully paid:		
As at the beginning and end of the year	<b>4,940,399,068</b>	4,940,399,068

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

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
1956	November 26, 1956	60,000,000	20,590,250
1957			30,539,750
1958			107,035
1959			1,442,500
1960	September 12, 1960	30,000,000	10,997,397
1961			1,238,500
1962			9,737,294
1963	December 16, 1993	90,000,000*	103,258,378
1964	March 6, 1964	220,000,000	65,339,520
1965			61,546,755
1966			60,959,182
1969	September 22, 1969	600,000,000	182,878,280
1970			274,317,420
1971	August 20, 1971	1,000,000,000	411,476,131
1973		4,000,000,000****	2,623,160,332
1974			1,543,035,476
1978			540,062,420
1981	August 4, 1981	5,000,000,000	1,485,171,655
1983			742,006,977
1985			815,707,473
1986			3,923,841,215
1987	August 14, 1987	9,000,000,000	3,867,787,326
1989	July 11, 1989	20,000,000,000	5,028,123,524
1990	June 27, 1990	(38,000,000,000)**	(20,549,744,536)
1991			375,852,233
1992			162,869,258
1993			179,156,183
1995			403,849
1997			985,928,483
1999	May 23, 1997	3,000,000,000	—
2007			10,781,250
2008			912,279,662
2009	May 22, 2009	3,000,000,000	1,019,753,789

Forward



Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
2010			21,525,999
2011			7,619,783
2012			3,276,075
2013			3,969,250
2014			3,403,000
2015 - 2020			—
		8,000,000,000	4,940,399,068

\*This is the result of the change in 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, 2020 and 2019, the Parent Company's total stockholders is 43,976 and 43,992, respectively.

#### Retained Earnings

Retained earnings consists of the following:

	2020	2019
Retained earnings:		
Unappropriated	<b>₱4,504,698</b>	₱3,325,794
Cumulative actuarial gains	<b>229,771</b>	145,487
Total unappropriated	<b>4,734,469</b>	3,471,281
Appropriated	<b>10,500,000</b>	10,500,000
Ending balance	<b>₱15,234,469</b>	₱13,971,281

On February 29, 2016, the Parent Company declared its shares of stock in PXP as property dividends to its shareholders on March 15, 2016 record date at a ratio of 17 shares for every 100 shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission (SEC) on June 22, 2016. The Parent Company ceases to have control over PXP on July 15, 2016.

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

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

On November 7, 2017, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividend to all stockholders at record date of November 24, 2017.

On February 27, 2018, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.04 per share as regular dividends to all stockholders at record date of March 13, 2018.

On July 25, 2018, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.035 per share as regular dividends to all stockholders at record date of August 8, 2018.

On February 27, 2020, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.01 per share as regular dividends to all stockholders at record date of March 13, 2020.



On February 24, 2021, the BOD of the Parent Company approved the declaration of cash dividend of ₱0.059 per share as regular dividends to all stockholders at record date of March 12, 2021.

The Parent Company's retained earnings available for dividend distribution amounted to ₱6,799,734 and ₱5,907,185 as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, dividends payable amounted to ₱553,610 and ₱549,632, respectively.

NCI

	2020	2019
Percentage of ownership	1.1%	1.1%
Amount	₱284	₱273

Transactions with NCI are disclosed in Note 2.

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## 29. Share-based Payments

### 2011 Parent Company Stock Option Plan (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) The 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; and
- 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 2020 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2020	2020
January 1	<b>16,460,000</b>	<b>₱22.34</b>
Forfeited	<b>16,460,000</b>	<b>22.34</b>
December 31	—	<b>₱—</b>

The following table shows the movements in 2019 of the 2011 SOP of the Parent Company:

	Number of Options	Weighted Average Exercise Price
	2019	2019
January 1	18,020,000	₱22.49
Forfeited	1,560,000	24.05
December 31	16,460,000	₱22.34

The number of unexercised vested stock options totaled to nil and 16,460,000 in 2020 and 2019 respectively. The stock options outstanding are anti-dilutive. The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2020 and 2019.

