COVER SHEET

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SEC Registration Number

P H I L E X   M I N I N G   C O R P O R A T I O N

(Company's Full Name)

2 N D   F L O O R   L A U N C H P A D   R E L I A N C E
S T R E E T   C O R N E R   S H E R I D A N   S T R E E T
M A N D A L U Y O N G   M E T R O   M A N I L A

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

DANNY Y. YU

(Contact Person)

(632) 631-13-81

(Company Telephone Number)

1 2 3 1

Month *Day*

(Calendar Year)

1 7 A - A

(Form Type)

(Amended 17A)

0 6 2 8

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

PHILEX MINING CORPORATION

Securities and Exchange Commission
Office of the Director
Markets and Securities Regulation Department
G/F Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City

Attention: Director Vicente Graciano P. Felizmenio, Jr.

Gentlemen:

We submit herewith the revised copy of the Statement of Management Responsibility (SMR) in compliance with the issued Financial Reporting Bulletin No. 20, Revised Statement of Management Responsibility. This SMR will replace the previously filed SMR under the company's SEC Form 17A where the old format was used.

We hope you find the attached in order.

Very truly yours,

DANNY Y. YU
SVP Finance and CFO

S.E.C. Number 10044
File Number______

PHILEX MINING CORPORATION
(Company's Full Name)

2nd Floor LaunchPad, Reliance Street corner Sheridan Street,
Mandaluyong City, Metro Manila 1550
(Company's Address)

631-1381 to 88
(Telephone Numbers)

December 31
(Fiscal Year Ending)
(month & day)

Amended SEC FORM 17-A Annual Report
Form Type

____
Amendment Delegation (If applicable)

December 31, 2016
Period Ended Date

____
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2016**
2. SEC Identification Number **10044**
3. BIR Tax Identification No. **000-283-731-000**
4. Exact name of issuer as specified in its charter: **PHILEX MINING CORPORATION**
5. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization
6. [ ] (SEC Use Only) Industry Classification Code:
7. **2nd Floor LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City, Metro Manila**
   Address of principal office Postal Code **1550**
8. **(632) 631-1381 to 88**
   Issuer's telephone number, including area code
9. **Philex Building, 27 Brixton Street, Pasig City 1600**
   Former name, former address, and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 & 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1 par value (as of Dec. 31, 2016)	**4,940,399,068**
Debt Outstanding (as of December 31, 2016)	**₱9,675,494,423**

11. Are any or all of these securities listed on a Stock Exchange?

    Yes [X] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange **Common Shares**

12. Check whether the issuer:

    (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a) – 1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the issuer was required to file such reports).

    Yes [X] No [ ]

    (b) has been subject to such filing requirements for the past 90 days.

    Yes [X] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates: **₱42.487 billion** based on closing price at the Philippine Stock Exchange on March 27, 2017.

PART 1

BUSINESS AND GENERAL INFORMATION

Item 1. Business

CORPORATE PROFILE

Philex Mining Corporation (“PMC” or the “Company”) and its subsidiaries are organized into two main business groupings: the mining business, which is directly under PMC, Philex Gold Philippines, Inc. (PGPI) and Silangan Mindanao Mining Co., Inc. (SMMCI), and the energy and hydrocarbon business under PXP Energy Corporation (PXP), formerly Philex Petroleum Corporation, but not until July 15, 2016, when PXP and its subsidiaries ceased to be subsidiaries of PMC as a result of loss on control through property dividend declaration. Thus, as of December 31, 2016, the Group’s mining business remains as its only business segment.

Mining Business

The Company was incorporated in the Philippines in 1955 and has been listed in the Philippine Stock Exchange since November 23, 1956. PMC, PGPI (a wholly-owned subsidiary incorporated in the Philippines) and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary incorporated in the Philippines) and its subsidiary, SMMCI, are primarily engaged in large-scale exploration, development and utilization of mineral resources.

PMC operates the Padcal Mine in Benguet for the past 59 years using the underground block-cave method. It is one of the oldest operating mines in the country and provides PMC its biggest source of revenue. In October 2015, an additional 20 million tonnes of ore reserves were declared within the current ore body, which will extend the mine’s life by two (2) more years, from 2020 to 2022. In February 2016, the Company disclosed the results of ongoing exploration near the surface of Bumolo Project, which area is within Mineral Production Sharing Agreement (MPSA) 156-2000-CAR, with an estimated 21.7 million tonnes of inferred resources at 0.21% copper and 0.30 grams per tonne gold, at a cut-off of 0.312% CuEq.

PGPI, on the other hand, operated the Bulawan mine in Negros Occidental until the second quarter of 2002. The Company’s exploration strategy in the late 1980’s was focused on gold exploration, which resulted in the acquisition and staking of a number of primarily gold claim holdings throughout the Philippines. In July 1996, these gold assets were transferred to PGPI. These assets included the Bulawan mine in Negros Occidental, Negros Island, which operated commercially from January 1996 until 2002, when it was decommissioned due to unfavorable metal prices. The Bulawan mine currently has remaining resources of 23.9 million tonnes, including that of the Vista Alegre area. Exploration projects in the Vista Alegre area include the Nagtalay project and the Laburan/Skid 9 project, which have completed the geological modelling and preliminary resource estimation.

SMECI, through SMMCI, owns the Silangan Project covering the Boyongan and Bayugo deposits in Surigao. SMMCI completed the pre-feasibility study of Boyongan deposit in late 2014, and is currently conducting the definitive or bankable feasibility study, which is expected to be completed in 2017. The Boyongan copper-gold porphyry deposit in Surigao del Norte was discovered in August 2000 under SMMCI, a joint venture with Anglo American Exploration Plc (Anglo). On February 6, 2009, the Company acquired

Anglo's 50% interest in the Silangan Project under SMMCI for a cash consideration of US$55 million, thereby owning 100% of the Silangan Project. Adjacent to the Silangan Project is the Kalayaan Project, the exploration of which is being undertaken by the Company by virtue of a Farm-in Agreement with Kalayaan Gold & Copper Resources, Inc., a subsidiary of Manila Mining Corporation.

Energy and Hydrocarbon Business

On February 29, 2016, the Company's Board of Directors approved a property dividend consisting of shares of stock of PXP at the ratio of seventeen PXP shares for every one hundred shares of PMC, which was approved by the Securities and Exchange Commission on June 22, 2016.

The transaction reduced PMC's shareholdings in PXP, effective July 15, 2016, from 64.7% to approximately 19.8%, and allow PMC to leverage on its key strengths and focus its resources on its core business of metals mining, particularly with respect to the extension of Padcal's life of mine, commercial operations of the Silangan project and development of other Company mining tenements.

<u>PRODUCTS/SALES</u>

For the past 59 years, the Company has operated the Sto. Tomas II deposit at Padcal, Tuba, Benguet Province – the first underground block caving operation in the Far East.

The Company's Padcal mine produces copper concentrates, containing copper, gold and silver. Total ore extracted and processed from start of operation to 2016 aggregated to 400.606 million tonnes, producing 2.248 billion pounds of copper, 6.098 million ounces of gold, and 6.573 million ounces of silver.

Based on the Sales Agreement entered into by the Company and Pan Pacific Copper Co., Ltd. (Pan Pacific), a major Japanese copper producer jointly established by JX Nippon Mining & Metals Corporation and Mitsui Mining & Smelting Co., Ltd., in March 2004, 60% of the Company's annual copper concentrate production, approximately 40,000 dry metric ton of current production level, is committed to Pan Pacific, and the remaining copper concentrate to Louis Dreyfuss Commodities Metals Suisse SA. Pan Pacific processes the concentrates through its smelter plants and produces products, such as refined copper, precious metals and sulfuric acid. Pan Pacific is one of the leading buyers of copper concentrates in the world, procuring approximately 1.7 million tonnes of copper concentrates annually from around the world. Compared to this huge volume, the Company's shipments to Pan Pacific is relatively insignificant.

All of the Parent Company's sales revenues for the years 2014 to 2016 were from copper concentrate shipments made to Japan. The 2016 consolidated revenue of the Company included the net realizable value of mine products inventory at the end of the financial reporting period.

The contributions over the past three years of the gold and copper produced from the Padcal mine to sales revenue are as follows:

	For the Year Ended December 31					
	2016		2015		2014	
(In Million Pesos)	Amount	Percent to Total Revenue	Amount	Percent to Total Revenue	Amount	Percent to Total Revenue
Gold	6,209	60%	5,670	62%	5,889	56%
Copper	3,976	39%	3,450	38%	4,615	44%
	10,185	99%	9,120	99%	10,504	99%
Total Revenue	10,272	100%	9,189	100%	10,587	100%

COMPETITION

The Company's sales of copper concentrates are based on internationally accepted pricing in the world market available from the London Metal Exchange. Since no one mine can affect international metal prices, competition among mining companies is indirect.

SOURCES AND AVAILABILITY OF RAW MATERIALS AND SUPPLIES

As generally defined, raw materials for the production of copper concentrate containing copper, gold and silver come from the ore, which is a naturally occurring solid material from which a metal or valuable mineral can be profitably extracted. It therefore follows that the ore that the Company mines from the Padcal ore body, known as the Sto. Tomas II ore body, is deemed to be the basic raw material of the copper, gold, and silver minerals actually produced. In the process of producing copper concentrates for shipment to smelters, labor, materials and supplies, power, and other services are employed and utilized.

Labor is generally provided by the Company's regular employees, augmented by accredited contractors for certain mining activities and projects.

Sourcing of machinery and equipment, including Maintenance, Repair and Operating Supplies (MRO) is handled by the Company's Supply Chain Organization. To ensure efficient mechanical availability of these mining and milling equipment and prevent supply risk, various medium-to long-term supply chain and inventory management strategies are maintained with major mining equipment manufacturers and Original Equipment Manufacturers (OEMs). Also, major mining consumables are either ordered locally or imported. Locally sourced mining consumables are diesel fuel, ball milliners, explosives, lime, oil and lubricants, cement and sand while indent or imported items are grinding balls, copper flotation reagents, major equipment spare parts, and off-the-road (OTR) tires. To assure ample supply, high quality performance, and minimized costs, various inventory and supply chain management strategies, such as economic order quantity (EOQ), just-in-time (JIT) outsourcing, and partnerships with various suppliers, are implemented.

Electrical power to run the Padcal Mine is currently sourced from TeaM (Philippines) Energy Corporation under a two-year contract for the supply of electricity, which contract was renegotiated in early 2016 under new terms for five years or up to December 25, 2020. The Padcal mine, however, has the capacity to self-generate standby electricity principally for mine underground use in case of supply interruptions, using bunker fuel generating sets. The National Grid Corporation of the Philippines provides the transmission lines for the delivery of power to the mine. Diesel fuel is used mostly for the Load-Haul-Dump (LHDs) equipment and the Low Profile Trucks (LPTs) mostly acquired from Sandvik, Atlas Copco, and Volvo utilized underground, and for the mine's transportation fleet.

The maintenance of the Padcal mine's cable-haul conveyor system to transport the ore underground to the mill is contracted with Prince ACE Corporation, a Philippine company that works closely with Conveyor Design Engineering (Australia) and JV Industries (Australia). The Company has its own drilling expertise and equipment to conduct its own drilling activities, but drilling contractors, such as Quest Exploration Drilling (Philippines), Inc., DrillCorp Philippines, Inc., and MDGI Philippines, Inc., are also utilized, particularly for exploration. From time to time as may be needed, local and foreign consultants would also be engaged to provide the Company technical advice or assistance in doing specific engineering projects.

EMPLOYEES

The total manpower complement of the Parent Company as of December 31, 2016 consisted of 1,982 full-time regular employees (1,879 from Padcal and 103 from Mandaluyong Head Office). Of the Company's employees, 1,369 were in operations while 613 were involved in support service functions. Employee classifications according to rank were as follows:

	Dec. 31, 2016	Dec. 31, 2015
Officers and Managerial	125	124
Supervisory	488	498
Rank & File	1,369	1,385
Total	1,982	2,007

The overall average tenure of employees is 14 years, with an average age of 41 years old. The employee population's gender distribution was 93% male and 7% female. The Company anticipates no material change in the number and type of employees within the ensuing twelve months.

The Padcal employees belong to two collective bargaining agents: the Philex Rank-and-File Employees Union-Association of Labor Unions (Trade Union Congress of the Philippines) [PRFEU-ALU (TUCP)] for rank-and-file employees and the Philex Mining Supervisory Employees Union-Association of Professional Supervisory Office Technical Employees Union (Trade Union Congress of the Philippines) [PMSEU-APSOTEU (TUCP)] for supervisors. The five-year collective bargaining agreements (CBAs) with both unions were signed in January 2016 with effectivity up to January 2, 2020 for PRFEU-ALU (TUCP) and up to May 1, 2020 for PMSEU-APSOTEU (TUCP).

On the other hand, Head Office rank-and-file employees are members of the Philex Pasig Employees Union. The Philex Pasig Employees Union and the Company executed a Memorandum of Agreement on December 27, 2016 pending the signing of the formal Collective Bargaining Agreement. The Agreement, which will be registered with DOLE, will be renegotiated anew in 2019-2020..

There has been no major labor dispute or strike by any of the Company's unions in the past five years. In addition, the Company has no other supplemental benefits or incentive arrangements under its collective bargaining agreements with the unions other than the usual employee benefits, such as vacation and sick leave pays, among others.

A Manpower-Rightsizing Program (MRP) was implemented in Padcal Mine and Mandaluyong Head Office in November 2014 and early 2015, which reduced the overall manpower complement by 534.

Manpower complement including subsidiaries totaled to 2,023 and 2,111, in 2016 and 2015, respectively.

MINING PROPERTIES / ROYALTY AGREEMENTS

PMC's mineral properties or tenements in the Padcal mine and its vicinity have a total area of 12,059 hectares located within the municipalities of Tuba and Itogon in Benguet Province. These are all covered by existing mineral agreements and applications.

Padcal Mine, where Sto. Tomas II deposit is situated, is covered by MPSA 276-2009-CAR[1], valid up to January 19, 2034, with an area of 81 hectares. MPSA-276-2009-CAR was issued under the names of the heirs of Baldomero Nevada, Sr., Trinidad Nevada and Baldomero Nevada, Jr. (the "Nevadas"). The Nevadas transferred their rights to explore, develop and utilize the mineral property under the mineral agreements covered by MPSA-276-2009-CAR to PMC by virtue of a royalty agreement executed on August 29, 1955 for an indefinite term, in consideration of royalty payments of 1% for copper and 4% for gold and silver based on the net revenue of minerals after deducting smelting charges.

Contiguous to the area covered by MPSA-276-2009-CAR are two other mineral agreements covered by MPSA-156-2000-CAR and MPSA-157-2000-CAR, both issued on April 10, 2000 and valid up to April 10, 2025, and mineral applications under EXPA-075-CAR, EXPA-078-CAR, and APSA-098-CAR.

A summary of the Padcal vicinity mining tenements and applications is shown in the table below:

Tenement	Operator / Contractor	Area[2] (in Hectares)	MPSA Date of Expiration
MPSA-156-2000-CAR	PMC	3,848	April 10, 2025
MPSA-157-2000-CAR	PMC	2,958	April 10, 2025
MPSA-276-2009-CAR	PMC	81	January 19, 2034
EXPA-075-CAR	PMC	486	n/a
EXPA-078-CAR	PMC	4,561	n/a
APSA-098-CAR	PMC	125	n/a
Total		12,059	

As of December 31, 2016, the Padcal Mine's mineral resources and proved reserves were estimated as follows:

Padcal Mine Mineral Resources
As of December 31, 2016

Ore Sources	Classification	Tonnes (in million)	Copper %	Gold g/t	Contained Metals	
					Copper (in million lbs.)	Gold ('000 ozs.)
908-782ML						
908ML	Measured + Indicated	54.7	0.23	0.36	271.7	632.3
798ML	Measured + Indicated	38.0	0.20	0.36	170.0	436.0
782ML	Measured + Indicated	32.3	0.23	0.36	160.6	373.0
Subtotal	Measured + Indicated	125.0	0.22	0.36	602.3	1,441.3
800-600ML	Measured + Indicated	97.5	0.19	0.40	414.3	1,243.2
Total	Measured + Indicated	222.5	0.21	0.38	1,016.6	2,684.5
800-600ML	Inferred	6.0	0.21	0.40	27.6	77.2

[1] Originally, mineral claims registered with the Mining Recorder of the City of Baguio and renewed as Lease Lode Claims No. V-163, V-164, V-323, V-324, V-325, V-326, and V-327.
[2] Excluded mineral applications that were already terminated and which areas were already included within approved MPSAs.

Notes:

1. Parameters:

   Copper Equivalent (CuEq) cut-off grade = 0.332%; Metal Prices: US$2.75 per pound Cu, US$1,275 per ounce Au; Metal Recoveries: 82% Cu, 80% Au; Conversion Factor for gold to CuEq: 0.660%

2. Mineral Resource reported is based on the Resource block model prepared by R. C. Obial & Associates.
3. Mineral Resource Estimates followed the terminology and guidelines set forth in the Philippine Mineral Reporting code (PMRC).
4. Total resources include proved reserves.
5. All tonnage information has been rounded to reflect the relative uncertainty in the estimates; there may therefore be small differences in the totals.

This Resource Statement was prepared by Mr. Noel C. Oliveros, Exploration Division Manager of Philex Mining Corporation, who has sufficient experience relevant to the style of mineralization of Sto. Tomas II Porphyry Copper Deposit. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the Philippine Mineral Reporting Code ("PMRC"). He is a professional Geologist with PRC License No. 1285 and accreditation number Geology CP-07-08-07. He has given his consent to the Public Reporting of this statement concerning Mineral Resource Estimation.

Padcal Mine Proved Reserves
As of December 31, 2016

Ore Sources	Tonnes (in million)	Copper %	Gold g/t	Recoverable Metals	
				Copper (in million lbs.)	Gold ('000 ozs.)
908ML	0.4	0.11	0.43	0.7	4.4
798ML	25.0	0.20	0.38	90.7	242.8
782ML	11.2	0.20	0.35	41.0	100.3
760ML	12.1	0.21	0.49	45.2	152.3
730ML	7.1	0.19	0.46	24.4	83.6
700ML	3.9	0.20	0.44	14.2	44.0
Total	59.7	0.20	0.41	216.2	627.4

Notes:

1. Geovia PCBC™ software was used in the above estimate with the following parameters:

   Copper Equivalent (CuEq) cut-off grade = 0.332%; Metal Prices: US$2.75 per pound Cu, US$1,275 per ounce Au; Metal Recoveries: 82% Cu, 80% Au; Forex: ₱48/US$1; Operating Cost per MT: ₱793; Conversion Factor for gold to CuEq: 0.660%

2. The operating cost per MT of ₱793 is the actual cost for CY 2016 and is lower by 2% compared to last year's disclosure of ₱810.
3. Meanwhile, the FOREX of ₱48/US$1 is the conservative projection of the Company and is higher by 9% compared to last year's ₱44/US$1.
4. Better grade reserves at 760-ML have been added in place of lower grade reserves at 798-ML, 782-ML and 700-ML.

This Reserve Statement was prepared by Engr. Ricardo S. Dolipas II (BSEM), Mine Division Manager of Philex Mining Corporation. Engr. Dolipas is a Competent Person under the definition of the PMRC and has sufficient experience as to the type of deposit and style of mining in Padcal Mine. He is a licensed mining engineer with PRC registration number 0002513 and CP accreditation number EM 0002513-021/13. He has given his consent to the Public Reporting of this statement concerning Mineral Reserve Estimation.

On October 28, 2015, the declared life of mine of Padcal Mine has been extended to year 2022 from 2020 due to an additional 20 million tonnes declared proved reserves.

On February 22, 2016, the Company disclosed the results of ongoing exploration near the surface of Bumolo Project, which area is within MPSA 156-2000-CAR, with an estimated 21.7 million tonnes of inferred resources at 0.21% copper and 0.30 grams per tonne gold, at a cut-off of 0.312% CuEq.

Other mineral agreements and/or applications of the Company, such as EXP-000004-VI for mineral property located in the Province of Negros Occidental, and mineral agreements and/or applications of its subsidiaries and affiliates are discussed in the Exploration and Development section of this report.

PATENTS, TRADEMARKS AND LICENSES

The Company has several areas targeted for exploration within the vicinity of the Padcal Mine, which has a total of 13,228 hectares covered by the mining agreements and applications identified in the table above and in the Exploration and Development section of this report. Apart from these mining properties and tenements, the Company holds no other patents, trademarks, copyrights, licenses, franchises and concessions from the government issued and granted to the Company by government authorities on which the Company's Padcal mine operations depend on.

GOVERNMENT REGULATIONS AND APPROVALS

Existing governmental regulations affect the Company's operations, particularly on the costs of compliance reflected either as expense or as capital asset under generally accepted accounting principles. In the case of new government regulations, the effect or impact of such new governmental regulations on the Company's operations could only be determined upon their passage and implementation.

The exploration, development and utilization of the country's natural resources is governed principally by the 1987 Constitution, which provides that the State may directly explore, develop, and utilize the country's natural resources, or it may enter into co-production, joint venture or production-sharing agreements with Filipino citizens or corporations or associations, at least sixty per centum of whose capital is owned by such citizens. The Constitution also authorizes the President of the Republic of the Philippines to enter into technical or financial assistance agreements with foreign-owned corporations for large-scale exploration, development, and utilization of minerals, petroleum, and other mineral oils in accordance with the general terms and conditions of applicable laws, based on real contributions to the economic growth and general welfare of the country. Several laws have since been enacted to implement these Constitutional principles and directives.

RA 7942: Mining Act of 1995, approved on March 3, 1995

Republic Act 7942 or the Mining Act of 1995 sets out the provisions governing mining and mining-related activities in the country. The Mining Act declares the areas open for mining operations and at the same time, enumerates those closed for mining applications. More importantly, said law sets forth the mining cycle and the corresponding permits needed for each phase: from exploration to the declaration of mining project feasibility, to the positive determination of commercial viability of a project, to the execution of mineral agreements with the government prior to actual operations, until the required rehabilitation after operating a mine.

RA 8371: Indigenous Peoples' Rights Act of 1997, approved on October 29, 1997

RA 8371 or the Indigenous Peoples' Rights Act of 1997 ("IPRA Law") introduced the requirement of "Free and Prior Informed Consent" (FPIC) which means the consensus of members of the concerned Indigenous People (IP) / Indigenous Cultural Community (ICC). Under the said law, all departments and governmental agencies are strictly enjoined from issuing, renewing, or granting any concession, license or lease or entering into a production sharing agreement, without prior certification from the National Commission on Indigenous Peoples (NCIP), which certification can only be issued after the FPIC with the IPs / ICCs concerned is concluded.

PD No. 1586, Environmental Impact Assessment System (EIA), issued on June 11, 1978

Presidential Decree No. 1586 (PD No. 1586) introduced the Environmental Impact Assessment System (EIA) which mandates that "no person, partnership, or corporation shall undertake or operate any such declared environmentally critical project or area without first securing an Environmental Compliance Certificate issued by the President or his duly authorized representative". Hence, pursuant to PD No. 1586, the Mining Act of 1995 requires mining companies to secure an Environmental Compliance Certificate (ECC) in all phases of mining activities, except during the exploration stage.

EO 79, issued on July 6, 2012

Executive Order No. 79 was issued by President Benigno Aquino III creating the Mining Industry Coordinating Council (MICC) and instituting changes to ensure the practice of responsible mining in the country.

HB No. 50[3], filed on June 30, 2016

House Bill No. 50 seeks to adopt a systematic, coherent and responsive forest management system to restore the integrity of our forest ecosystem. This bill recognizes the Sustainable Forest Ecosystems Management (SFEM) strategy as the principal policy framework for all programs in the forestry sector. The bill prioritizes the protection and rehabilitation of our forest systems through regeneration or restoration of natural forests.

HB Nos. 54 and 113[4], both filed on June 30, 2016

House Bill Nos. 54 and 113 are proposed to take the place of RA 7942 because it allegedly failed to ensure the constitutionally guaranteed rights of the people to a balanced and healthful ecology, to social justice in all phases of national development, to a self-reliant and independent economy effectively controlled by Filipinos, and other important rights.

These house bills seek to (i) guarantee that the exploration, development and utilization of mineral resources will primarily benefit the Filipino people; (ii) prioritize sustainable livelihood choices for communities; give utmost importance to food security and livable conditions for the people; (iii) ensure that the gains from the mining industry would be maximized while preventing or mitigating its adverse effects; (iv) recognize that the issue of environment and sustainable development is local and thus prioritize local participation in decisions surrounding mining; (v) ensure the protection of human rights of communities and individuals; and (vi) impose harsh penalties for the violation of its provisions.

[3] Explanatory Note by Rep. Lawrence Lemuel H. Fortun
[4] Explanatory Notes by Reps. Kaka Bag-ao, Teddy Brawner Baguilat and Lawrence Lemuel H. Fortun

HB No. 391[5], filed on June 30, 2016

House Bill No. 391 seeks to amend RA 7942 in order to protect the rights of the members of Indigenous Cultural Communities or Indigenous Peoples and remove the confusion created by RA 8371.

HB No. 422[6], filed on June 30, 2016

House Bill No. 422 proposes a fiscal regime and revenue sharing arrangement between the Government and the mining contractor for large-scale metallic mineral mining operations, wherein the Government Share shall be ten percent (10%) of Gross Revenue or fifty-five percent (55%) of the Adjusted Net Mining Revenue (ANMR), whichever is higher. In the event that the ANMR Margin exceeds fifty percent (50%) due to increase in metal prices or other factors, the Government, as owner of the mineral, shall get fifty-five percent (55%) of the Threshold ANMR plus sixty percent (60%) on the excess ANMR. Adjusted Net Mining Revenue is arrived at after deducting from Gross Revenue the allowable deductible expenses.

Based on the bill, the payment to the government shall be in lieu of all national and local taxes including income tax, royalty for indigenous cultural communities (ICC), duties on imported specialized capital mining equipment, fees for mayors and/or business permits and other fees and charges imposed by the host local government units (LGUs).

HB No. 488[7], filed on June 30, 2016

House Bill No. 488 seeks to establish the standards for responsible mining based on the draft standard issued by the Initiative for Responsible Mining Assurance in Canada on April 5, 2016. This was proposed pursuant to President Rodrigo Duterte's directive that mining should be based on the standards of responsible mining in developed countries like Canada and Australia.

HB No. 1618[8], filed on July 14, 2016

House Bill No. 1618 seeks to close areas declared by LGUs as No-Mining Zones from mining applications and operations, amending RA No. 7942. The proposal is based on the belief of the author that the national government should respect and recognize the prerogative of local government units to declare areas under their respective jurisdictions as no-mining zones through the enactment of local ordinances.

HB No. 1665[9], filed on July 18, 2016

House Bill No. 1665 seeks to formulate a framework that would focus on prudent use of natural resources, protection of the environment and the people to be affected like indigenous peoples, multi-party participation for sustainable development and poverty reduction.

HB No. 2915[10], filed on August 15, 2016

House Bill No. 2915 was previously approved at the committee level of the 15th Congress. The Bill seeks the development of mineral ores. Downstream industries on the processing of mineral ores are encouraged so as to develop community-based supplier industries, services, improve government benefits for the mining industry and control the export of unprocessed minerals.

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[5] Explanatory Note by Rep. Jose T. Panganiban, Jr.
[6] Explanatory Note by Rep. Romero "Miro" S. Quimbo
[7] Explanatory Note by Reps. Gloria Macapagal Arroyo and Prospero Pichay, Jr.
[8] Explanatory Note by Rep. Carlos Isagani T. Zarate
[9] Explanatory Note by Rep. Ronald M. Cosalan
[10] Explanatory Note by Rep. Joseph Stephen S. Paduano

HB No. 3229[11], filed on August 22, 2016

House Bill No. 3229 seeks to adopt a strategy for the industrialization of the mining industry, including the promotion of the processing of mineral ores and other downstream activities.

HB No. 3440[12], filed on September 1, 2016

House Bill No. 3440 seeks to classify the mine rehabilitation fund as a public fund. With the classification as public fund, the mine rehabilitation fund will be subject to the audit powers of the Commission on Audit, thereby preventing those who manage it from misappropriating the fund. Further, it seeks to ensure that the mining industry has sufficient funds for the rehabilitation of areas affected by the mining industry.

HB No. 3851[13], filed on September 29, 2016

House Bill No. 3851 seeks to empower cities and municipalities to exercise police power on sand, gravel and other quarry resources on their territory to be used exclusively for public purpose. With the enactment of the bill into law, the city or municipality where the extraction site is located will be given the responsibility of effectively monitoring the extraction activities in its territory by giving it the authority to issue the necessary government permits and utilizing its barangay executives to supervise the extraction of sand, gravel and other quarrying resources. The result of efficient monitoring would be an increase in income of all local governments while the granting by the city/municipal mayors of government permits allows for the timely completion of building and infrastructure projects for the benefit of the local government.

EXPLORATION AND DEVELOPMENT

Exploration and development (the equivalent of research and development for a mining company) are currently undertaken by the Company's in-house team and with or assisted by consultants and other service providers like engineering and/or drilling contractors. Expenses related to exploration and development for 2016, 2015 and 2014 amounted to ₱625.3 million, ₱2.488 billion and ₱3.445 billion, respectively.

Note 13 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also incorporated hereto by reference.

Padcal Projects in Benguet

The Padcal Mine, which Philex has been operating since 1958, is the first underground block cave operation in the Far East. The mine produces copper concentrates, with gold and silver as by-products.

Exploration activities in 2016 focused on three major projects in the vicinity of Padcal – Bumolo for intensive drilling, Desert Storm for surface assessment and targeting for porphyry copper-gold, and Tapsan for surface mapping for gold in veins.

All three projects are located in MPSA-156, although a significant area of the possible resources in Tapsan occurs within MPSA-157.

[11] Explanatory Note by Rep. Francisco Jose F. Matugas II
[12] Explanatory Note by Reps. Rodel M. Batocabe, Alfredo A. Garbin, Jr. and Christopher S. Co
[13] Explanatory Note by Rep. Jose Carlos L. Cari

Bumolo Project
Bumolo lies about 1.5 kilometers (kms) from the Santo Tomas II orebody that is currently being mined. In 2016, a total of 11,075 meters (m) from 46 drill holes were examined and analyzed. These holes were combined with earlier information from drilling that started in March 2015 and resulted to the delineation of a low-grade, exposed porphyry copper-gold prospect that measures 400 m wide, 350 m long, and 120 m in thickness.

Drilling, including metallurgical testing of mineralized drill core samples, was completed in August 2016 and yielded preliminary resources and grades of Indicated category at 11.4MT of 0.19%Cu and 0.30g/tAu quality, at a cut-off grade of 0.312% CuEq (copper equivalent).

Desert Storm
The Desert Storm project consists of four scattered prospects – namely Southwest, North Midway, Oliva, and Tapsan (copper) – where potential for buried porphyry copper-gold is currently being investigated. Social access to the prospect areas was vigorously pursued starting last quarter of 2016.

Tapsan
Investigations of the Tapsan project (for gold) commenced in the second quarter of 2016. Mapping of surface exposures and gold veins from a number of tunnels from pocket miners identified possible targets for drilling. The 731 grab and channel samples included 157 samples with assay of more than 0.5 parts per million (ppm) gold.

Others
Two (2) other projects around the vicinity of Padcal – Clifton and Santo Tomas II West – were also being investigated but were shortly suspended in 2016 due to regulatory challenges.

Support to Operations

The Exploration and Mine Geology teams helped prepare the documents presented during the Department of Environment and Natural Resources (DENR) Audit conducted from August 9-10, 2016. The Mine Geology staff assisted the hydrogeology consultant SMEC in drilling and monitoring nine (9) horizontal holes underground in Santo Tomas II mine to study future dewatering needs should mining proceed below 800 ML. Underground mapping and sampling were also accomplished, through 2,120 samples collected over 6,603 m of horizontal and vertical tunnel advance.

Based on the Competent Person's Report disclosed in March 2017, the total Remaining Resource of Padcal Mine as of December 31, 2016 is 222.5 metric tonnes (MT), with an average grade of 0.21%Cu and 0.38g/tAu at cut-off grade of 0.332%CuEq.

In addition, the annual assessment of the stability of the Subsidence Area was completed in three months. This included a preliminary structural mapping in December 2016, which yielded a limited water flow measurement. Petrographic analyses of mill stream, filter cake, copper middling, and final flotation tail samples were likewise conducted, with mineralogy results of which were regularly monitored as technical support to the Mill Operations. Likewise, a geohazard monitoring team assessed slides in Philex Road and other subsidiary roads within and around the minesite, which delivered satisfactory results, to ensure road safety.

Silangan Project

The Silangan Project, located in Surigao del Norte, consists of two deposits – wholly-owned Boyongan and Bayugo, a portion of which is the subject of a joint venture agreement with Manila Mining Corporation. The Project is registered with the Board of Investments (BOI) as a nonpioneer project entitled to four years of income tax holiday beginning 2017, extendable for another two years subject to certain conditions. In October 2016, the Project filed a request with the BOI on the movement of the start of the income tax holiday to the beginning of 2021. This request is currently pending with the BOI.

The Silangan Project tenements, consisting of the Boyongan and Bayugo deposits, are covered by MPSA-149-99-XIII and EP-XIII-013 Lot-B located in Surigao del Norte. In July 2016, MPSA-149-99-XIII was reduced to 2,332 hectares after relinquishing 677 hectares that are outside the mine development and maintenance plan. It also relinquished 6,934 hectares from its EP-XIII-013 as part of government prescribed requirement for exploration permit renewal. EP-XIII-013 is now reduced to 5,000 hectares from the previous 11,934 hectares. These two tenements which are held by Silangan Mindanao Mining Company, Inc. (SMMCI), a wholly owned subsidiary of PMC, are surrounded by other PMC tenements and applications within Surigao del Norte, as listed below:

Tenements	**Operator / Contractor**	**Area (in Hectares)**	**MPSA Date of Expiration**
MPSA-149-9-XIII	SMMCI	2,202	December 29, 2024
MPSA-034-95-X	SMMCI	405	February 1, 2021
EP-XIII-013 Lot-A&B	SMMCI	5,000	
EPA-XIII-012	SMMCI	2,330	
EPA-000039-XIII	SMMCI	6,683	
Total		**16,620**	

The reported resources for Boyongan and Bayugo as of August 5, 2011, were as follows:

	Tonnes (millions)	Copper %	Gold g/t	Contained	
				Copper (million lbs.)	Gold (000 ozs.)
BOYONGAN					
Measured	201	0.54	0.78	2,400	5,000
Indicated	72	0.46	0.57	720	1,300
Measured + Indicated	273	0.52	0.72	3,120	6,300
Inferred	26	0.41	0.49	240	400
BAYUGO					
Measured	99	0.64	0.65	1,390	2,100
Indicated	26	0.76	0.69	430	600
Measured + Indicated	125	0.66	0.66	1,820	2,700
Inferred	7	0.77	0.60	120	100

Mr. Noel C. Oliveros, Exploration Division Manager and Head of the Exploration and Resource Estimation Group of Philex Mining Corporation, has given his consent to the release of this resource estimate. The resource estimate is compliant with the rules and guidelines as set forth by the Philippine Mineral Reporting Code (PMRC). Mr. Oliveros has sufficient experience in resource evaluation relevant to the style of mineralization in the Surigao Mineral District. Mr. Oliveros is a Competent Person for Exploration and Mineral Resource Estimation under the definition of the PMRC. He has given his consent to the public reporting of this estimate following the PMRC guidelines concerning Mineral Resource Estimation.

BOYONGAN AND BAYUGO DEPOSITS

In November 2010, as part of the Project's pre-feasibility study, SRK Consulting – an independent leading international mining engineering consulting firm – was engaged by SMMCI to make an independent evaluation of the project. SRK recommended the construction of an exploration decline or ramp to the bottom of the Boyongan deposit as part of a geotechnical investigation to provide more reliable and specific information on the area's ground condition for purposes of mine planning and design as well as to obtain bulk samples from the ore body.

The development of the decline started in April 2011 and advanced until January 2015, reaching a distance of 1,415m from the portal, with dimensions of 5m-high and 5m-wide. The center of the Boyongan deposit's eastern high grade zone was mapped and bulk sampled via a crosscut, called the Ore Characterization Drive (OCD), approximately 800 meters from the decline. Another bulk sampling program was conducted from the surface using large diameter bore holes from May to December 2014. The decline, together with the OCD, was decommissioned last November 2015 and its portal was closed before the end of 2015.

Under the supervision of lead consultant AECOM, a total of 100+ tons of bulk ore samples were prepared and shipped to various laboratories in Australia for bench and pilot metallurgical tests. This would be used for the development of the pilot plant. Meanwhile, the process flow design of the pilot plant, which produced copper cathodes, would be a significant input to the Definitive Feasibility Study (DFS).

Value-engineering studies on the project was undertaken by AUSENCO, an independent engineering firm based in Brisbane, Australia in early 2016. The study progressed into a full Definitive Feasibility Study and is expected to be completed in 2017.

The project's amended ECC for the surface mining method was approved in May 2016 following the approval of the amended Mining Project Feasibility Study in connection with the approved Declaration of Mining Project Feasibility.

The total expenditure related to the project as of December 31, 2016 amounted to P16.840 billion, including the P1.438 billion incurred prior to 2009, when the project was under Anglo. The figure does not include the fair value adjustment amounting to P5.552 billion.

KALAYAAN PROJECT

In May 2011, the Company executed a Farm-In Agreement with Manila Mining Corporation (MMC), which involved the purchase of a 5% equity interest in Kalayaan Gold-Copper Resources Inc. (KGCRI), a subsidiary of MMC that assigns the right to explore the Kalayaan properties covering 286 hectares under EP-XIII-014B. This area is adjacent to EP-XIII-013 and is containing the Bayugo deposit.

Under the agreement, the Company was to conduct exploration activities in the property for three (3) years but was extended for an additional three years. Exploration of the area is currently on hold pending the approval of the Third Renewal of the Exploration Period. In the event the Company declares commercial feasibility of the area within the period, it will have the right to increase its holdings in KGCRI to 60% by subscribing to an additional 55% of KGCRI's outstanding capital stock for a minimal amount and will become an integral part of the Silangan Project.

The Company commenced drilling in December 2011 after ground preparations, environmental mitigating measures and community-relations initiatives had been conducted. This transpired for about seven (7) months after the signing of the Farm-In Agreement. By September 2013, a total of 73,520 meters had been drilled, of which 66,486 meters were for resource definition and 7,034 meters for scout drilling.

In 2014, detailed logging of 57 definition drill holes of East and West Bayugo, totaling 26,104.64 meters, was completed. This activity increased the confidence in the understanding of the mineralization. In addition, magnetotellurics (MT) survey from the surface was conducted, which provided preliminary data on the hydrologic model of the Boyongan and Bayugo deposits.

Other Significant Projects

During the course of the year, the Company's Exploration Group also evaluated proposals for possible joint-ventures and/or operating agreements. However, insufficient data and the overall challenging regulatory climate prevented the Company from pursuing the offers further.

In addition, EO 79 has stalled exploration activities in each of the Company's various Mineral Production Sharing Agreements (MPSAs) located in Negros Occidental, Surigao del Norte and Zamboanga Del Norte.

COMPLIANCE WITH ENVIRONMENTAL LAWS

The Company's Padcal mine had been issued ISO14001 Certification since 2002 for Environmental Management System. This certification has been suspended because of the tailings spill accident in the second half of 2012. The Company developed an Integrated Management System (IMS) in 2014. Evaluation of TUV Rheinland resulted in two certifications, ISO-14001 and Occupational Health and Safety Management, BS OSHAS 18001. Silangan is also ISO-14001 certified.

With the Company's commitment to its environmental and policy statement of protecting and enhancing the environment, it has spent total environmental expenses of P446 million in 2016, bringing the Company's expenditures from 1967 to date to P5.804 billion.

The Company and its subsidiaries have been consistent winners in environmental contests. Awards won for the last three years include; for the Padcal mine, First runner up in 2016 and as the Best Mining Forest champion in 2012 and 2011, and for the Silangan Project, as first runner-up in 2015, second runner-up in 2014 and 2013, first runner –up in 2011 and third runner-up in 2010-Best Mining Forest Contest (Exploration Category). Silangan Project won the Platinum Achievement Award in 2016 and the Presidential Award, the highest award from the Presidential Mineral Industry Environmental Award for Mineral Exploration category for two consecutive years in 2015 and 2014.

As a responsible mining company, PMC and its subsidiaries adhere to its corporate environmental stewardship implementing rehabilitation and restoration of areas affected by various mining and exploration operations.