The total share-based compensation expense for the 2011 SOP amounted to nil in 2020, 2019 and 2018. The corresponding share-based option reserve included under Additional Paid-in Capital as at December 31, 2020 and 2019 amounted to ₱353,170.



### 30. Basic/Diluted (Loss) Earnings Per Share

Basic (loss) earnings per share are computed as follows:

	2020	2019	2018
Net (loss) income attributable to equity holders of the Parent Company	<b>₱1,228,308</b>	(₱647,778)	₱608,456
Divided by weighted average number of common shares outstanding during the year	<b>4,940,399,068</b>	4,940,399,068	4,940,399,068
<b>Basic (loss) earnings per share</b>	<b>₱0.249</b>	(₱0.131)	₱0.123

Diluted (loss) earnings per share amounts are calculated as follows:

	2020	2019	2018
Net income attributable to equity holders of the Parent Company	<b>₱1,228,308</b>	(₱647,778)	₱608,456
Divided by weighted average number of common shares adjusted for the effect of exercise of stock options	<b>4,940,399,068</b>	4,940,399,068	4,940,399,068
<b>Diluted (loss) earnings per share</b>	<b>₱0.249</b>	(₱0.131)	₱0.123
Weighted average number of common shares adjusted for the effect of exercise of stock options	<b>4,940,399,068</b>	4,940,399,068	4,940,399,068

The effect of the conversion options of the convertible bonds is anti-dilutive as at December 31, 2020 and 2019.

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

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

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

- a. To conduct exploration and pre-development;
- b. To perform all activities necessary to complete a final feasibility study for the project; and
- c. To possess and/or exercise all of Kalayaan's surface rights, to exercise, utilize and enjoy all the rights, benefits, privileges, and perform all the obligations of Kalayaan under and in relation to the



exploration permit and the mineral rights, provided that Kalayaan shall remain liable for all accrued obligations under the exploration permit as at the date of the agreement.

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

On April 19, 2017, MMC and Kalayaan agreed to extend the term of the Earn-In Period for another two (2) years and on January 24, 2019, for another two (2) years. New earn-in period will now be ten (10) years following the execution of the Farm-In Agreement and will expire on May 10, 2021.

On December 17, 2020, the new earn-in period has been extended further for 2 years. New Earn-In period will now be 12 years following the execution of the Farm-In Agreement and will expire on May 10, 2022.

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## 32. 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.

### DENR Issues on Mining Operations

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

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

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



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

The following table summarizes the changes in liabilities arising from financing activities in 2020 and 2019:

	January 1, 2020	Dividend Declaration	Availments	Payments	Accretion of interest	Effect of changes in foreign currency exchange rates	December 31, 2020
<b>Current Liabilities:</b>							
Bank loans	₱2,531,750	₱-	₱304,960	(₱942,655)	₱-	(₱117,204)	₱1,776,851
Dividend	549,632	49,404	-	(45,426)	-	-	553,610
<b>Noncurrent Liability:</b>							
Bonds payable	7,743,020	-	-	-	438,982	-	8,182,002
	<b>₱10,824,402</b>	<b>₱49,404</b>	<b>₱304,960</b>	<b>(₱988,081)</b>	<b>₱438,982</b>	<b>(₱117,204)</b>	<b>₱10,512,463</b>

	January 1, 2019	Dividend Declaration	Availments	Payments	Accretion of interest	Effect of changes in foreign currency exchange rates	December 31, 2019
<b>Current Liabilities:</b>							
Bank loans	₱2,155,780	₱-	₱3,681,384	(₱3,206,711)	₱-	(₱98,703)	₱2,531,750
Dividend	550,995	-	-	(1,363)	-	-	549,632
<b>Noncurrent Liability:</b>							
Bonds payable	7,333,096	-	-	-	409,924	-	7,743,020
	<b>₱10,039,871</b>	<b>₱-</b>	<b>₱3,681,384</b>	<b>(₱3,208,074)</b>	<b>₱409,924</b>	<b>(₱98,703)</b>	<b>₱10,824,402</b>