Total Disturbed Areas Reforested and Maintained

Name of Project	Area disturbed (hectares)	Project Status	Area reforested (hectares)	Type of reforestation	Type of species planted
PMC Padcal Mine	1,363	MPSA-276 Operation	2,800	Forest Plantation Agro-forestry	Benguet Pine, Gmelina, Alnus, Antsoan Dilao, Eucalyptus, Agoho, Narra, Teak, Coffee, Mango, Avocado, etc.
PGPI - Bulawan	146	MLC-MRD510 Care & Maintenance	821*	Forest Plantation Agro-forestry	Mangium, Auri, Mahogany, Gmelina, Rain tree Coffee
PGPI - Sibutad	38	MPSA-063 Care & Maintenance	178.69 38	Forest Plantation Mangrove Plantation	Mangium and Auri Bakauan ((Rhizophora Mucrunata)
PMC-LMC Surigao	37	MPSA-148-Exploration	5	Forest and Agro-forestry	Falcata, narra, mangium, coffee
SMMCI Surigao	24.41	MPSA-149	79	Agro-forestry	Mahogany, Mangium, Falcata, Narra, Cacao, Palawan Cherry, Lanzones, Marang, Rambutan, etc.
Kalayaan, Surigao	140,750 sq.m		93,397 sq.m	Agro-forestry	Falcata, coffee

** Areas on assisted natural regeneration (ANR) are included.*

ENVIRONMENTAL COMPLIANCE TO DENR REGULATIONS

In compliance with Environmental Regulations, PMC and its subsidiaries have implemented environmental management measures, installed pollution control measures or devices for identified sources of air, water and toxic pollution, and have regularly reported the results of its inspection and monitoring to the Environmental Management Bureau of DENR. The following environmental policies are complied with:

PD 1586: Establishing an Environmental Impact Statement System including other environmental management related measures and for other purposes. No person, partnership or corporation shall undertake or operate any declared environmentally critical project or area without first securing an ECC.

RA 6969: Toxic, Hazardous and Nuclear Waste Act. Is the Act regulating the handling, treatment and disposal of generated chemical wastes and other toxic and hazardous substances.

RA 8749: Philippine Clean Air Act: Is the Act that provides for the management of point and non-point sources of pollution and quarterly monitoring and testing of pollution source device or facility.

RA 9275: Philippine Clean Water Act: Is the environmental law regulating discharges of effluent from processing and other operation of the company.

Name of Project	Registration/Permit No	Permit Type	Date Issued
PMC-Padcal Mine	RIC-8604-012-301C	ECC for Nevada Group of mineral claims and other adjoining mineral claims	Nov. 9, 1987
	CAR-0202-011-120	ECC for Alang Cut Silt Pond	Apr. 2, 2002
	CAR-0108-053-208	ECC for the Access Road from the Cyclone Area to the Main Dam Embankment of Tailings Storage Facility 3	Aug. 29, 2001
	CAR-0108-52-302	ECC for Quarry "H" for Tailings Storage Facility 3	Aug. 29, 2001
	CAR-0108-51-302	ECC for Quarry "G" for Tailings Storage Facility 3	Aug. 29, 2001
	ECC-9901-002-12	ECC for Fuel and Lubrication Station	Sep. 22, 2000
	CAR-0411-107-120	ECC for the Tailings Storage Facility 3 Open Spillway	Nov. 16, 2004
	CAR-0702-014-213	ECC for the Sanitary Landfill Facility-Category 1	Mar. 9, 2007
	CAR-0803-033-312	ECC for the Raising of Tailings Storage Facility No. 3 Embankment Crest Elevation (610MASL to 615MASL) (amended)	5-May-10
Padcal Mine Discharge Permits	2004-DP-K-141105-050	Tailings Storage Facility No. 3	Nov. 7, 2015
	2007-DP-14112-063 /CNC-CAR-1310-0011	Alang-Cut Silt Pond	Apr. 25, 2015

	2007-DP-D-14112-079 / CNC-CAR-1310-0011	Oil Water Separator at Compressed Air Plant	Jul. 06, 2015
	2007-DP-D-14112-060 /CNC-CAR-1310-0008	Oil Water Separator, Banget Sludge Pond, Used Oil Impounding Area	Apr. 25, 2015
	2007-DP-D-14112-061 / CNC-CAR-1310-0009	Oil Water Separator at Oil Yard of Banget Sludge Pond Area	Apr. 25, 2015
	2007-DP-D-14112-058 / CNC-CAR-1310-0006	Oil Water Separator at 1015ML UG Equipment Wash Bay Area	Apr. 25, 2015
	2007-DP-D-14112-059 / CNC-CAR-1310-0007	Oil Water Separator at Motor Pool Area	Apr. 25, 2015
RA6969 – Chemical Control Order (CCO)	No. 14-11-0003	DENR Registry ID	Aug. 28, 1995
	CCO-99-0002-M	CCO Registry	Jul. 26, 1999
	CCO-2010-001-CAR	CCO for Asbestos	28-May-10
	CCO-2010-003-CAR	CCO for PCB	Sep. 23, 2010
RA8749-Permit to Operate	2005-POA-D-141112-077	Assay Laboratory	Apr. 4, 2015
	2005-POA-D-141112-097	Bumulo Fuel and Lubrication Station	Apr. 4, 2015
	2005-POA-D-141112-099	Foundary/Machine Shop	Apr. 4, 2015
	2005-POA-G-141112-111	Banget Storage Area Used Oil Impounding System (Old Site)	Jul. 18, 2015
	2005-POA-G-141112-113	Banget Storage Area Used Oil Impounding System (New Site)	Jul. 20, 2015
	2005-POA-G-141112-112	Banget Power Plant	Jul. 18, 2015
	2014-POA-I-141112-146	Diesel Fuel Storage Tank-Main Bodega	Sep. 15, 2014
	2014-POA-I-141112-147	Diesel Fuel Storage Tank-Motorpool	Sep. 15, 2014
	2015-POA-I-141112-147	Diesel Engine Generator Set	Sep. 21, 2015
PMC-LMC	DENR I.D No. 16-67-0092	Hazwaste Generator DENR Registry ID	Dec. 10, 2013
PMC-Kalayaan	2013-WDP-J-1367-154	Waste Water Discharge Permit	Oct. 21 2013
	DENR I.D No. 16-67-0084	Hazwaste Generator DENR Registry ID	Feb. 13 2013
	2013-POA-J-1367-315	Permit to Operate Air Pollution Installation Device/Facility	Oct. 21, 2013
PGPI-	06-45-0014	Hazwaste Generator	29-Jan-99

Bulawan		DENR Registry ID	
	ECC # 0698-0203-034-120A	Environmental Compliance Certificate	Feb. 4, 1998
	DENR I.D No. 98-TPW-J-0645-161	Permit to Operate Air Pollution Installation Device/Facility	1998
PGPI-Sibutad	ECC # 9503-003-301	Environmental Compliance Certificate	Jan. 23 1997
	DENR ID. # 09-72-0003	Hazwaste Generator DENR Registry ID	4-Jan-99
	CCO Registry # 99-0016	Chemical Control Order Registry	19-Jan-99

RELATED PARTY TRANSACTIONS

PMC has extended loans and advances to some of its subsidiaries were presented under Part III, Item 12 of this report.

MAJOR BUSINESS RISKS

Regulatory and Tax Environment

The local mining industry is heavily regulated under the current regime and the level of regulation dictates the behavior of mining operations and investments into the sector.

Under the present administration, the DENR ordered the audit of all operating mines in the country. PMC's Padcal Mine was one of the companies not recommended for suspension.

In addition, the DENR also ordered the closure of 23 operating mines and issued a show cause order for the cancellation of 75 MPSAs across the country, affecting the operations of several mines. As of this writing, the MICC, which is co-chaired by the Department of Finance (DOF) and the DENR, is pursuing a technical review of the closure orders from the DENR.

In addition, the government is perceived to be seeking greater control of and a higher tax take from the local industry. There is also an on-going move from the MICC, Department of Trade and Industry (DT)I-BOI, DOF, and other related government and civic group organizations to amend the Fiscal Regime and Revenue Sharing Arrangement for Large-Scale Metallic Mining operations in the Philippines. The current draft proposal aims to increase tax payments of PMC by about 80-100%, based on the proposed amendment to the tax rates, to 55% of adjusted net mining revenue or 10% of gross revenues, whichever is higher.

These policies and proposed changes in government policy towards mining have delayed major projects in the country due to the altered risk-reward equation. To mitigate these, the Company continues to uphold its commitment to responsible mining in all aspects and religiously ensures compliance with all laws, rules and regulations with respect to the industry. As a complementary measure, PMC continues to build strong working relationships with the government, directly and indirectly, through the Chamber of Mines of the Philippines (COMP). PMC is also increasing the transparency of its tax payments to the government to heighten public awareness. In relation to this, the Company strongly supports the EITI (Extractive Industries Transparency Initiative) implementation of the Philippines as an EITI Candidate Country through compliance with the reportorial and documentary submissions required by the EITI as advocated/led by the COMP to express strong support for responsible mining practices. Furthermore, the Company constantly makes representations to the government through different public forums and continues to effectively communicate the positive impacts of mining through various media.

Exploration and Development of Mineral Deposits

The exploration for and development of mineral properties involve significant risks, which may not be completely eliminated even with a combination of careful evaluation, experience and knowledge. While the discovery of an ore body may result in substantial rewards, only a few properties explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, develop metallurgical processes, and construct mining and processing facilities at a particular site.

There can be no assurance that the exploration of mining tenements, where the Company has interests in, during the exploration stage (or of any other tenement in which the Company may acquire an interest in the future) will result in the establishment of commercially viable mining operations. An apparently viable mineral deposit, even when identified, is no guarantee that the same can be exploited profitably.

If the exploration of the Company's existing tenements prove to be unsuccessful, this may result in a reduction of the value of those tenements, diminution in the Company's cash reserves and possible relinquishment of the tenements. Similarly, there can be no assurance that the exploration of mining tenements currently under development will result in the establishment of commercially viable mining operations.

The success of the Company depends on, among others, the delineation of the economically mineable reserves, access to required development capital, securing and maintaining title to its exploration and mining tenements and obtaining all consents and approvals necessary for the conduct of its exploration activities. The Company has a competent team of legal and technical personnel who handle and manage these matters.

Mineral Agreements, Permits and Licenses, and Operating and/or Royalty agreement

The Company relies on permits, licenses (including MPSAs), operating and/or royalty agreements with third-party claim owners and land access agreements to conduct its mining operations. The MPSAs and operating and/or royalty agreements covering the Company's mineral properties expire at different times and require renewal upon expiration.

Regulatory authorities can exercise considerable discretion in the terms and timing of permit issuance or whether a permit may be issued at all. Accordingly, the approvals needed for mining operations may not be issued or renewed or, if issued or renewed, may not be issued in a timely fashion, or may involve requirements that may be changed or interpreted in a manner which restricts the Company's ability to conduct mining operations profitably.

Furthermore, new laws or regulations, or changes in the enforcement or interpretation of existing laws or regulations, may require substantial increases in equipment and operating costs in order to obtain approvals required by, or to otherwise comply with the conditions imposed by, such new or revised laws and regulations. The need to obtain such new or revised approvals or to comply with additional conditions may also cause material delays or interruptions in one or more of the Company's current or planned operations or developments or, to the extent such approvals or conditions cannot be obtained or met on an economical basis, the curtailment or termination of such operations or developments. The local governments where the Company's mines or exploration properties are located may also impose additional restrictions on its operations. There can be no assurance that any such local government supervision or regulation will not interrupt current or planned operations. The failure to successfully resolve any such situations could have an adverse effect upon the Company's business, results of operations and financial condition.

In addition, the Company's ability to explore or develop its mining tenements may be subject to prior informed consent of indigenous people (IP) that have ancestral domain title over such tenements. The operation of such mining tenements may also require acquisition of surface rights from third parties. There is no certainty that the Company will be able to acquire all surface rights that are necessary for the exploration and development of its mining tenements on a timely basis or at all.

Typically, however, the DENR would write and afford a tenement holder an opportunity to address alleged breaches of the terms of, or challenges to, its mineral agreements, permits or licenses before issuing an order to cancel or terminate such mineral agreements, permits, or licenses. As a practical matter, the Mines and Geosciences Bureau (MGB) would move to have a mineral agreement, permit or license cancelled or terminated only when there is an irremediable material breach on the part of the tenement holder.

To address the foregoing risks, the Company employs a team of legal and operating personnel, who exercise the requisite due diligence with respect to the ownership of mining and surface rights, and the enforceability of the Company's rights over its mining properties. Mining and surface rights are reviewed for ownership and location verification.

Operational Risk for Mining Operations

Mining operations are subject to all the hazards and risks normally encountered in exploration, development and production, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage, increased costs and possible legal liability. Additional costs are incurred by the Company for items such as labor, transport, costs of consumables and movement of plant and equipment. Other costs may also be incurred if the equipment necessary to the exploration and mining operations of the Company are damaged.

The Philippines has experienced a number of natural catastrophes over the years, including typhoons, volcanic eruptions, landslides, and earthquakes that may materially disrupt and adversely affect the Company's business operations. The Company cannot give any assurance that it will be able to obtain and maintain insurance coverage for the catastrophe or that such insurance coverage will be adequate to compensate the Company for all damages and economic losses resulting from natural catastrophes.

The Padcal tailings storage facilities have been designed to provide safety zones in cases of cave-ins. Emergency procedures are set and properly documented in case of a tailings storage facility overtopping. The Company maintains a warning system to alert its workers in cases of landslides, major earthquakes, and potential cave-ins. The Company schedules underground blasting activities and plans drilling activities to ensure employee safety at all times. The Company ensures compliance from all of its employees and visitors with underground safety standards that include wearing the proper safety gadgets and gears and carrying appropriate equipment. It provides periodic training on underground mining safety and survival practices. The Company likewise has a highly commended team of underground rescue personnel that had assisted in the country's actual landslides and major earthquake disaster operations.

Although the Company maintains insurance to cover some of these risks and hazards in amounts it believes to be reasonable, such insurance may not provide adequate coverage in all circumstances. There is no assurance that the Company's insurance will continue to be available at economically feasible premiums or that it will provide sufficient coverage for losses related to these or other risks and hazards. Additionally, the Company may be subject to liability or sustain loss for certain risks and hazards against which it cannot insure due to unavailability of such insurance facility in the local market or which the Company may elect not to insure because of the premium cost. The costs of insurance coverages could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial condition.

Price Risks

The Company's revenue is largely dependent on the world market prices for gold and copper and the factors affecting the behavior of these are beyond the Company's control.

If the sales prices of these commodities fall and remain below the production costs for a sustained period, the Company will incur losses. If those losses continue, the Company may curtail or suspend some or all of its mining and exploration activities. This would have an adverse impact on the Company's business, results of operations, stated reserves and financial condition.

To mitigate these price risks, the Company constantly evaluates the advantages and disadvantages of hedging a portion of its annual production. In addition, production and operating costs are constantly being monitored to attain efficient use of working capital.

Environmental and Natural Events Risks

Being in a natural resource operation, the Company is inherently subject to potential environmental concerns. The Company is also subject to Philippine laws and regulations governing the environmental impact of its operations.

To manage the risk, the Company puts a great amount of effort and invests a substantial amount of resources into environmental protection and rehabilitation. As a manifestation of its commitment to responsible and sustainable mineral resource development, the Company has adopted an environmental policy statement which is consistent with ISO 14001 Certification on Environmental Management Systems. The Company is also covered by a pollution liability insurance to respond to possible claims against it in case of environmental pollution which may be caused by its Padcal mining operation.

While the Company believes it is substantially in compliance with all material environmental regulations, it cannot give assurance that changes in these regulations will not be effected or disastrous environmental incidents will not happen, which may adversely impact its operation and/or impose added costs to the Company, such was the case during the 2012 incident.

In addition, natural disasters, such as earthquakes, floods and landslides, could also severely hamper operations of the Company. Such natural disasters could, among other things, damage he Company's facilities and surrounding infrastructure, block the access to its mining assets, injure its personnel and result in a suspension of its operations for an undeterminable period of time, all of which could materially and adversely affect its business, financial condition, results of operations and prospects.

Social License to Operate

The pressure on social license to operate remains a major risk for the Company. The presence of protesters and social media with broad-ranging agendas, becoming more active, vocal, and organized, may pose a risk to the timely completion of the Company's exploration activities. The regulators have given greater powers to local communities to make final decision on approving mining and exploration activities in their areas. As a result, negotiations with surface owners and local residents takes time, further hindering the production and exploration timetable. The indecisive stance of some government bureaus to approve and issue much-needed permits and licenses may also cause delays in the Company's exploration projects and improvement of major facilities.

To mitigate these risks, the Company provides full cooperation with the regulators to comply with governmental requirements in ensuring safety and environment protection in all aspects of operations. It continues to actively participate in LGUs Community Development Programs on education and alternative learning system, construction of community infrastructures, and livelihood projects; and continues to effectively communicate the positive impacts of mining.

Item 2. Properties

The Company's mineral properties are discussed in the sections for Mining Properties / Royalty Agreements, and Exploration and Development.

The Company owns real properties and support facilities in its Padcal mine site, a concentrate loading facility at Poro Point, San Fernando, La Union, which are used in operations, and various titled lands located at Barangay Tuding, Itogon, Benguet with a total area of 129 hectares. PGPI similarly owns real properties and support facilities in its Bulawan and Sibutad Projects, which are currently on care and maintenance. Certain mining assets of PGPI were covered by a Collateral Trust Indenture to secure its loans from the Parent Company.

The real property in Pasig City, where the Company's Corporate Head Office was located, was the subject of a Deed of Absolute Sale and was sold to a third-party in July 2014. In September 2016, the Company transferred to its new office space located at the 2nd floor, LaunchPad, Reliance Street corner Sheridan Street, Mandaluyong City. The office space is the subject of a Memorandum of Agreement ("MOA") with a third party entered into in 2015. Under the terms of the MOA, the parties shall enter into a separate contract to sell upon the occurrence of certain conditions.

SMMCI has been acquiring real properties or entering into land lease agreements for the Silangan Project. The lease agreements are typically for 25 years cancellable at the option of SMMCI.

The Company does not lease any significant real property nor has the intention at present to acquire any significant real property other than necessary for corporate purposes in the next 12 months. Machinery and equipment are routinely acquired month to month as needed by operation usually through direct purchase or through letters of credit, if imported, under supplier's or bank's credit terms.

Item 3. Legal Proceedings

A table that identifies material legal proceedings as of December 31, 2016 involving the Company, including its subsidiaries, is set out below:

	CASE TITLE / SUBJECT MATTER	VENUE	NATURE	AMOUNT INVOLVED	STATUS
PMC					
1	Butan Mining Exploration Company v. Philex Mining Corporation	Mines Adjudication Bureau	For rental fees for the 745 ML tunnel traversing Butan claims	Above ₱ 300 million	Pending the MAB's resolution
2	Philex Mining Corporation v. The Province of Benguet & Provincial	La Trinidad, Benguet Regional Trial Court	Local quarry tax on TP3	₱ 12.2 million	Pending decision

	Treasurer				
3	Philex Mining Corporation v. Roel Santos et al.	Supreme Court	Proper computation of award due illegally dismissed employees	₱ 26.449 Million	Pending Resolution of PMC's Motion for Reconsideration
4	Heirs of Jose Marino v. Philex Mining Corporation	National Commission on Indigenous Peoples – Cordillera Administrative Region (NCIP-CAR)	Claim for enforcement of alleged ancestral rights, damages with prayer for injunction	N/A	Proceedings suspended
5	Cecilia Agbanlog et al. v. Philex Mining Corporation	Court of Appeals	Declaration that complainants as school teachers are regular employees of Philex	N/A	Pending resolution
6	IIPO v. IPO-APSSOL and Philex Mining Corporation	NCIP – CAR	Dispute between two (2) Indigenous Peoples' Groups; Philex is a nominal party	N/A	Pending resolution
7	Heirs of Sinak-ey v. IPO-APPSOL and Philex Mining Corporation	NCIP En Banc	Validity of NCIP-approved MOA entered into between IPO-APSSOL and Philex	N/A	Pending resolution
8	Heirs of Nicolas v. Philex Mining Corporation and Heirs of Nevada	Court of Appeals	Damages and royalty claims	*N/A*	Entry of Judgment in favor of Philex and Heirs of Nevada issued
9	Heirs of Aritao v. Philex Mining Corporation	NCIP – CAR	Damages	₱ 60 / per square meter (₱600,000 up); injunction against the construction of the spillway.	Still pending
10	Sales Alipio, et al. v. Philex Mining Corporation, et al.,	NCIP En Banc	Injunction against construction of access roads	*N/A*	Appeal pending resolution
11	Basilio, et al. v. Philex Mining Corporation, et al.	NCIP – CAR	Damages	₱ 36 million	Archived by NCIP pending the resolution by the Supreme Court of the two motions for reconsideration
12	Various civil and labor cases	various	Various civil and labor cases in the ordinary course of business	N/A	Pending. PMC is a party to a number of cases in the ordinary course of business involving small amounts of claims which are disputed by PMC on various grounds

13	ABAKATAF, et al., vs. DENR, et al.	Court of Appeals (Cagayan de Oro)	Action for injunction with urgent ex-parte application for temporary environmental protection order (TEPO) and/or environmental protection order under A.M. No. 09-6-8 SC	*N/A*	Submitted for decision

The Parent Company may be subject of lawsuits and claims arising out of the ordinary course of its business, which are either pending decision by the courts or are being contested, and the outcomes of which are not presently determinable. The Company expects that the resolution and/or decision of such lawsuits and claims would have no material effect to the Company.

Item 4. Submission of Matters to a Vote of the Security Holders

There were no matters covered under this item submitted in the fourth quarter of 2016 to the security holders for a vote.

PART II

OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Information

The registrant's common equity, which was initially classified into Class A and Class B common stock until it was declassified into a single class in 2006, is traded in the Philippine Stock Exchange under the code name PX.

The Company's public float as of December 31, 2016 is 33.37%

The average quarterly stock prices for the Company's common shares within the last two years and for the first two months of 2017 were as follows:

Year	Period	High	Low
2017	February	10.50	8.70
	January	9.55	8.51

2016	1st Quarter	6.57	3.75
	2nd Quarter	9.35	5.14
	3rd Quarter	9.18	8.06
	4th Quarter	8.88	7.88
2015	1st Quarter	9.72	7.28
	2nd Quarter	7.69	6.09
	3rd Quarter	6.30	4.64
	4th Quarter	5.75	4.30

The Company's stock was traded at P8.60 per share as of March 27, 2017.

Holders

Of the Company's 44,219 shareholders as of December 31, 2016 with 4,940,399,068 common shares issued and outstanding of which 38.78% are owned by foreign nationals and institutions. The top 20 shareholders are as follows:

	Name of Stockholder	Number of shares	% of ownership
1	ASIA LINK B.V.	1,023,275,990	20.71%
2	SOCIAL SECURITY SYSTEM Named account 864,444,930 Under PDTC Account 134,908,699	999,353,629	20.23%
3	PCD NOMINEE CORPORATION (Filipino/non-Filipino)	1,051,370,751	21.28%
4	TWO RIVERS PACIFIC HOLDINGS CORP.	738,871,510	14.96%
5	KIRTMAN LIMITED	242,011,062	4.90%
6	MAXELLA LIMITED	239,479,900	4.85%
7	THE FIRST NATIONAL INVESTMENT COMPANY INC.	12,195,042	0.25%
8	MAKATI SUPERMARKET CORP.	8,353,226	0.17%
9	ESTATE OF EUDALDO BOIX	5,025,422	0.10%
10	PHILIPPINE REMNANTS CO., INC.	4,875,000	0.10%
11	MANUEL V. PANGILINAN	4,655,000	0.09%
12	FRANK PAO	3,639,260	0.07%
13	ESTATE OF EUDALDO BOIX & PETRA HERNANDO	3,093,203	0.06%
14	PAULINO DE UGARTE &/OR ELENA E. DE UGARTE	3,068,143	0.06%
15	CAROL JOAN REIF	2,974,086	0.06%
16	ROBIN JOHN PETTYFER	2,644,747	0.05%
17	ESTATE OF JOSE TAN YAN DOO	2,569,251	0.05%
18	V & O CO., INC.	2,513,292	0.05%
19	VICTOR SY	2,437,500	0.05%
20	LUCIO W. YAN &/OR CLARA YAN	2,437,500	0.05%
	Total	4,354,843,514	88.15%

Dividends

Beginning 2010, the Company's Board of Directors has adopted a policy to declare cash dividend of up to 25% of the Company's core net income should the circumstances allow for its declaration.

In 2016, 2015 and 2014, the following dividends were declared:

1. On July 27, 2016, a regular cash dividend of ₱0.03 per share based on the first semester of 2016 core net income; for record date of August 10, 2016; paid on August 24, 2016.

2. On February 29, 2016, a property dividend of 17 PXP shares for every 100 Philex Mining shares held; for record date of March 15, 2016; paid on July 15, 2016.

3. On February 25, 2015, a regular cash dividend of ₱0.02 per share based on the fourth quarter 2014 core net income; for record date of March 11, 2015; paid on March 25, 2015.

4. On October 29, 2014, a regular cash dividend of P0.03 per share based on the nine months 2014 core net income; for record date of November 12, 2014; paid on November 28, 2014.

5. On February 26, 2014, a regular cash dividend of ₱0.05 per share based on the full-year 2013 core net income; for record date of March 12, 2014; paid on March 26, 2014.

Recent Sale of Unregistered or Exempt Securities

No securities were sold by the Company within the past three years which were not registered under the Code.

On June 23, 2006, the Company's stockholders approved and adopted a Stock Option Plan (2007 SOP) which provides for the granting of options to the Company's directors, officers, managers and key consultants to purchase common shares of the Company at specified exercise price. The aggregate number of shares initially approved for grant was 88,733,707 shares or 3% of then total outstanding shares of the Company. On March 8, 2007, the SEC resolved that the issuance of the 88,733,707 shares under the plan is exempt from the registration requirements under Section 10.2 of the Code.

As adjustment to the shares reserved for stock option due to the effect of the declaration of stock dividend of 30% in 2007 and 25% in 2009, additional 22,882,037 shares and 17,180,737 shares were respectively made available for grant which were similarly granted exemption from registration by the SEC. The exercise prices for the outstanding option shares were correspondingly adjusted to avoid a dilution of their option value.

No additional option shares were granted from the 2007 SOP following the expiration of the 5-year term of the Plan in 2012. However, unexercised options remain outstanding over their five-year term subject to provisions of the Plan. With the expiration of the 5-year term of the January 5, 2011 grant which was the last grant under the Plan, the 2007 SOP and all outstanding options granted under the plan expired on January 5, 2016. The total option shares granted under the 2007 SOP up to its expiry amounted to 150,728,832, of which 118,713,332 option shares have been exercised and 32,015,500 option shares were forfeited.

On June 29, 2011, the Company's stockholders approved a new stock option plan covering up to 246,334,118 shares equivalent to 5% of the Company's outstanding shares of 4,926,682,368 as of June 29, 2011. This plan was approved by the SEC on February 22, 2013, which approval was received by the Company on March 5, 2013.

As of December 31, 2016, the total option shares granted under the 2011 SOP totaled to 46,660,000 (with 25,570,000 option shares forfeited), of which 21,090,000 options shares are outstanding (with 20,215,000 option shares vested) but none have been exercised.

Item 6. Management Discussion and Analysis of Financial Position and Results of Operations

For the years ended December 31, 2016, 2015 and 2014

Information on the Company's results of operations and financial condition presented in the 2016 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated herein by reference.

REVIEW OF FINANCIAL RESULTS

On June 23, 2016, the Philippine Securities and Exchange Commission (SEC) approved the Company's property dividend declaration, for the distribution to Company shareholders of 17 PXP Energy Corporation (PXP) shares for every 100 Philex Mining shares held at record date. Following the distribution of the property dividend on July 15, 2016, which reduced the Company's interest in PXP from 64.7% to 19.8%, the Company deconsolidated PXP and presented it as investment in an associate.

Revenues

	For the Year Ended December 31			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Gold					
Revenue (P millions)	P6,209	P5,670	P5,889	10	(4)
Ounces produced	103,304	107,887	105,008	(4)	3
Average realized price	$1,254	$1,147	$1,270	9	(10)
Copper					
Revenue (P millions)	P3,976	P3,450	P4,615	15	(25)
Pounds produced	34,961,062	34,104,049	35,391,154	3	(4)
Average realized price	$2.35	$2.29	$2.98	3	(23)
Other revenues (P millions)	P86	P70	P82	24	(15)
Total Revenues (P millions)	P10,272	P9,189	P10,587	12	(13)

Total operating revenues for the year 2016 amounted to ₱10.272 billion, or 12% higher than ₱9.189 billion in 2015 (13% lower versus ₱10.587 billion in 2014). The Company operated for a full year in 2016, 2015 and 2014, following the temporary and subsequent permanent lifting of the suspension order at the Padcal mine in March 2013 and August 2014, respectively.

Gold production was down by 4% to 103,304 ounces in 2016 from 107,887 ounces in 2015 due to lower ore grade as a result mainly of declining ore grades at 908 ML and 840 ML, as these ore sources get depleted and 105,008 ounces in 2014. Despite lower gold production, gold revenues – comprising 60% of the total in 2016 – increased to ₱6.209 billion from ₱5.670 billion in 2015, mainly from favorable gold prices, and ₱5.889 billion in 2014.

Copper production was higher by 3% to 34,961,063 pounds in 2016 from 34,104,049 pounds in 2015 due to higher tonnage and better ore grades, but lower than the production in 2014 of 35,391,154 pounds. As a result of higher copper production, coupled with favorable copper prices, copper revenues were up to ₱3.976 billion in 2016 – accounting for 39% of the total in 2016 – from ₱3.450 billion in 2015 but lower than ₱4.615 billion in 2014.

Realized gold prices for the years ended December 31, 2016, 2015 and 2014 were $1,254 per ounce, $1,147 per ounce and $1,270 per ounce, respectively. The recovery in realized gold price in 2016 was due to uncertainties in the global economy, particularly Britain's exit from the European Union, lower than expected interest rate hike in the US, and continued demand for gold from China, ending the decline in world metal prices that started the latter part of 2012. Similarly, realized copper prices in 2016 recovered at an average of $2.35 per pound from $2.29 per pound in 2015 as a result of supply-side constraints from the closure of major copper-producing mines. The decline of copper prices in 2015 from $2.98 per pound in 2014 was due to the decline in world metal prices starting the latter part of 2012.

Other revenues, which came from sales of silver, made up the remaining 1% of the Company's total revenue in 2016. Revenue from silver in 2016 was higher at ₱86.5 million, compared with ₱69.7 million in 2015 and ₱82.5 million in 2014. This was mainly due to higher silver prices in 2016.

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

In February 2016, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly gold production from February to July 2016 at a strike price of US$1,170 per ounce for the put options and US$1,242 per ounce for the call options. Further in June 2016, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly production from July to December 2016 at a strike price of US$1,300 per ounce for the put options and US$1,350 per ounce for the call options. Net realized gain recognized for the year 2016 amounted to ₱14.7 million. As of December 31, 2016, there are no outstanding gold hedging contracts thus no unrealized mark-to-market (MTM) gain or loss recognized.

In 2015, the net realized gain recognized amounted to ₱29.1 million on hedging contracts entered into by the Company in December 2014 that matured in the first quarter 2015 and contracts entered into in May 2015 covering May to September 2015 production. These gold collar hedging contracts covered 3,000 ounces of monthly gold production at an average strike price of US$1,200 per ounce for the put options and US$1,210 per ounce for the call options for the December 2014 contract, and at an average strike price of US$1,200 per ounce for the put options and US$1,230 per ounce for the call options for the May 2015 contract. These contracts were designated as cash flow hedges and matured as of December 31, 2015 thus no hedging contracts were outstanding as at end 2015.

In June and September 2014, the Company entered into gold collar hedging contracts covering 6,000 ounces of monthly production for the third quarter of 2014 at an average strike price of US$1,262.50 per ounce for the put options and US$1,325.50 per ounce for the call options, and 3,000 ounces of monthly production for the fourth quarter of 2014 at a strike price of US$1,200 per ounce for the put options and US$1,270 per ounce for the call options, respectively, with a total of 27,000 ounces. The terms of these contracts already matured as of December 31, 2014 with net realized gain of ₱10.1 billion.

Operational Overview

	For the Year Ended December 31			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Tonnes milled	9,359,161	9,198,540	9,506,195	2	(3)
Copper concentrates	73,107	69,987	70,062	4	(0)
No. of Operating Days	362	357	359	1	(0)
Gold					
Ounces	103,304	107,887	105,008	(4)	3
Head grade - grams/tonne	0.417	0.438	0.438	(5)	-
Recovery - %	82	83	78	(1)	6
Copper					
Pounds	34,961,062	34,104,049	35,391,154	3	(4)
Head grade - %	0.206	0.205	0.212	0.5	(3)
Recovery - %	82	82	80	0.1	3

Gold production was down to 103,304 ounces in 2016 from 107,887 ounces in 2015 and 105,008 ounces in 2014. The 4% decrease in gold production in 2016 was mainly due to the lower ore grade by 5%, despite higher tonnage of 9.359 million from 9.199 million in 2015. Ore grades are expected to decline as mining operations move towards the fringes of the ore body as it approaches the end of mine life.

Copper production, on the other hand, increased by 3% to 34,961,062 pounds in 2016 from 34,104,049 pounds in 2015 (4% lower versus 35,391,154 ounces in 2014). The higher tonnage, coupled with slightly higher average copper head grade, resulted in higher copper production in 2016 against 2015. In 2015, lower tonnage and copper head grade resulted in lower copper production versus 2014, despite higher metal recovery. Similar to gold, lower copper grades are expected and within program under the mine's development plan.

Total tonnes milled from the Company's Padcal mine for the year ended December 31, 2016 was 2% higher than 2015 (3% lower than 2014) mainly from more operating days in 2016 and higher equipment availability during the latter part of 2016.

Operating Costs and Expenses

Total operating costs and expenses (including General and Administrative Expenses or GAE) amounted to ₱6.900 billion in 2016, lower by 2% than the ₱7.011 billion in 2015 (12% lower versus ₱7.989 billion in 2014) due mainly to the Company's continuing cost management and expense reduction programs.

Cash production costs amounted to ₱4.614 billion in 2016, almost the same as that in 2015 of ₱4.615 billion, but 10% lower than the cost of ₱5.143 billion in 2014.

Depreciation, depletion and amortization was also down by 6% at ₱1.460 billion against ₱1.546 billion in 2015 (from ₱1.666 billion in 2014 or 7% lower) following the extension of Padcal mine life by two more years from 2020 to 2022.

GAE substantially decreased by 10% to ₱373.1 million from ₱414.3 million in 2015 (lower than ₱674.4 million in 2014) as a result of the manpower rightsizing program implemented in early 2015 and late 2014, and the continued expense management being effected across the organization throughout 2016.

Excise tax and royalties in 2016 was higher by 4% than 2015 (14% lower versus 2014 due to higher Social Development and Management Program (SDMP) amount that was deducted from royalties to Indigenous People) as an offshoot of higher net revenue.

Costs Per Tonne / Per Ounce / Per Pound

	For the Year Ended December 31			% Change	
				2016 vs	2015 vs
Padcal Mine	2016	2015	2014	2015	2014
Padcal Cash Production cost	4,614	4,615	5,143	(0)	(10)
Depreciation, Depletion & Amortization	1,460	1,546	1,666	(6)	(7)
Total Production Cost	6,075	6,160	6,808	(1)	(10)
Excise tax & Royalties	452	437	507	4	(14)
Smelting Charges	893	837	850	7	(2)
Total Operating cost (P million)	7,421	7,434	8,165	(0)	(9)
Production cost per tonne	P 649	P 670	P 716	(3)	(6)
Operating cost per tonne	P 793	P 808	P 859	(2)	(6)
Operating cost per ounce of Gold	$ 919	$ 933	$ 977	(2)	(5)
Operating cost per pound of Copper	$ 1.72	$ 1.86	$ 2.29	(7)	(19)

Production cost per tonne in 2016 of ₱649 was below 2015's ₱670 per tonne (versus 2014's ₱716 per tonne). The decrease in production cost per tonne in 2016 against 2015 and 2014 was caused primarily by the lower power rate in 2016 and the reduction in manpower at the Padcal Mine since December 2014.

Operating cost (including smelting charges) per tonne similarly went down to ₱793 per tonne in 2016 from ₱808 per tonne in 2015 (lower than 2014's ₱859 per tonne). The drop in operating cost per tonne was realized from lower power rate as well as further manpower reduction, other productivity-enhancing measures and the extension in Padcal mine life from 2020 to 2022, thereby extending the depreciation and amortization of Company assets.

Smelting charges slightly increased in 2016 with higher production of copper concentrates and pounds of copper, in spite of lower average treatment and refining charges (TC/RC) following the decrease in rates for the period, from April 2015 to March 2017, by US$9.65 per DMT of copper concentrate and 0.965 cents per pound copper, respectively, which normally follow the trend of TC/RC rates based on the Japanese Benchmark. Total smelting charges amounted to ₱893.3 million in 2016, higher by 7% than ₱836.6 million in 2015 (2% lower versus ₱849.8 in 2014).

Operating cost (using a co-production method) per ounce of gold and per pound of copper were $919 per ounce and $1.72 per pound in 2016, both lower than the 2015 and

2014 levels due to the significant decrease in power rates and labor costs following the manpower rationalization program of the Company in 2014 and early 2015.

Net Other Income (Charges)

	For the Year Ended December 31		
(P millions)	2016	2015	2014
Forex exchange losses-net	(145)	(159)	(56)
Share in net losses of associates	(45)	(13)	-
Interest income	2	4	5
Gain on disposal of AFS financial assets	-	107	-
Interest expense	-	-	(349)
Gain on sale of property, plant and equipment	-	-	765
Others	(14)	6	(324)
	(202)	**(55)**	**40**

Net Other Charges in 2016 amounted to ₱202.1 million from ₱55.1 million in 2015 and net other income of ₱40.1 million in 2014, with gains on sale of AFS financial assets and sale of property, plant and equipment included in 2015 and 2014.

The Company recognized net foreign exchange losses in 2016 of ₱145.2 million against ₱158.7 million in 2015 mainly from the restatement of the Company's net foreign currency-related liabilities due to the depreciation of the Philippine peso against the US dollar. In 2014, the Company recognized a foreign exchange loss of ₱56.5 million, with foreign exchange rates at yearend closing at ₱49.72 in 2016, ₱47.06 in 2015, and ₱44.72 in 2014.

In 2016, the Company recognized its share in the net losses of Lepanto Consolidated Mining Corporation (Lepanto) and PXP amounting to ₱44.6 million, higher than ₱13.2 million in 2015 when the Company started the recognition of losses of Lepanto following the reclassification of the investment in Lepanto from AFS financial asset to investment in an associate in 2015, and reclassification of PXP from a subsidiary to an associate in July 2016..

The Company realized interest income of ₱2.1 million, ₱4.1 million and ₱5.2 million in 2016, 2015 and 2014, respectively, mostly coming from short-term money market placements. Interest rates ranged from 1.0% to 2.0% for the past three years.

In 2015, the Company recognized a gain of ₱107.1 million from the sale of its investment in Indophil Resources NL (Indophil) under an acquisition scheme offered by Indophil's major shareholder, Alsons Prime Investments Corporation, to Indophil's other shareholders, where AUD0.30 was offered for every share held. The Company's investments in Indophil totaled 29,240,806 shares with a carrying cost of ₱190.4 million prior to the sale. The proceeds of ₱297.5 million from the sale were received in February 2015.

On interest expense, the Company incurred ₱349.4 million in 2014 mainly from the short-term loans with local banks and FPC subsidiaries, slightly lower than previous year due to the retirement of some local bank loans and repayment of the loans with FPC subsidiaries in December 2014. Interest expenses on the convertible notes issued by Silangan Mindanao Exploration Co., Inc. (SMECI) in December 2014 were capitalized, thus no expense shown in 2016 and 2015. Interest expenses of ₱87.3 million in 2016 and ₱108.8 million in 2015 to local banks related to the Silangan investment were likewise capitalized.

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

Others-Net of ₱323.8 million in 2014 included ₱394.2 million in separation pay that was incurred by the Company, on top of the retirement gratuity under the Philex Trust Fund, in relation to the manpower rightsizing program implemented in 2014.

Provisions for Impairment Losses

The Company continues to assess the viability of its existing mine exploration projects and other investments. In 2016, provisions for impairment losses were recognized amounting to ₱2.505 billion from nil in 2015 and ₱231.4 million in 2014.

Income (Loss) on Deconsolidated Subsidiary Group

Result from deconsolidation of PXP was shown as a separate line item under 'Income (Loss) on Deconsolidated Subsidiary Group' as required by PFRS 5 following SEC's approval of declaration of PXP shares as property dividend. In 2016, Income on Deconsolidated Subsidiary Group amounted to ₱2.494 billion, consisting of the non-recurring gain from the loss of control over PXP of ₱2.523 billion and share of the operating loss of PXP of ₱29.1 million up to June 2016, while comparative amount in 2015 and 2014 posted a share of operating loss of ₱144.0 million and ₱510.9 million, respectively. Starting third quarter of 2016, the Company's share in the earnings or losses of PXP is recognized under Share in net losses of associates. .

Core and Reported Net Income

Net income attributable to the equity holders of the Company in 2016 amounted to ₱1.589 billion, compared with ₱896.2 million in 2015 and ₱1.006 billion in 2014. The 2016 net income was largely affected by higher metal prices and foreign exchange rate, while unfavorable metal prices in the prior year caused lower net income in 2015 versus 2014. The Company's results of operations ended in a consolidated net income of ₱1.567 million for the year 2016, more than two times of the ₱775.6 million in 2015 and ₱702.8 million in 2014, due to favorable metal prices and foreign exchange rate and lower operating costs from the strict implementation of cost reduction programs.

The Company's core net income was ₱1.657 billion in 2016, 83% higher than the ₱905.2 million in 2015 (versus ₱1.122 billion in 2014) due primarily to higher metal prices. Inversely in 2015, the core net income was lower compared with 2014 due to lower metal prices.

In 2016, EBITDA amounted to ₱3.854 billion, compared with ₱2.779 billion in 2015 and ₱3.394 billion in 2014. The Company's EBITDA, similar to core net income, excludes non-recurring transactions to clearly provide results based on normal operating parameters of the business. The core net income reflects the Company's overall operating performance without the net effect of non-recurring transactions.

Reconciliation of Core Net Income to Consolidated Net Income

(P millions)	For the Year Ended December 31 2016	2015	2014
Core net income	1,657	905	1,122
Non-recurring gains (losses):			
Foreign exchange losses	(145)	(144)	(57)
Gain on sale of assets / AFS financial assets		107	765
Net Provision for write-down of asset		(2)	(336)
Share in net loss of an associate		(13)	-
Provisions for impairment of assets	(2,505)		
Gain from loss of control over a subsidiary group	2,538		
Reorganization costs		-	(394)
Net tax effect of aforementioned adjustments	44	43	(94)
Net income attributable to equity holders of the Parent Company	1,589	896	1,006
Net income attributable to NCI	(22)	(121)	(303)
Consolidated net income	1,567	776	703

FINANCIAL CONDITION REVIEW

(P millions, except ratios)	As of December 31 2016	2015	2014
Cash and Cash equivalents	458	1,009	5,232
Current assets excluding cash and cash equivalents	6,437	4,263	4,299
Non-current assets	31,767	38,256	35,066
Total Assets	38,662	43,527	44,597
Short-term loans	3,083	3,318	4,308
Current liabilities excluding short-term loans	2,495	2,397	3,215
Non-current liabilities	9,685	10,528	10,032
Equity attributable to Equity Holders of the Parent Company	23,400	24,563	23,599
Non-Controlling interests	(0.3)	2,721	3,442
Total Equity	23,399	27,284	27,042
Current/Liquidity ratios			
Current ratio	1.24	0.92	1.27
Quick ratio	0.17	0.33	0.84
Solvency ratios and debt to equity ratios			
Debt-to-equity ratio	0.65	0.60	0.65
Solvency ratio	0.20	0.14	0.13
Financial leverage ratios			
Asset-to equity ratio	1.65	1.60	1.65
Interest rate coverage ratio	-	-	3.97
Profitability ratios			
Return on assets	3.81%	1.76%	1.66%
Return on equity	6.18%	2.86%	2.65%
Net profit margin	16.71%	9.29%	7.22%

Current Assets

As of December 31, 2016, Current Assets of the Company stood at ₱6.895 billion, 31% higher than ₱5.271 billion in 2015 (45% lower versus ₱9.530 billion in 2014), primarily due to higher amount of inventories (₱2.319 billion in 2016 compared with ₱1.887 billion in 2015 and ₱1.858 billion in 2014) and the presentation in 2016 of the Advances to a related party amounting to ₱2.194 billion following the deconsolidation of PXP.

Cash and Cash Equivalents

In 2016, Cash and Cash Equivalent amounted to ₱457.9 million, down from ₱1.009 billion in 2015 and ₱5.232 billion in 2014. These amounts included the cash balance of Silangan Mindanao Exploration Co., Inc. of ₱25.5 million, ₱279.5 million in 2015 and ₱3.038 billion in 2014, which significantly decreased due to extensive exploration activities at the Silangan Project. The 2015 and 2014 cash balances included that of PXP's subsidiaries, until PXP was deconsolidated in mid-2016.

Current Assets excluding Cash and Cash Equivalents

Current Assets, excluding Cash and Cash Equivalents, was up to ₱6.437 billion mainly due to higher Inventories and Advances to a related party.

Accounts Receivable

Accounts Receivables consisted essentially of Trade Receivables from sales of the Company's copper concentrates or bullion and Other Receivables. As at year-end 2016, Accounts Receivable amounted to ₱486.5 million (against ₱897.5 million in 2015 and ₱1.056 billion in 2014), with Trade Receivables amounting to ₱411.8 million (₱701.3 million in 2015 and ₱893.9 million in 2014) and Other Receivables amounting to ₱74.7 million (₱196.2 million in 2015 and ₱161.9 million in 2014).

As of December 31, 2016, outstanding receivables from copper concentrates mainly consisted of the remaining 10% of five shipments in the last quarter of 2016 that remained outstanding awaiting final pricing, while the 2015 receivables consisted of 100% of the value of shipment no. 38-LDM which was shipped to Japan on December 24, 2015 and the remaining 10% of four other shipments. In 2014, receivables consisted of 100% of the value of shipment no. S-708, of which 90% was collected only in early January 2015, and 10% of various 2014 shipments.

A total of fourteen copper concentrates shipments were made in 2016 and in 2015 compared with fifteen shipments in 2014. The Padcal mine's copper concentrates shipments were provisionally valued based on prices in the second calendar week and first calendar week immediately prior to the week of shipment to Pan Pacific Corporation (PPC) and Louis Dreyfus Commodities Metals Suisse SA (LDM), respectively. These were then adjusted to the applicable final prices based on their "quotational period (QP)", which under PPC for the contract years 2016 and 2015 were the calendar months following the month of the shipment's arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper, while shipments under LDM have QP terms of "month of scheduled shipment (MOSS)".

Inventories

Inventories, higher at ₱2.319 billion in 2016 compared with ₱1.887 billion in 2015 (slightly lower than ₱1.858 billion in 2014), comprised mostly of materials and supplies at 54% of total value, with the 46% remainder from mine products inventories. Materials and supplies decreased by 6% to ₱1.260 billion in 2016 from ₱1.334 billion 2015 (slightly higher than ₱1.196 billion in 2014). On the other hand, mine product inventories, corresponding to 8,053 dmt of copper concentrates that remained unshipped as of December 31, 2016, were higher at ₱1.059 billion, compared with ₱543.2 million representing 5,136 dmt of unshipped copper concentrates in 2015 (from a high of ₱643.5 million covering ending inventory of 5,112 dmt in 2014), while petroleum product inventories totaled ₱9.0 million in 2015 from ₱18.6 million in 2014.

Other Current Assets

Other Current Assets slightly decreased to ₱1.438 billion in 2016 from ₱1.479 billion in 2015 and ₱1.385 billion in 2014, consisting mainly of input value-added tax claims on importation of materials and supplies and equipment pending with the Department of Finance.

Non-current Assets

As of December 31, 2016, Non-Current Assets of the Company declined to ₱31.767 billion from ₱38.256 billion in 2015 and ₱35.066 billion in 2014, consisting mainly of property, plant and equipment, and deferred exploration costs. With property, plant and equipment of ₱6.736 billion – representing 17% – and deferred exploration costs of ₱23.158 billion – comprising 60% of total assets, these portions reflect the capital intensive nature of the mining business. In the Company's case, these were attributed to internal exploration and development activities as well as sustaining capital expenditures of the operating mine.

Property, Plant and Equipment

Property, plant and equipment ("PPE") as of December 31, 2016 decreased to ₱6.736 billion compared with ₱6.828 billion in 2015 and ₱7.139 billion in 2014. The decline in 2016 was mainly from the deconsolidation of PXP.

Available-for-Sale (AFS) Financial Assets

AFS financial assets, recorded at fair value, slightly declined to ₱104.6 million in 2016 from ₱106.7 million in 2015 (from ₱906.7 million in 2014). The significant decrease in 2015 was due to the sale of Indophil shares and the reclassification of the Lepanto shares to investment in an associate following effectivity in July 2015 of the Joint Voting Agreement between the Company and another Lepanto shareholder. In 2015 and 2014, changes in the fair value of all investments under AFS financial assets were taken up under equity.

Investment in Associates

The Investment in Associates amounted to ₱1.456 billion as of December 31, 2016 from ₱659.4 million in 2015 (from nil million in 2014) following the reclassification of investment in Lepanto from AFS Financial Assets to Investment in an Associate in 2015 and decrease in interest ownership in PXP from 64.7% to 19.8% in 2016. The Investment in Associates was net of equity share in the net loss of associates and the provision for impairment of investment in Lepanto amounting to ₱220.3 million in 2016.

Pension Asset

Pension Asset amounted to ₱312.6 million in 2016 from ₱263.9 million in 2015 and ₱320.4 million in 2014, representing the excess of the fair value of plan assets against the present value of defined benefit obligation under the Company's retirement plan, net of SMMCI's pension obligation.

Goodwill

The goodwill amounted to nil as of December 31, 2106, following the deconsolidation of PXP, from of ₱1.239 billion in 2015 and 2014, which consisted of goodwill from acquisition of various investments (₱103.3 million for FEC Resources in 2007, ₱155.3 million for Forum Energy in 2008 and ₱980.0 million for Pitkin in 2013).

Deferred Exploration Costs

Deferred Exploration Costs and Other Non-current Assets amounted to ₱23.158 billion in 2016, a 21% decrease from ₱29.153 billion in 2015 following a 15% jump from ₱25.453 billion in 2014. The 2016 balance consisted solely of exploration costs covering mining projects while the 2015 and 2014 balances still included oil exploration projects under PXP. The latter was subsequently derecognized as a result of the Company's loss of control over PXP in 2016. Additions in the balances were mainly on account of the on-going pre-development activities in the Silangan Project and other projects.

The Company provided impairment losses of P2.285 billion in 2016, nil in 2015 and ₱231.4 million in 2014 on various mine exploration projects of the Company and PGPI.

In 2015, under the energy and hydrocarbon business of PPC, the Company recorded impairment losses of ₱41.2 million for SC 53 and Peru Block XXVII, net of reversal for SC 40. The Company also recorded impairment losses of ₱338.5 million in 2014.

Deferred Exploration Costs and Other Non-current Assets

(P millions)	2016	2015
Silangan Project	21,139	19,701
Kalayaan Project	2,731	2,706
Bulawan and Vista Alegre Projects	632	630
Lascogon Project	299	300
Sibutad Project	235	231
Bumolo Project	208	77
Clifton Project	133	110
Southwest Prospect	100	100
Sanfran/Tambis Project	92	92
Other exploration costs	1,281	1,536
Total	26,850	25,483
Less: Impairment Losses	(3,778)	(1,493)
Deferred mine exploration costs - net	23,072	23,990
Deferred oil exploration costs - net	-	4,974
Total Deferred exploration costs - net	23,072	28,963
Other Non-Current Assets	86	190
	23,158	29,153

Total Assets

At year-end 2016, Total Assets of the Company stood at ₱38.662 billion compared with ₱43.527 billion in 2015 and ₱44.597 billion in 2014.

As of December 31, 2016, Total Current Liabilities decreased to ₱5.578 billion from the ₱5.715 billion in 2015, also lower than ₱7.523 billion in 2014, due to the repayment of loans with FPC and local banks. The bank loan balance continues to go down with repayments regularly made by the Company.

Loans Payable

Loans Payable went down to ₱3.083 billion (US$62.0 million) in 2016 from ₱3.318 billion (US$70.5 million) in 2015 and ₱4.308 billion (US$96.3 million) in 2014. In 2016, 2015 and 2014, the Company paid off ₱402.3 million (US$8.5 million), ₱1.176 billion (US$25.8 million) and ₱1.289 billion (US$29.3 million), respectively, in short-term bank loans and the US$80 million loan with FPC in 2014.

The Loans Payable consisted of loans from local banks as follows: Philippine National Bank for US$26 million, Banco de Oro (BDO) for US$31 million and Bank of the Philippine Islands (BPI) for US$5 million.

Current Liabilities excluding Loans Payable

Current Liabilities, excluding Loans Payable, was slightly up to ₱2.495 billion against ₱2.397 billion in 2015 (versus ₱3.215 billion in 2014) due mainly to an increase in Income Tax Payable.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities, mainly payables to suppliers and contractors, decreased by ₱71.8 million to ₱1.833 billion in 2016 from ₱1.904 billion in 2015 (down from ₱2.679 billion in 2014). No significant amount of the Company's trade payables have been left unpaid within their acceptable terms agreed upon with suppliers.

Income Tax Payable

Income Tax Payable amounted to ₱164.3 million from ₱13.0 million in 2015 (higher than ₱47.4 million in 2014) due to a significant improvement in earnings in 2016.

Dividends Payable

Dividends Payable amounted to ₱498.1 million in 2016 compared with ₱479.7 million in 2015 and ₱488.8 million in 2014. In February 2016, the Company declared its shares of stock in PXP as property dividends to its shareholders at record date of March 15, 2016 at a ratio of 17 PXP shares for every 100 PX shares held. The dividend declaration was approved by the Philippine Securities and Exchange Commission (SEC) on June 22, 2016, with payment date of July 15, 2016. In July 2016, the Company also declared cash dividend of P0.03 per share (equivalent to ₱148.2 million) to shareholders at record date of August 10, 2016, with payment date of August 24, 2016, representing 19% of the Company's core net income for the first half of 2016.

In February 2015, the Company declared a cash dividend of ₱0.02 per share (equivalent to ₱98.8 million) in addition to the ₱0.03 per share (equivalent to ₱148.2 million) dividend declared in October 2014 or a total of ₱0.05 per share, representing 22% of the 2014 core net income. In 2014, the Company also declared dividends of ₱0.05 per share, totaling ₱246.8 million, representing 16% of the Company's core net income for the full year of 2013.

Non-current Liabilities

Total Non-Current Liabilities at year-end 2016 decreased to ₱9.685 billion from ₱10.528 billion in 2015 and ₱10.032 billion in 2014, comprising mainly of Deferred Income Tax Liabilities and Loans and Bonds Payable.

Deferred Income Tax Liabilities

Deferred Income Tax Liabilities (DTL) significantly decreased to ₱2.958 billion in 2016 from ₱3.939 billion in 2015 and ₱3.859 billion in 2014, which consisted mainly of the following: ₱1.665 billion arising from the acquisition of the remaining 50% of Silangan from Anglo in 2009; and ₱1.194 billion for accelerated depreciation and deferred exploration costs. The DTL balances in 2015 and 2014 also included ₱980.0 million from PXP's acquisition of additional interest in Pitkin.

Bonds Payable

Bonds Payable as at end-2016 amounted to ₱6.593 billion, which increased from ₱6.259 billion in 2015 (from ₱5.947 billion in 2014), due to the amortization of deferred transaction costs (DTC). This amount represented the carrying amount of the convertible notes issued by SMECI, net of the unamortized DTC.

Provisions for Losses and Mine Rehabilitation Costs

Provision for Losses and Mine Rehabilitation Costs amounted to ₱134.1 million in 2016, lower than ₱330.0 million in 2015 and ₱225.6 million in 2014, comprising mainly of FEP's contingent liability of ₱192.8 million, which was derecognized following the Company's loss of control over PXP. Provision for Mine Rehabilitation increased to ₱129.2 million in 2016 from ₱125.7 million in 2015 (excluding ₱9.2 million under PXP) and ₱21.9 million in 2014 (excluding ₱9.6 million under PXP) representing the amortized value of the Company's estimated mine closure costs.

Total Liabilities

As of December 31, 2016, Total Liabilities of the Company decreased to ₱15.263 billion from ₱16.243 billion in 2015 and ₱17.555 billion in 2014, consisting mainly of short-term bank loans, deferred income tax liabilities and the convertible bond issuance with a face value of ₱7.200 billion but with carrying amount of ₱6.593 billion, net of ₱1.226 billion equity conversion option. The decrease in Total Liabilities was primarily due to the repayment of short-term bank loans of US$8.5 million.

Shareholders' Equity

	As of December 31		
	2016	2015	2014
Common shares	4,940,399,068	4,940,399,068	4,940,399,068
Stock options	21,090,000	27,385,000	33,618,150

Total Equity as of December 31, 2016 amounted to ₱23.399 billion, 14% lower than ₱27.284 billion in 2015 (slightly higher than ₱27.042 billion in 2014). The yearly increases in the Capital

Stock and Additional Paid-in Capital from 2014 to 2016 were from the amortization of share-based compensation on stock options under the Company's stock option plan.

Retained Earnings amounted to ₱14.442 billion from ₱15.496 billion in 2015 and ₱14.712 billion in 2014, after recording the Company's Net Income Attributable to the Equity Holders of the Parent Company of ₱1.589 billion in 2016 (₱896.2 million in 2015 and ₱1.006 billion in 2014), net of cash and property dividends. A total of ₱148.2 million cash dividend was declared in 2016 compared with ₱98.8 million in 2015 and ₱395.1 million in 2014.

On February 28, 2017, the Company's Board of Directors (BOD) approved the declaration of cash dividend of P0.04 per share as regular dividend to all stockholders at record date of March 14, 2017, payable on March 27, 2017.

In 2016, the net re-measurement of pension obligation of ₱68.8 million (₱13.1 million in 2015 and ₱27.3 million in 2014) was taken up against retained earnings. On February 28, 2017, the Company's BOD approved further appropriation of ₱500.0 million of the unappropriated retained earnings for purposes of mine development and construction of the Silangan Project from 2017 to 2018, thereby increasing total appropriation to ₱10.500 billion.

Net Unrealized Loss on AFS Financial Assets, representing the temporary decline in the fair value of AFS Financial Assets, amounted to ₱3.1 million in 2016 from ₱1.0 million in 2015 and ₱64.1 million in 2014. Equity Conversion Options amounted to ₱1.226 billion corresponding to the carrying amount of the conversion options of the 8-year convertible bonds issued by SMECI, with PMC as the co-issuer, in December 2014 with a face value of ₱7.200 billion.

As a result of the translation of foreign subsidiaries' accounts in 2015, Cumulative Translation Adjustments amounted to ₱124.3 million in 2015 from ₱37.4 million in 2014. No cumulative translation adjustment was taken up in 2016 following the deconsolidation of investment in PXP. Similarly, the amount of Net Revaluation Surplus also decreased to ₱1.572 billion from a balance of ₱1.611 billion from the years 2014 to 2015. Likewise, the changes in the non-controlling accounts also were attributable to the deconsolidation of investment in PXP. The Effect of Transactions with Non-controlling Interests amounted to ₱77.9 million in 2016 from ₱23.2 million in 2015 and ₱19.1 million in 2014. The Non-controlling Interests significantly decreased to a negative balance of ₱0.3 million in 2016 from a positive balance of ₱2.721 billion in 2015 and ₱3.442 billion in 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary objectives are to fund existing operations and maintain a healthy pipeline of exploration projects to further extend mine life and for potential expansion. Despite the risks inherent in the business associated with metal prices, foreign exchange rates, regulatory environment, and the changing economic and market conditions, the Company generated net cash flows from operating activities of ₱2.747 billion in 2016, ₱1.425 billion in 2015 and ₱1.450 billion in 2014. The cash generated in 2016 significantly increased due to higher gold and copper prices.

Other than internally generated funds, which remain as the Company's principal source of cash, the Company also raised funds from borrowings primarily to finance the capital expenditures of the Padcal mine, the development of Silangan project and exploration initiatives of various mine sites, as well as to refinance existing debts.

Net cash used in investing activities, principally for capital expenditures and exploration costs, amounted to ₱2.665 billion from ₱4.367 billion in 2015 and ₱5.124 billion in 2014. Capital expenditures decreased to ₱2.360 billion in 2016 from ₱3.878 billion in 2015 and ₱5.764 billion in 2014, which were attributed to higher sustaining capital expenditure of Padcal mine and Silangan

Project, amounting to ₱1.735 billion as against ₱1.390 billion in 2015 and ₱2.319 billion in 2014. Expenditure for the continuing exploration activities at the Silangan, Kalayaan, and other projects amounted to ₱625.3 million in 2016, lower than ₱2.488 billion in 2015 and ₱3.445 billion in 2014 as most of the capital-intensive activities were completed.

The net cash used in investing activities also reflected the cash from deconsolidated subsidiary group of ₱606.6 million and net proceeds from the sale of Company assets of ₱33.3 million in 2016. The net proceeds from the sale of Indophil shares of ₱297.5 million and the share buyback of Pitkin of ₱646.7 million in 2015, and the proceeds from the sale of Company's real property of ₱765 million and a total of ₱395.7 million used for the share buyback of Pitkin in 2014, were also reflected under net cash used in investing activities for the particular year.

Net cash used in financing activities amounted to ₱637.5 million in 2016 as against ₱1.284 billion in 2015 and the net cash provided by financing activities of ₱4.825 billion in 2014, on account of lower loan availment of ₱236.2 million in 2016 compared with ₱3.016 billion in 2015 and ₱10.090 billion in 2014 – including proceeds from the issuance of convertible notes of ₱7.162 billion. Loan repayments made in 2016, 2015 and 2014 were ₱638.5 million, ₱4.192 billion and ₱4.935 billion, respectively, while payments for cash dividends amounted to ₱235.1 million in 2016, ₱108.0 million in 2015 and ₱366.9 million in 2014.

Capital Expenditures and Exploration Costs[14]

	For the Year Ended December 31		
(P millions)	2016	2015	2014
By Project:			
Padcal and Others			
Mine Development	601	623	668
Tailings Pond Structures	342	258	298
Machinery & Equipment	693	643	869
	1,636	1,524	1,835
Silangan and Kalayaan Project			
Deferred Exploration	415	2,380	3,281
Machinery & Equipment, net of asset disposal and reclassification	99	(134)	483
	514	2,246	3,765
Mine Exploration Projects	210	108	164
	2,360	**3,878**	**5,764**
By Recording:			
Deferred Exploration costs	625	2,488	3,445
Property, plant and equipment	1,735	1,390	2,319
	2,360	3,878	5,764

Capital expenditures in 2016 amounted to ₱2.360 billion from ₱3.879 billion in 2015 and ₱5.764 billion in 2014 as the Company focused on the Silangan project and mining projects within the vicinity of Padcal. The Company, however, continues to invest in new technologies to expand capacities, improve efficiencies and accelerate the development of the Silangan Project.

[14] Excluded the Company's energy and hydrocarbon business capex in 2015 and 2014 amounting to P181.8 million and P67.0 million, respectively. No capex reflected in 2016 following the deconsolidation of investment in PXP.

Padcal operations accounted for 69% of capital outlays in 2016 at ₱1.636 billion compared with ₱1.524 billion in 2015 and ₱1.835 billion in 2014. The increase in 2016 was mainly due to higher costs incurred for raising the spillway at TSF3, which entailed ₱342.3 million, ₱258.1 million and ₱298.0 million in investments over the last three years.

Upgrade of equipment and machinery continued as well, with outlays amounting to ₱693.4 million in 2016, ₱643.4 million in 2015 and ₱869.0 million in 2014, which enabled the Company to maintain the inventory level at 15 months.

Investments in exploration projects, meanwhile, amounted to ₱210.1 million in 2016 from ₱108.0 million in 2015 and ₱164.0 million in 2014. The increase was due to extensive exploration within the Padcal vicinity to further extend Padcal mine life.

Expenditures for the Silangan Project accounted for the second largest chunk of capital investments at 22% of capital outlays in 2016 at ₱513.9 million compared with ₱2.246 billion in 2015 and ₱3.765 billion in 2014. Deferred exploration costs amounted to ₱415.2 million in 2016 against ₱2.380 billion and ₱3.281 billion in 2015 and 2014, respectively.

Silangan capex decreased in 2016 with the near completion of Silangan DFS. Investments in new machinery and equipment amounted to ₱98.7 million in 2016 and ₱483.4 million in 2014. In 2015, machinery and equipment showed a negative ₱134.1 million balance, which was the result of investments in new machinery and equipment of ₱61.0 million, offset by the ₱39.8 million costs of equipment sold and ₱155.3 million costs of completed jobs in progress reclassified to deferred exploration costs.

Top Five Key Financial and Non-Financial Performance Indicators

<u>Safety Performance</u>

The Company believes that operational excellence can only be achieved unless personnel health and safety remains an utmost priority. In 2016, the Company reported for its Padcal Mine three (3) Lost Time Accident-Fatal (LTA-F), caused by electrical and vehicular accidents, down from four (4) LTA-F in 2015, caused largely by Typhoon Lando, from one (1) LTA-F incident in 2014. Meanwhile, there were nine (9) Lost Time Accident-Non Fatal (LTA-NF) recorded in 2016, seven (7) in 205 and two (2) LTA-NF in 2014.

The Company is working towards achieving a “zero-harm” record by constantly reviewing safety policies and procedures. Initiatives are also in place to ensure that injuries are avoided and accidents are eliminated in the workplace. Third-party consultants are also engaged to evaluate the Company’s existing safety performance and identify risks areas as well as possible areas for improvement.

<u>Earnings Per Share</u>

The earnings per share (EPS) represent the net income attributable to equity holders of the Company, expressed in the amount per share of the Company’s average outstanding capital stock. Assuming a constant outstanding number of shares, the earnings per share correspondingly rises as the Company's earnings increase. The EPS ultimately reflects the Company’s financial and operational growth as a result of its performance in cost management, technical efficiency and productivity.

The basic earnings per share in 2016 was 78% higher at ₱0.322, based on 4,940,399,068 weighted average shares outstanding for the period, compared with ₱0.181 in 2015 based on the

4,940,399,068 weighted average shares and ₱0.204 in 2014 based on the 4,938,577,039 weighted average shares.

Considering the effect of the Company's potentially dilutive stock options outstanding for the period, an assumed exercise of the options at exercise price higher than market would have resulted in additional common shares. In 2016, 2015 and 2014, the outstanding stock options were considered anti-dilutive based on the lower market price of the Company's shares compared with to the exercise price, thus the diluted earnings per share in 2016, 2015 and 2014 were the same as the basic earnings per share of the Company in the said periods.

Tonnes Milled and Metal Produced

Tonnes milled and ore grade determine the volume of concentrates produced and sold. Tonnes milled totaled 9,359,161 in 2016, compared with 9,198,540 tonnes in 2015 and 9,506,195 tonnes in 2014, with full year production since 2014. The higher tonnage in 2016 was mainly due to higher equipment availability.

Copper metal production also increased to 34,961,062 pounds in 2016 from 34,104,049 pounds of copper in 2015 and 35,391,154 pounds in 2014, due mainly to higher tonnage and better ore grade. Gold production, however, decreased to 103,304 ounces of gold of copper in 2016, compared with 107,887 ounces of gold and 105,008 ounces of gold, as a result of lower grade and metal recovery.

Total Production Cost Per Tonne and Operating Cost Per Tonne of Ore Milled, and Per Ounce Gold and Per Pound Copper Produced

The Company's average cost per tonne is a key measure of the Company's operating performance. At the same cost level, the higher the production volume, the lower the cost per tonne becomes, which will also be similar if the same production volume incurs a lower operating cost. Thus, a lower cost per tonne would generally reflect an improvement in operating efficiency.

The same essentially applies to cost expressed in per unit of metal, which incorporates the metal grade, as it affects metal production, and the exchange rate, as it affects the conversion from peso to dollar.

In 2016, the total production cost (mine site cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was ₱649, with total production cost of ₱6.075 billion over ore milled of 9.359 million tonnes. This was lower than the cost per tonne of ₱670 from the total production cost of ₱6.160 billion over ore milled of 9.199 million tonnes in 2015 and the cost per tonne of ₱716 from the total production cost of ₱6.808 billion over ore milled of 9.506 million tonnes in 2014.

The operating costs and expenses (all cost and expenses excluding corporate overhead) per tonne of ore milled in 2015 was ₱793 from the total operating cost and expenses of ₱7.421 billion, slightly lower than the ₱808 from the operating costs and expenses of ₱7.434 billion in 2015, and 6% lower than the ₱859 from the operating costs and expenses of ₱8.165 billion in 2014.

As the mine produces both gold and copper (and silver) together in one operating process, no physical basis can be used in allocating costs between the two metals, thus, the cost may be allocated proportionately based on the revenue contribution of each product. In 2016, the operating cost applicable to gold produced amounted to US$919 per ounce, lower compared with US$933 per ounce in 2015 and US$977 per ounce in 2014. Likewise, operating cost applicable to copper produced was lower at US$1.72 per pound in 2016 compared with US$1.86 per pound in 2015 and US$2.29 per pound in 2014.

Exploration Activities

The Company is cognizant that exploration in itself is a speculative endeavor, and mineral exploration and mining operations can be hampered by force majeure and other unforeseen circumstances beyond the Company's control. To mitigate the impact of these external factors and other contingencies, the Company banks on its ability to successfully explore and/or acquire reserves, design and construct efficient processing facilities, operate and manage its projects, and provide effective financial controls and management. To ensure the optimization of value from its natural resource properties and the long-term sustainability of operations, the Company pursues and invests in viable exploration activities and operational enhancements on a constant basis.

In 2016, the amount spent on exploration was ₱625.3 million compared with ₱2.488 billion in 2015 and ₱3.445 billion in 2014. As of December 31, 2016, total exploration costs amounted to ₱23.072 billion, 60% of the Company's Total Assets, compared with ₱28.963 billion in 2015 and ₱25.439 billion in 2014. The 2015 and 2014 balances included costs related to oil and gas exploration.

Subsidiaries and Related Party Transactions

Philex Mining Corporation (PMC) has extended loans and advances to some of its subsidiaries, as described under Part III, Item 12 of this Report.

Furthermore, Note 2 of the Notes to the Consolidated Financial Statements is likewise incorporated hereto by reference for discussions on the new and revised accounting standards that the Company adopted in 2016.

Known Trends, Events, or Uncertainties

There is no known event that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation that have not been booked, although the Company could be contingently liable for lawsuits and claims arising from the ordinary course of business, which contingencies are not presently determinable.

Other than as discussed above, there are no known significant trends, demands, commitments, or uncertainties that will result in or that are reasonably likely to result in the Company's liquidity increasing or decreasing in a material way. There are no material commitments for capital expenditures not reflected in the Company's financial statements.

There is likewise no significant seasonality or cyclicality in its business operation that would have material effect on the Company's financial condition or results of operation. There were no other significant elements of income or loss that did not arise from the Company's continuing operations. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationship of the Company with unconsolidated entities or other persons created during the reporting period. There are no line items in the Company's financial statements not already explained for causes either above or in the Notes to the Consolidated Financial Statements other than due to the usual period-to-period fluctuations in amounts natural in every business operations.

Item 7. Financial Statements

The audited financial statements are presented in Part V, Exhibits and Schedules.

Item 8. Information on Independent Accountants and other Related Matters

<u>External Audit Fees and Services</u>

Audit and Audit-Related Fees

For 2016, 2015 and 2014, the Company's external auditors were engaged primarily to express an opinion on the financial statements of the Company and its subsidiaries. The audit, however, included the auditors providing assistance to the Company in the preparation of its income tax return in as far as ensuring the agreement of the reported income and costs and expenses in the return with the recorded amounts in the books. The procedures conducted for this engagement included those that are necessary under auditing standards generally accepted in the Philippines but did not include detailed verification of the accuracy and completeness of the reported income and costs and expenses. The audit fees for these services for the entire Philex group (excluding PXP group) were ₱5.27 million for 2015, ₱5.27 million for 2015 and ₱5.63 million for 2014.

Tax Fees

The Company has not engaged the external auditors for any tax-related services in 2016, 2015 and 2014. They were, however, engaged by Silangan in 2016 to verify the documentary compliance of Silangan for value-added input tax claims purposes for a fee of ₱330 thousand.

All Other Fees

The external auditors were engaged to review and propose a job classification framework that reflects the relative worth of specified positions and levels in the Company's table of organization. The external auditors were paid the amount of ₱880 thousand for their services.

All audit and non-audit engagements were approved by the Company's Audit Committee.

Audit Committee's Approval of Policies and Procedures

Prior to the commencement of this year-end audit work, the external auditors presented their program and schedule to the Company's Audit Committee, which included discussion of issues and concerns regarding the audit work to be done. At the completion of this audit works, the Company's audited financial statements for the year were likewise presented by the external auditors to the Audit Committee for committee approval and endorsement to the full Board for final approval.

<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>

There was no change in the Company's independent accountants during the two most recent calendar years or in any subsequent interim period, except for the change in the Company's audit engagement partner to Mr. Jose Pepito E. Zabat III starting the 2012 year-end audit.

There has been no disagreement with the independent accountants on accounting and financial disclosure.

PART III

CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Registrant

Directors

The following are the present directors of the Company whose terms of office are for one (1) year or until their successors are elected and qualified:

MANUEL V. PANGILINAN, Chairman, Non-Executive Director

Age: 70

Date of First Appointment: November 28, 2008

Academic Background:
Mr. Pangilinan graduated cum laude from the Ateneo de Manila University with a Bachelor of Arts degree in Economics. He received his Master of Business Administration degree from Wharton School of the University of Pennsylvania in 1968.

Business and Professional Background/ Experience:
Mr. Pangilinan founded First Pacific Company Limited, a corporation listed on the Hong Kong Stock Exchange, in May 1981. He served as Managing Director of First Pacific Company Limited since its founding in 1981 until 1999. He was appointed Executive Chairman until June 2003, after which he was named Managing Director and Chief Executive Officer. In May 2006, the Office of the President of the Philippines awarded Mr. Pangilinan the Order of Lakandula, rank of Komandante, in recognition of his contributions to the country. He was named Management Man of the Year 2005 by the Management Association of the Philippines. Mr. Pangilinan was awarded Honorary Doctorates in Science by Far Eastern University in 2010; in Humanities by Holy Angel University in 2008; by Xavier University in 2007; and by San Beda College in 2002 in the Philippines. He was formerly Chairman of the Board of Trustees of the Ateneo de Manila University and was a member of the Board of Overseers of the Wharton School. He is a member of the ASEAN Business Advisory Council. Mr. Pangilinan has been a Director of PMC and Philex Gold Philippines, Inc. (PGPI) since November 2008. He is also Managing Director and Chief Executive Officer of First Pacific Company Limited, and Chairman of the PLDT Inc. (PLDT) since 2004, after serving as its President and Chief Executive Officer (CEO) since 1998. He reassumed the position of President and CEO of PLDT effective December 2015. He is also Chairman of Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (Digitel), Metro Pacific Investments Corporation, Silangan Mindanao Mining Co., Inc., Landco Pacific Corporation, Medical Doctors Inc. (Makati Medical Center), Colinas Verdes Corporation (Cardinal Santos Medical Center), Asian Hospital, Inc., Davao Doctors, Inc., Riverside Medical Center Inc., Our Lady of Lourdes Hospital, Central Luzon Doctors' Hospital, Inc., Maynilad Water Services Corporation, Mediaquest, Inc., Associated Broadcasting Corporation (TV5) and Manila North Tollways Corporation. Mr. Pangilinan is also Chairman of the Manila Electric Company (MERALCO), after serving as its President and Chief Executive Officer from July 2010 to May 2012. In December 2013, Roxas Holdings, Inc., Incorporated, the largest sugar producer in the Philippines, announced the election of Mr. Pangilinan as Vice Chairman.

Directorship in other Listed Companies in the Philippines:
1. PLDT Inc. - Chairman
2. Metro Pacific Investments Corporation - Chairman
3. Roxas Holdings, Inc. - Vice Chairman and Non-Executive Director
4. Manila Electric Company – Chairman
5. PXP Energy Corporation - Chairman

[1]**JUAN B. SANTOS**, Vice Chairman Non-Executive Director

Age: 78

Date of First Appointment: September 28, 2010

Academic Background:
Mr. Santos graduated from the Ateneo de Manila University in 1960, with a Bachelor of Science degree in Business Administration, and a Master's Degree at Thunderbird School of Global Management in Arizona, U.S.A. in 1962.

Business and Professional Background/ Experience:
Mr. Santos was President and Chief Executive Officer of Nestle Philippines, Inc. from 1987 to 2003, and continued to serve as Chairman of Nestle Philippines, Inc. until 2005. From 1989 to 1995, Mr. Santos concurrently served as Chief Executive Officer of Nestle Singapore Pte. Ltd. Prior to his appointment as President of Nestle Philippines, Inc., Mr. Santos was President of the Nestle Group of Companies in Thailand. In 2005, Mr. Santos served as the Secretary of the Department of Trade and Industry of the Philippines, and was designated as a member of the Governance Advisory Council, and Public Sector Representative for the Public-Private Sector Task Force for the Development of Globally Competitive Philippine Service Industries. He was awarded Management Man of the Year by the Management Association of the Philippines in 1994, and the Agora Awardee for Marketing Management by the Philippine Marketing Association in 1992. Mr. Santos has been a Director and Vice Chairman of PMC since September 28, 2010, and most recently re-elected as such on June 24, 2015. He is currently Chairman of the Social Security Commission, governing board of the Social Security System, Vice Chairman of Alaska Milk Corporation, and Director of the PLDT Inc., First Philippine Holdings Corporation, Sun Life Grepa Financial, and Inc., East-West Seeds Co., Inc. He sits on the Board of Advisors of Coca-Cola FEMSA Philippines, Mitsubishi Motors Philippines Inc. and serves as Trustee of the St. Luke's Medical Center. He was former Chairman of the Ramon Magsaysay Award Foundation, and Consultant of the Marsman-Drysdale Group of Companies. He is also Chairman of Dualtech Training Center Foundation, Inc.

Directorship in other Listed Companies in the Philippines
1. PLDT Inc. (PLDT) - Non-Executive Director
2. First Philippine Holdings Corp. - Independent Director

EULALIO B. AUSTIN, JR. President & CEO**,** Executive Director

Age: 55

Date of First Appointment : June 29, 2011

Academic Background:
Mr. Austin graduated from Saint Louis University-Baguio City, with a Bachelor of Science degree in Mining Engineering and placed eight at the 1982 Professional Board Examination for mining engineers. He took his Management Development Program at the

Asian Institute of Management in 2005 and his Advance Management Program at Harvard Business School in 2013.

Business and Professional Background/ Experience:
Mr. Austin has been a Director of PMC and PGPI since June 29, 2011 and was re-elected on June 24, 2015. He became President and Chief Operating Officer on January 1, 2012 and President and Chief Executive Officer of the Company on April 3, 2013. He previously served the Company as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President & Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin concurrently serves as Director of PXP Energy Corporation and Silangan Mindanao Mining Co., Inc. He likewise sits on the Board of of the Chamber of Mines of the Philippines and Philippine Mineral Safety and Environmental Association (PMSEA) and was Founding President of PSEM's Philex Chapter. He was recently awarded as the CEO of the year on Mining by The Asset last December 14, 2015 in Hongkong. He was also a recipient of Asia Pacific Entrepreneur Award (APEA) for the Mining Industry by Enterprise Asia in 2016. He was also recognized by the Philippine Society of Mining Engineers as the Most Outstanding Engineer in Mine Management in June 2016.

Directorship in OTHER Listed Companies in the Philippines:
1. PXP Energy Corporation - Non - Executive Director

[2] **MICHAEL N. ALIMURUNG,** Non-Executive Director

Age: 41

Date of First Appointment: November 25, 2015

Academic Qualification:
Mr. Michael N. Alimurung graduated from the Ateneo de Manila University with Honors in 1997 and 1998 with Bachelor of Science degrees in Management Engineering and Computer Science respectively. He obtained an MBA from the Stanford Graduate School of Business in 2006.

Business and Professional Background/ Experience:
He is currently one of the nine (9) SSS Commissioners and the Chairperson of the SSC-IT (Information Technology) Committee. He serves as a Director of Philex Mining Corporation and Union Bank of the Philippines. He provides general management and strategy consulting to government agencies, including the Commission on Audit, the Department of Social Welfare and Development and the Development Academy of the Philippines (DAP).

In the public sector, he served as Assistant Executive Secretary and Head of the Government Performance Monitoring Office in the Office of the President, Republic of the Philippines from 2010-2012. He was a Board Member of DAP in 2011 and designated as a DAP Fellow in 2012.

In the private sector, he is the founder of Impact.ph, an organization that aims to enhance and transform the Philippine nonprofit sector. He was previously the anchor of Bright Ideas, a talk show of Bloomberg TV Philippines He also worked as a Principal at the Wellspring Consulting, a top-tier consulting firm focused on the social sector, based in Boston, MA from 2006-2010 and 2012-2014. He was a co-founder of Jericho Systems, an e-commerce and publishing company and also a co-founder of BukasSarili Foundation. He worked at Citibank in 2004 and Procter & Gamble from 1999-2003. He also taught at the Ateneo de Manila from 1999-2002 and at the University of Asia and the Pacific from 1998-1999.

Directorship in Other Listed Companies:
1.) Union Bank of the Philippines - Non-Executive Director (Date of First Appointment: October 15, 2015)

OSCAR J. HILADO, Independent Director

Age : 79

Date of First Appointment : December 7, 2009

Academic Background:
Mr. Hilado, a Certified Public Accountant, completed his undergraduate studies at the De La Salle College-Bacolod in 1958 and obtained his Masters in Business Administration from the Harvard School of Business Administration (Smith Mundt/Fulbright Scholar) in 1962. He received a Doctorate in Business Management, Honoris Causa, from the De La Salle University and a Doctorate of Laws, Honoris Causa, from the University of St. La Salle in 1992.

Business and Professional Background/ Experience:
Mr. Hilado has been an Independent Director of PMC since December 7, 2009, and was last re-elected on June 24, 2015. He was the Chairman & Chief Executive Officer of Philippine Investment Management (PHINMA), Inc. (January 1994 to August 2005), and currently Chairman of the Board. He is currently also Chairman of PHINMA Corp, Trans-asia Oil and Energy Development Corporation, PHINMA Property Holdings Corp., Vice Chairman of Trans-Asia Power Generation Corporation, and Director of Trans Asia Renewable Energy Corporation and publicly listed Trans-Asia Petroleum Corporation. Mr. Hilado is an Independent Director of Smart Communications, Inc. and Digital Telecommunications Phils., Inc, and the publicly listed First Philippine Holdings Corporation and A. Soriano Corporation. He is also a Director of United Pulp and Paper Company, Inc., Beacon Property Ventures, Inc., Manila Cordage Company, Pueblo de Oro Development Corporation, Seven Seas Resorts and Leisure, Inc., Asian Eye Institute, Araullo University, Cagayan de Oro College, University of Iloilo, University of Pangasinan, Microtel Inns & Suites (Pilipinas) Inc.

Directorship in Other Listed Companies in the Philippines :
1. PHINMA Corporation - Non-Executive Director
2. Trans Asia Oil & Energy Development Corporation and its subsidiary, Trans Asia Power Generation Corporation - Non-Executive Director
3. A. Soriano Corporation - Non-Executive Director
4. First Philippine Holdings Corp. -Independent Director
5. Rockwell Land Corporation – Independent Director
6. Roxas Holdings, Inc. – Independent Director

MARILYN A. VICTORIO-AQUINO, Non-Executive Director

Age: 61

Date of First Appointment : December 7, 2009

Academic Background:
Ms. Victorio-Aquino graduated cum laude (class salutatorian) from the University of the Philippines College of Law in 1980 and placed second in the Philippine Bar Examinations.

Business and Professional Background/ Experience:
She has been a Director of PMC and PGPI since December 7, 2009 and was re-elected on June 24, 2015. She is an Assistant Director of First Pacific Company Limited. since July 2012, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. She is also a Director of Philippine Indofood Distribution Corporation since August 2014, of Light Rail Manila Corporation since July 2014, of Silangan Mindanao Mining Co., Inc., and Lepanto Consolidated Mining Company since October 2012, and of Maynilad Water Services Corporation since December 2012.

Directorship in Other Listed Companies in the Philippines:
1. PXP Energy Corporation - Non-Executive Director
2. Lepanto Consolidated Mining Company – Non-Executive Director

[3] **BIENVENIDO E. LAGUESMA**, Non-Executive Director

Age: 65

Date of First Appointment: February 27, 2013

Academic Background
Mr. Laguesma finished his Bachelor of Laws at Ateneo De Manila College in 1975 and his post-graduate studies as a Colombo Scholar (British Council) for Public Sector Administration course at the Royal Institute of Public Administration in London, United Kingdom of Great Britain from May to August of 1985.

Business and Professional Background/ Experience
Mr. Laguesma has been a Director of PMC and PGPI since February 27, 2013, and was re-elected on June 24, 2015. He is presently a Commissioner of the SSS and has held such position since March 2011. Mr. Laguesma was Secretary of the DOLE from 1998-2001, Presidential Assistant (Office of the President of the Republic of the Philippines) from 1996 to 1998, and DOLE Undersecretary from 1990 to 1996, after holding various other positions in the Government since 1976. He is a Director of the First Metro Investment Corporation and Chairman of the Charter Ping An Insurance Corporation of the Metrobank Group. He is also Senior Partner of the Laguesma Magsalin Consultants and Gastardo Law Offices. He is currently a Member, Board of Regents, Pamantasan ng Lungsod ng Maynila and a Director of Drug Abuse Resistance Education, DAREPHIL, Inc.

Directorship in OTHER Listed Companies in the Philippines
1. None

BARBARA ANNE C. MIGALLOS Corporate Secretary **,** Executive Director

Age: 62

Date of First Appointment: June 26, 2013

Academic Background:
Ms. Migallos graduated cum laude from the University of the Philippines, with a Bachelor of Arts degree, and finished her Bachelor of Laws degree as cum laude (salutatorian) also at the University of the Philippines. She placed third in the 1979 Philippine Bar Examination.

Business and Professional Background/ Experience
Ms. Migallos was elected to the Board of Directors of PMC and PGPI on June 24, 2015. She is also the Company's Corporate Secretary since July 1998. She is also Director and Corporate Secretary of PXP Energy Corporation, and Corporate Secretary of Silangan Mindanao Mining Co., Inc. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos is also a Director of Mabuhay Vinyl Corporation since 2000 and Philippine Resins Industries since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010. She is a professorial lecturer in Corporations Law, Insurance, Securities Regulation and Credit Transactions at the De La Salle University College of Law. She was a Senior Partner of Roco Kapunan Migallos and Luna Law Offices from 1988 to 2006.

Directorship in other Listed Companies in the Philippines
1. PXP Energy Corporation - Non-Executive Director
2. Mabuhay Vinyl Corporation - Non-Executive Director

ROBERT C. NICHOLSON, Non-Executive Director

Age: 61

Date of First Appointment : November 8, 2008

Academic Background:
Mr. Nicholson graduated from the University of Kent in 1976 and qualified as a solicitor in England and Wales and in Hong Kong.

Business and Professional Background/ Experience
Mr. Nicholson has been a Director of PMC and PGPI since November 28, 2008, and was re-elected on June 24, 2015. He is an Executive Chairman of Forum Energy Plc, a Chairman of Goodman Fielder Pty Limited (since March 2015), a Commissioner of PT Indofood Sukses Makmur Tbk. He is also a Director of Metro Pacific Investments Corporation, PXP Energy Corporation and Silangan Mindanao Mining Co, Inc., Executive Director of Pitkin Petroleum Plc and Pacific Light Power Pte. Ltd., all of which are First Pacific Group subsidiaries or associates.

Mr. Nicholson is also an Independent Non-executive Director of Pacific Basin Shipping Limited and Lifestyle Properties Development Limited. Previously, he was a senior partner of Reed Smith Richards Butler from 1985 to 2001 where he established the corporate and commercial department, and was also a senior advisor to the board of directors of PCCW Limited between August 2001 and September 2003.

Mr. Nicholson has wide experience in corporate finance and crossborder transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganizations and privatizations in China.

Directorship in other Listed Companies in the Philippines

1. PXP Energy Corporation - Non-Executive Director
2. Metro Pacific Investment Corporation - Non-Executive Director

WILFREDO A. PARAS, Independent Director

Age : 70

Date of First Appointment : June 29, 2011

Academic Background

Mr. Paras completed his undergraduate studies at the University of the Philippines in 1969 with Bachelor of Science, Industrial Pharmacy and his Master in Business Administration at the De La Salle University in 1991. He also completed an Executive Program at the University of Michigan at Ann Arbor, Michigan, USA.

Business and Professional Background/ Experience

Mr. Paras has been an Independent Director of PMC since June 29, 2011 and was re-elected on June 24, 2015. He is currently Independent Director of GT Capital Holdings, Inc. since May 2013, President of WAP Holdings, Inc., and a Director of CIIF Oil Mills Group of Companies. He is also a member of the Board of Trustees of Dualtech Training Foundation Inc. Mr. Paras was previously the Executive VicePresident, Chief Operating Officer and Director of JG Summit Petrochemical Corporation, President and Director of PT Union Carbide Indonesia, Managing Director of Union Carbide Singapore, and Business Director for Union Carbide Asia Pacific.

Directorship in Other Listed Companies in the Philippines

1. GT Capital Holdings, Inc. - Non-Executive Director

EDWARD A. TORTORICI Non-Executive Director

Age: 77

Date of First Appointment : December 7, 2009

Academic Background

Mr. Tortorici received a Bachelor of Science degree from New York University and a Master of Science degree from Fairfield University.

Business and Professional Background/ Experience

Mr. Tortorici has been a Director of PMC and PGPI since December 7, 2009, and was last re-elected on June 24, 2015. Mr. Tortorici has served in a variety of senior and executive management positions, including Corporate Vice President for Crocker Bank and Managing Director positions at Olivetti Corporation of America and Fairchild Semiconductor Corporation. Mr. Tortorici subsequently founded EA Edwards Associates, an international management and consulting firm specializing in strategy formulation and productivity improvement with offices in USA, Europe and Middle East. In 1987, Mr. Tortorici joined First Pacific Company Limited as an Executive Director for strategic planning and corporate restructuring, and launched the Group's entry into the telecommunications and technology sectors. Presently, he oversees corporate strategy for First Pacific Company Limited and guides the Group's strategic planning and corporate development activities. Mr. Tortorici serves as a Commissioner of PT Indofood

Sukses Makmur Tbk and as Director of Metro Pacific Investments Corporation, Maynilad Water Services, Inc., FEC Resources Inc. of Canada. He previously served as Director of AIM-listed Forum Energy plc. Mr. Tortorici serves as a Trustee of the Asia Society Philippines and is on the Board of Advisors of the Southeast Asia Division of the Center for Strategic and International Studies, a Washington D.C. non-partisan think tank. He also served as a Commissioner of the U.S. ASEAN Strategy Commission.

Directorship in Other Listed Companies in the Philippines

1. Metro Pacific Investment Corporation - Non-Executive Director

[4] **JOSE GABRIEL M. LA VIÑA,** Non-Executive Director

Age: 59

Date of First Appointment: February 28, 2017

Academic Background:
Mr. La Viña graduated at the Ateneo de Manila University with a degree of BA Philosophy (Magna Cum Laude) and an Ateneo Full Scholar & Insular Life Educational Foundational Scholar. He was also an AFS Scholar, Master in Entrepreneurship (Superior Performance) at the Asian Institute of Management; a Valedictorian at Corona del Mar High School, Newport Beach, California, Xavier University High School, and Xavier University Grade School.

Business and Professional Background/ Experience:
Mr. La Viña was appointed Commissioner of the Social Security System (SSS) on November 2016. Prior to this, he was Social Media Director, *Duterte 2016 Presidential Campaign* and a member of its Media Central & Communications Group. Mr. La Viña has 32 years of experience as Founder & CEO in various industries, including Home Mortgage Brokerage, Real Estate, Cooperative Banking, Technology, Auto Sales, Supply Chain Management, Hospitality and Music Entertainment. Elected February 2016 to the Board of Directors of the Alumni Association of the Asian Institute of Management. Served as Treasurer & Trustee of AFS Intercultural Services, which sends around 30 to 40 Filipino Muslim youth scholars to the United States every year under the Kennedy-Lugar Youth Exchange and Study program funded by the U.S. State Department.

As composer, Mr. La Viña’s songs have been recorded by Lea Salonga, Chad Borja, Joey Albert, Iza Calzado, Gino Padilla, Anna Fegi, Renz Verano, Jinky Llamanzares, Kaye Abad, Toti Fuentes, Raymond Lauchenco, Iwi Laurel, Tillie Moreno, Louie Reyes, Eugene Villaluz, Teresa Loyzaga, and other Filipino and international artists. One of his compositions won Third Prize in the Metro Manila Popular Music Festival in 1984 and two other received Honorable Mention at the 10th Billboard International Song Contest, 2002.

Directorship in Other Listed Companies in the Philippines:

1. None

[4] **MICHAEL G. REGINO,** Non-Executive Director

Age: 59

Date of First Appointment : February 28, 2017

Academic Background:
Mr. Regino graduated Cum Laude and Salutatorian from Ateneo de Zamboanga University in 1981, with a degree of Bachelor of Science, Major in Economics. He obtained his Masters in Business Administration in 1985 from Ateneo de Manila University.

Business and Professional Background/ Experience:
Mr. Regino has more than 30 years of corporate experience in organizing, developing and successfully operating enterprises in the following fields: real estate and construction, ready mix concrete operations, crushing plant operations, heavy equipment, Cable television operations, property management, Non-life insurance brokerage and risk management, and memorial parks development.

Aside from his being a Social Security Commissioner, he also serves as the President and member of the Board of Directors of San Agustin Services, Inc., Agata Mining Ventures, Inc., and Exploration Drilling Corp.; Senior Vice President and Chief Operating Officer of St. Augustine Gold and Copper Ltd.; and Executive Director of TVI Resources Development Phils., Inc. He likewise sits in the Board of Directors of Nationwide Development Corporation, as well as of KingKing Mining Corp., where he is in charge of Davao Operations.

Mr. Regino previously worked as President of Golden Haven Memorial Parks, Inc., Camella Homes, and MGS Group of Companies. He also once shared his expertise in other industries such as Northern Foods, Corp., Kilusang Kabuhayan at Kaunlaran, and Ateneo de Zamboanga University, where he served as Finance and Treasury Manager, Chief Financial Specialist, and Instructor in Economics, respectively.

Directorship in Other Listed Companies in the Philippines:
1. None

[4] **ANITA BUMPUS QUITAIN,** Non-Executive Director

Age: 70

Date of First Appointment: February 28, 2017

Academic Background:
Ms. Quitain has BSE Education Degree holder from the University of Mindanao in Davao City and Bachelor of Science Degree in Commerce, Major in Accounting. She also completed two (2) years of Masters in Public Administration (37 units) for her Career Civil Service Eligibility

Business and Professional Background/ Experience:
As newly-appointed SSS Commissioner, Ms. Quitain notched a major achievement by voting yes on the increase of the pension of SSS pensioners, despite being a neophyte member of the Social Security Commission.

As an employee of the SSS (for 31 years) assigned to the Main Office of Region 09 in Davao City, one of her major achievements was taking charge of the operations of the then newly-opened SSS Representative Office in Digos City, Davao del Sur as Office-in-Charge. She stayed there for five (5) years where she conducted seminars and coverage drives, especially in rural areas, aside from discharging management and leadership functions in the Representative Office.

As a BSE Education Degree holder, she worked with the Department of Education as an elementary classroom teacher for ten (10) years and served worked as a classroom teacher in the Philippine Women's College of Davao for one year. After this, she moved to SSS office in Region 09, Davao City, where she eventually retired in July, 2009 after 31 years of dedicated service.

Ms. Quitain was, at one time or another, headed different sections, namely: Membership, Real Estate, Operations Accounting, Member Assistance Center, and Sickness, Maternity and Disability Sections.

Directorship in Other Listed Companies in the Philippines:

1. None

[1] *Mr. Juan B. Santos resigned from the Philex Board effective 26 October 2016*
[2] *Mr. Michael V. ALimurung resigned from the Philex Board effective 23 November 2016*
[3] *Mr. Bienvenido E. Laguesma resigned from SSS as Commissioners in 31 December 2016.*
[4] *Appointed to the Philex Board of Directors effective 28 February 2017*

Executive Officers

The following persons are the present executive officers of the Company:

EULALIO B. AUSTIN, JR. – 55, Filipino citizen. Mr. Austin has been a Director of PMC and PGPI since June 29, 2011 and was re-elected on June 24, 2015. He became President and Chief Operating Officer on January 1, 2012 and President and Chief Executive Officer of the Company on April 3, 2013. He previously served the Company as its Senior Vice President for Operations and Padcal Resident Manager in 2011, Vice President & Resident Manager for Padcal Operations from 2004 to 2010, Mine Division Manager (Padcal) from 1999 to 2003, Engineering Group Manager in 1998 and Mine Engineering & Draw Control Department Manager from 1996 to 1998. Mr. Austin concurrently serves as Director of PXP Energy Corporation and Silangan Mindanao Mining Co., Inc. He likewise sits on the Board of of the Chamber of Mines of the Philippines and Philippine Mineral Safety and Environmental Association (PMSEA) and was Founding President of PSEM's Philex Chapter. He was recently awarded as the CEO of the year on Mining by The Asset last December 14, 2015 in Hongkong. He was also a recipient of Asia Pacific Entrepreneur Award (APEA) for the Mining Industry by Enterprise Asia in 2016. He was also recognized by the Philippine Society of Mining Engineers as the Most Outstanding Engineer in Mine Management in June 2016.

BARBARA ANNE C. MIGALLOS – 62, Filipino citizen. Ms. Migallos has been a Director of the Company and PGPI since June 26, 2013 and was re-elected on June 24, 2015. She is also the Company's Corporate Secretary since July 1998. Ms. Migallos is also Director and Corporate Secretary of PXP Energy Corporation, and Corporate Secretary of Silangan Mindanao Mining Co., Inc. and Lascogon Mining Corporation. She is the Managing Partner of the Migallos & Luna Law Offices. Ms. Migallos has also been a Director of Mabuhay Vinyl Corporation since 2000 and the Philippine Resins Industries since 2001, and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010. She is also a professorial lecturer in insurance law and securities regulation law at the De La Salle University College of Law. Ms. Migallos graduated cum laude from the University of the Philippines, with a Bachelor of Arts degree, and finished her Bachelor of Laws degree as cum laude (salutatorian) also at the University of the Philippines. She placed third in the 1979 Philippine Bar Examination.

DANNY Y. YU. – 55, Filipino citizen. Mr. Yu was appointed Senior Vice President for Finance and Chief Financial Officer ("CFO") on September 2, 2013. He is also the Company's Compliance

Officer and Corporate Governance Officer. Prior to joining the Company, Mr. Yu was CFO of Digitel Communications, Inc. (subsidiary of PLDT) and of Digitel Mobile Philippines, Inc. (Sun Cellular) from November 2011 to July 2013. He was also Group CFO of ePLDT, Inc. and subsidiaries (November 2010 to December 2011); CFO of PLDT Global Corporation (June 2004 to November 2010) and of Mabuhay Satellite Corporation (March 1999 to May 2004). Mr. Yu was also Vice President-Corporate Development of Fort Bonifacio Development Corporation (March 1997 to March 1999). A CPA, he was previously connected with Sycip, Gorres and Velayo & Co. Mr. Yu obtained a Bachelor of Science Degree in Commerce, Major in Accounting (Magna Cum Laude) from the San Carlos University in Cebu City. In 1995, he completed a Master in Management at the Asian Institute of Management. Last year, Mr. Yu was named as the 2016 ING Finex CFO of the Year.

MANUEL A. AGCAOILI – 60, Filipino citizen. Mr. Agcaoili has joined the Company as Senior Vice President and Padcal Resident Manager on January 15, 2014. He was previously with MBMI Resources, Inc. (Vancouver, Canada) as Director and President from 2004 to 2014 and Senior Philippine Representative, Narra Nickel Mining and Development Corporation, Tesoro Mining And Development Corporation, and McArthur Mining, Inc. as Director and President from 2006 to 2008, and Lafayette Philippines, Inc. as Director also from 2006 to 2008. He was also previously connected with the Philippine Associated Smelting and Refining Corporation. Mr. Agcaoili graduated with a Bachelor of Science Degree in Metallurgical Engineering at the University of the Philippines in 1980. He also completed a Master in Business Administration Program at the Ateneo De Manila University Graduate School of Business in 2002.

MICHAEL T. TOLEDO – 56, Filipino citizen. Mr. Toledo has been Senior Vice President for Corporate Affairs since February 15, 2012. He also heads the Media Bureau of the MVP group of companies. Before joining the Company, he was President and Chief Executive Officer of the Weber Shandwick Manila office since 2006, and was Director and/or Legal and Financial Consultant for various government owned and controlled corporations. Mr. Toledo was also Press Secretary and Presidential Spokesperson for former President Joseph Ejercito Estrada. Mr. Toledo finished a Bachelor of Arts Degree in Philosophy in 1981 and completed a Bachelor of Laws Degree at University of the Philippines in 1985. In 1994, he obtained a Masters of Law degree at the London School of Economics and Political Science.

REDEMPTA P. BALUDA – 61, Filipino citizen. Ms. Baluda has been Vice President for Exploration since January 2, 2009. She was formerly Assistant Vice President for Exploration from 2007 to 2009, Division Manager for Environment and Community Relations and Geology for Padcal Operations from 1998 to 2007 and Department Manager for Geology from 1996 to 1998. Ms. Baluda finished with a Bachelor of Science Degree in Geology at the University of the Philippines in 1976. She also completed the academic units under the Masters in Environment & Natural Resource Management at the University of the Philippines campus in Los Banos, Laguna in 2007.

VICTOR A. FRANCISCO – 52, Filipino citizen. Mr. Francisco has been Vice President for Environment and Community Relations since January 2, 2009. He was previously Group Manager for Corporate Environment and Community Relations in 2007, Department Manager–Corporate Environment and Community Relations in 1999 and Assistant Manager –Corporate Environmental Affairs in 1997. Mr. Francisco completed a Bachelor of Science Degree in Community Development at the University of the Philippines in 1987. He also received a Masters in Environmental Science and Management at the University of the Philippines campus in Los Banos, Laguna in 1995.

JOAN A. DE VENECIA – 36, Filipino citizen. Joan A. de Venecia is currently the Vice President and General Counsel of Philex Mining Corporation, having joined the company on August 1, 2015. Prior to this, Ms. De Venecia was the Vice President for the Public Relations and Information Services Group at Pag-IBIG Fund, a government owned and controlled corporation. Before joining public service, Ms. De Venecia was a senior associate at SyCip Salazar

Hernandez & Gatmaitan. She obtained her Master of Laws in International Legal Studies degree (Hugo Grotius scholar & Fulbright scholar, 2010) from the New York University School of Law; Bachelor of Laws degree (valedictorian, cum laude, Academic Excellence awardee, 2005) from the University of the Philippines College of Law; and BS–Legal Management (hon. mention, 2001) from the Ateneo de Manila University. She ranked 1st in the 2005 Bar Examinations. She teaches law at the UP College of Law, and is a regular Mandatory Continuing Legal Education lecturer on Investor-State Arbitration.

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

The Company is not aware of any adverse events or legal proceedings during the past five (5) years that are material to the evaluation of the ability or integrity of its directors or executive officers. Note 31 of the Notes to the Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also hereto incorporated by reference.

There are no family relationships up to the fourth civil degree of consanguinity among any of the directors and executive officers.

No director has resigned or declined to stand for re-election because of disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Item 10. Executive Compensation

There are no arrangements for additional compensation of directors other than that provided in the Company's by-laws which provides compensation to the directors, at the Board's discretion to determine and apportion as it may deem proper, an amount up to one and a half (1 ½ %) percent of the Company's net income before tax of the preceding year. Payments made in 2016, 2015 and 2014 amounted to ₱12.7 million ₱10.5 million and ₱10.6 million, respectively. In 2016, 2015 and 2014, the payments represented only 1% of the Company's net income before tax.

Effective March 2015, the Directors' per diem increased to P40,000 per board meeting attendance and P30,000 per committee participation, and are deductible from the annual directors' compensation provided under Section 7 of the Company's By-laws. Previously, the rate per attendance for both board and committee meeting was P8,000. In the event that financial results warrant the payment of the annual directors' compensation under the Company's by-laws, such directors' compensation shall be inclusive of the annual total per diem paid to directors.

There is no executive officer with contracts or with compensatory plan or arrangement having terms or compensation significantly dissimilar to the regular compensation package, or separation benefits under the Company's group retirement plan, for the managerial employees of the Company.

On June 23, 2006, the Company's stockholders approved the stock option plan of the Company which was thereafter duly approved by the Securities and Exchange Commission on March 8, 2007. This Plan and all outstanding option shares granted under this plan expired in 2016.

On June 29, 2011, the Company's stockholders approved a new stock option plan covering up to 246,334,118 shares equivalent to 5% of the Company's outstanding shares of 4,926,682,368 as of June 29, 2011. This plan was approved by the SEC on February 22, 2013, which approval was received by the Company on March 5, 2013. Note 27 of the Notes to Consolidated Financial

Statements of the Exhibits in Part V, Item 14 on the Company's Stock Option Plan is hereby incorporated for reference.

The following table shows the compensation of the directors and officers for the past three years and estimated to be paid in the ensuing year. Starting 2008, stock option exercises of the Company's non-management directors, consisting of the difference between the market and exercise prices at the time of option exercise, are considered as director's fee for purposes of the table.

SUMMARY OF COMPENSATION TABLE
(In Thousands)

DIRECTORS

Year	Directors' Fee
2017 (Estimated)	P 22,790
2016	P 11,666
2015	P 13,544
2014	P 10,461

CEO AND FOUR MOST HIGHLY COMPENSATED OFFICERS

Year	Salary	Bonus/Others
2017 (Estimated)	P 62,649	P 5,221
2016	P 67,544	P 17,553
2015	P 60,918	P 14,774
2014	P 64,499	P 21,992

The aggregate amount of compensation paid in 2016, 2015 and 2014 and estimated amount expected to be paid in 2017 as presented in the above table are for the following executive officers:

2017 (Estimate) - Eulalio B. Austin, Jr. (CEO), Danny Y. Yu, Manuel A. Agcaoili, Michael T. Toledo and Redempta P. Baluda

2016 - Eulalio B. Austin, Jr. (CEO), Danny Y. Yu, Manuel A. Agcaoili, Michael T. Toledo and Redempta P. Baluda

2015 - Eulalio B. Austin, Jr. (CEO), Danny Y. Yu, Manuel A. Agcaoili, Michael T. Toledo and Redempta P. Baluda

2014 - Eulalio B. Austin, Jr. (CEO), Danny Y. Yu, Manuel A. Agcaoili, Michael T. Toledo and Benjamin R. Garcia

	Total Officers'	
Year	Salary	Bonus/Others
2017 (Estimated)	P 74,317	P 6,193
2016	P 76,754	P 22,101
2015	P 77,938	P 29,971
2014	P 84,829	P 27,669

ALL DIRECTORS & OFFICERS AS A GROUP

Year	Total Amount
2017 (Estimated)	P 103,300
2016	P 110,521
2015	P 121,453
2014	P 122,959

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The list of registered stockholders owning five (5%) percent or more of the Company's stock as of December 31, 2016 follows:

Title of Class	Name and Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares	Percentage
Common	ASIA LINK B.V. *Prins Bernhardplein 200,1097 JB Amsterdam, The Netherlands*	First Pacific Company Limited, Inc. *See Note 1 below*	Dutch	1,023,275,990	20.71%
Common	Social Security System *c/o Loans and Investment Office, 7/F SSS Building, Diliman, Quezon City*	Social Security System *See Note 2 below*	Filipino	999,353,629	20.23%
Common	PCD Nominee Corp. *37/F, Tower I, The Enterprise Center, 6766 Ayala Averue, Makati City*	*See Note 3 below*	Filipino/Other Alien	916,462,052	18.55%
Common	Two Rivers Pacific Holdings Corp. *10/F MGO Building, Legaspi cor dela Rosa Sts., Legaspi Village, Makati City*	Two Rivers Pacific Holdings Corp. *See Note 4 below*	Filipino	738,871,510	14.96%

[1] Asia Link B.V., a wholly-owned subsidiary of First Pacific Company Limited (FPC), is the registered owner of 1,023,275,990 shares. In its SEC Form 23-A dated December 3, 2009, FPC disclosed that it beneficially owns 1,542,590,602 shares inclusive of the shares held by Asia Link B.V. FPC is represented by Messrs. Manuel V. Pangilinan, Robert C. Nicholson and Edward A. Tortorici on the Company's Board of Directors.

[2] The total shares held by the Social Security System (SSS) presented above is inclusive of 152,793,599 shares lodged with the PCD Nominee Corporation as the record owner as of December 31, 2015. Messrs. Juan B. Santos and Bienvenido E. Laguesma, and Mr. Michael N. Alimurung currently represent the SSS in the Company as members of the Board of Directors.

[3] PCD Nominee Corporation (PCD), the nominee of the Philippine Depository & Trust Corp., is the registered owner of the shares in the books of the Company's transfer agent. The beneficial owners of such shares are PCD's participants who hold the shares on their own behalf or in behalf of their clients. The 1,016,299,855 shares shown above as of December 31, 2015 are exclusive of the 152,793,599 shares owned by SSS which shares were included as part of the total holdings of SSS as indicated above. PCD is a private company organized by the major institutions actively participating in the

Philippine capital markets to implement an automated book-entry system of handling securities transaction in the Philippines. Other than SSS whose shares under the PCD which were excluded and presented separately in the table above, there are no participants under the PCD account owning more than 5% of the voting securities of the Company.

[4] Two Rivers Pacific Holdings Corporation is represented by Ms. Marilyn A. Victorio-Aquino and Mr. Eulalio B. Austin Jr. on the Company's Board of Directors.

[5] The foregoing record owners have no relationship with the Company other than being stockholders.

Security Ownership of Management

The beneficial ownership of the Company's directors and executive officers as of December 31, 2016 follows:

Title of class	***Name of Beneficial Owner***	***Nature of Ownership***	***Citizenship***	***Number of Shares***	***Percentage***
COMMON	Manuel V. Pangilinan	Direct	Filipino	4,655,000	0.09%
COMMON	Eulalio B. Austin, Jr.	Direct	Filipino	1,360,937	0.03%
COMMON	Barbara Anne C. Migallos	Direct	Filipino	203,875	0.00%
COMMON	Edward A. Tortorici	Direct	American	3,285,100	0.07%
COMMON	Robert C. Nicholson	Direct	British	1,250	0.00%
COMMON	Marilyn A. Victorio-Aquino	Direct	Filipino	500,100	0.01%
COMMON	Oscar J. Hilado	Direct	Filipino	173	0.00%
COMMON	Wilfredo A. Paras	Direct	Filipino	1	0.00%
COMMON	Danny Y. Yu	Direct	Filipino	40,000	0.00%
COMMON	Redempta P. Baluda	Direct	Filipino	20	0.00%
COMMON	Victor A. Francisco	Direct	Filipino	50,000	0.00%
COMMON	Manuel A. Agcaoili		Filipino		0.00%
COMMON	Michael T. Toledo		Filipino		0.00%
COMMON	Joan A. De Venecia		Filipino		0.00%
Directors and Officers as a Group				*10,096,456*	*0.20%*

The above directors and executive officers have no indirectly owned shares other than the above.

Voting Trust/Changes in Control

There is no voting trust holder of 5% or more of the Company's stock. There are no arrangements which may result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

The Company's significant related party transactions as of December 31, 2016, 2015 and 2014, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

a) *Advances from PMC to SMMCI and SMECI*

PMC, owning directly and indirectly 100% of SMMCI and SMECI, provides the funds to SMMCI, through SMECI since 2011 and directly thereafter, for the Silangan project's expenditures since the Company's acquisition of Anglo American's interest in the Silangan Project in 2009. These advances, which were intended to be converted into equity, amounted to ₱650.6 million, nil, and ₱6.174 billion as of December 31, 2016, 2015, and 2014, respectively. On February 10, 2015, the Company infused all outstanding advances amounting to ₱7.208 billion as equity.

b) *Advances from PMC to PXP*

PMC made cash advances to PXP Energy Corporation (PXP) for its additional working capital requirements, and for the acquisition of equity in FEP, PERC and Pitkin. As of December 31, 2016, 2015, and 2014, advances from PMC amounted to ₱2,194 billion, ₱2.194 billion, and ₱2.684 billion, respectively. On August 17, 2015, PX and PXP entered into a pledge agreement to secure the advances against certain shares of stocks owned by PXP.

c) *Receivable from Anglo*

PMC was reimbursed by Anglo American for expenses incurred by PMC on behalf of Northern Luzon Exploration & Mining Co. Inc. ("NLEMCI") except in 2015 when no reimbursement was received. In 2016 and 2014, PMC received reimbursement of ₱2.6 million and ₱235 thousand, respectively. As of December 31, 2016, 2015, and 2014, the Company's receivables from these transactions amounted to ₱217 thousand, ₱2.4 million, and ₱1.5 million, respectively.

d) *Issuance of Convertible Bonds to FPC and SSS by SMECI*

In December 2014, SMECI and PMC, as the co-issuer, issued 8-year convertible bonds with a face value of ₱7.2 billion at 1.5% coupon rate p.a. payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18,000 per share one year after the issue date. The carrying value of loans payable amounted to ₱6.593 billion, ₱6.259 billion, and ₱5.947 billion as of December 31, 2016, 2015 and 2014, respectively.

Note 14 and 24 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 on Related Party Transactions, is incorporated hereto by reference.

PART IV

CORPORATE GOVERNANCE

Item 13. Corporate Governance

As a publicly-listed Philippine corporation, PMC conforms to the corporate governance rules, requirements, and regulations of the Philippine Securities and Exchange Commission (SEC), the Philippine Stock Exchange (PSE) and all pertinent government regulatory bodies. The Company is committed to the highest standards of corporate governance and continues to benchmark its procedures against internationally-recognized and globally-accepted best practices.

To ensure constant improvement, PMC monitors developments in corporate governance to elevate the Company's corporate governance structures, processes, and practices to global standards. The Company also advocates an ethical corporate culture, guided by its core values of integrity, teamwork, respect for individuals, work excellence, corporate as well as social and environment responsibility.

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

Based on SEC Memo Circular 20 Series of 2016, publicly-listed companies shall not be required to post on their websites the Consolidated Changes in the ACGR for 2016 on or before January 10, 2017. Likewise, they shall not be required to attach the same to their 2016 Annual Report (SEC Form-17A)

PART V

EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits and Schedules

Statement of Management's Responsibility for Financial Statements
Report of Independent Auditors
Audited Consolidated Financial Statements and Notes for the year ended December 31, 2016

Schedule I :	Reconciliation of Retained Earnings Available for Dividends Declaration
Schedule II :	Schedule of Financial Soundness Indicators
Schedule III :	Chart Showing Ownership and Relationship between the Parent Company and its Subsidiaries
Schedule IV :	Schedule of All Effective Standards and Interpretations
Schedule V:	Schedules as Required by SRC Rule 68, As Amended
Schedule A.	Financial Assets
Schedule B.	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
Schedule C.	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
Schedule D.	Intangible Assets – Other Assets (Deferred Mine Exploration Costs and Other Noncurrent Assets)
Schedule E.	Long Term Debt
Schedule F.	Indebtedness to Related Parties (Long-term Loans from Related Companies)
Schedule G.	Guarantees of Securities of Other Issuers
Schedule H.	Capital Stock

Certificate on the Compilation Services for the Preparation of the Financial Statements and Notes to the Financial Statements

(b) Reports on SEC Form 17-C

There were thirty-three reports filed by the Company under SEC Form 17-C during the first quarter of 2017 and the last nine months of 2016 covered up to filing of this report, part of which follows:

Report Date	Item Reported
March 01, 2017	Press release on Philex Mining's 2016 Financial and Operating Results; Publication of 2016 Philex Mining Corporation and Subsidiaries Audited Financial Statements; Declaration of cash dividends; Amendment to Articles of Incorporation; Notice of Annual Stockholders' Meeting on June 28, 2017; Appointment of three new SSS-nominated Directors to the Philex Board of Directors
February 27, 2017	PMC Reply To DENR Show Cause Letter
February 22, 2017	Notice of Analysts' Briefing on the Results for the Full Year 2016 Financial and Operating Performance
February 2, 2017	Reply to Exchange Query re: material effects on the business, operations and financial conditions of the Company Statement of Department of Environment and Natural Resources (DENR) Secretary Gina Lopez
January 4, 2017	Resignation of Atty. Bienvenido E. Laguesma as Director
November 28, 2016	Clarification on news article "Philex Mining Corp. is seen to gain from the weakening peso in terms of higher earnings."
November 24, 2016	Resignation of Mr. Michael V. Alimurung as Director
October 27, 2016	Press Release on Results of Nine Months of 2016 Operating and Financial Performance; Resignation of Mr. Juan B. Santos as Director
October 20, 2016	Notice of Analysts' Briefing on the Results for the First Nine months ended September 30, 2016
November 26, 2015	Appointment of Mr. Michael Victor N. Alimurung as New Member of the Philex Mining Board of Directors
September 20, 2016	Change of corporate address
August 26, 2016	Formal Disclosure of Philex Mining's 2015 Annual Sustainability Report
August 4, 2016	Clarification of news article entitled "Production at Silangan mine delayed anew"

July 28, 2016	Press Release on Results of First Half 2016 Operating and Financial Performance; Declaration of Cash Dividends
July 22, 2016	Notice of Analysts' Briefing on the Results for the first half ended June 30, 2016
June 30, 2016	Results of Organizational Meeting of Board of Directors; Amendment to By Laws; Results of Annual Stockholders' Meeting
June 24, 2016	SEC Approval of the property dividends
June 9, 2016	PSE disclosure on Silangan ISO 14001:2004 Certification
May 19, 2106	Amendment to notice of annual general stockholders' meeting
May 17, 2016	Final Approval of the Amended Mining Project Feasibility Study of Silangan Mindanao Mining Co., Inc.
April 28, 2016	Financial and operating results for the First Quarter ended March 31, 2016
April 19, 2016	Notice of Analysts' Briefing on the Results for the First Quarter ended March 31, 2016
March 21, 2016	Clarification of the news article entitled "Philex defers Padcal drilling to 2018"
March 17, 2016	Philex Mining Corp. Statement of Remaining Resources and Reserves December 31, 2015

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Mandaluyong on ____________, 2017.

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

BARBARA ANNE C. MIGALLOS
Corporate Secretary

DANNY Y. YU
Chief Financial Officer and Senior Vice President for Finance

PARALUMAN M. NAVARRO
Division Manager – Corporate Finance

SUBSCRIBED AND SWORN TO before me this 22nd day of May 2017 at Mandaluyong City. Affiants exhibiting to me their Competent Evidence of Identity indicated opposite their names:

Name	Competent Evidence of Identity
Eulalio B. Austin, Jr.	Passport No. EC1070933; valid until May 12, 2019
Danny Y. Yu	Passport No. EC0261993; valid until February 9, 2019
Barbara Anne C. Migallos	Passport No. EC0356963; valid until February 19, 2019
Paraluman M. Navarro	Passport No. EC0588618; valid until March 17, 2019

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Series of 2 0 1 7

JOYCE A. SAPLA
NOTARY PUBLIC FOR AND IN THE CITY OF MANDALUYONG
APPOINTMENT NO. 0490-17 (2017-2018)
COMMISSION EXPIRES ON DECEMBER 31, 2018
2nd Floor, LaunchPad, Reliance St. cor. Sheridan St., Mandaluyong City, 1550
PTR No.2579099; 01/19/17;Mandaluyong City
Lifetime IBP No. 010874; RSM Chapter
Roll of Attorneys No. 60429

PHILEX MINING CORPORATION

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION
Roxas Boulevard, Pasay City

The management of Philex Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016, 2015 and 2014, in accordance with the prescribed financial reporting framework indicated therein, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

MANUEL V. PANGILINAN
Chairman of the Board

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

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

Subscribed and sworn to before me this MAY 1 5 2017 at MANDALUYONG CITY, affiants exhibiting to me their respective Social Security ID No. indicated opposite their names:

Name	**SSS No.**
Manuel V. Pangilinan	03-1881608-3
Eulalio B. Austin, Jr.	01-0618335-5
Danny Y. Yu	06-0896968-2

ATTY. EDUARDO P. BAROT
NOTARY PUBLIC
UNTIL DECEMBER 31, 2017
APPT. NO 0427-16, JAN. 25, 2016
ROLL NO. [illegible]
IBP LR NO. [illegible] RSM
PTR NO. [illegible] 1-4-16, MAND CITY
MCLE NO. 0013050

Doc. No. 219
Page No. 44
Book No. 7
Series of 2017

Philex Mining Corporation and Subsidiaries

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

and

Independent Auditor's Report

SGV
Building a better
working world

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, 2016 and 2015, 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, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (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 judgement, 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 Mine Exploration Costs

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

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

Loss of control over PXP Energy Corporation

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

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

Estimation of Ore Reserves and Resources

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

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the 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, 2016 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 Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-3 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908781, January 3, 2017, Makati City

February 28, 2017

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands, Except Par Value Per Share)

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

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings per Share)

	Years Ended December 31		
	2016	2015	2014
REVENUE			
Gold	**₱6,209,006**	₱5,669,860	₱5,889,107
Copper	**3,976,184**	3,449,799	4,615,092
Silver and others	**86,475**	69,723	82,464
	10,271,665	9,189,382	10,586,663
Less smelting charges	**893,278**	836,597	849,837
	9,378,387	8,352,785	9,736,826
COSTS AND EXPENSES (Note 16)			
Production costs (including depletion and depreciation)	**6,074,862**	6,160,352	6,808,252
General and administrative expenses	**373,123**	414,255	674,395
Excise taxes and royalties	**452,415**	436,856	506,654
	6,900,400	7,011,463	7,989,301
OTHER INCOME (CHARGES)			
Foreign exchange losses - net (Note 21)	**(145,213)**	(158,697)	(56,484)
Share in net losses of associates (Note 12)	**(44,572)**	(13,200)	–
Interest income (Note 6)	**2,081**	4,085	5,182
Gain on disposal of AFS financial assets (Note 11)	**–**	107,088	–
Interest expense (Note 14)	**–**	–	(349,447)
Gain on sale of property, plant and equipment (Note 10)	**–**	–	764,685
Others - net (Notes 1, 13, 21 and 31)	**(14,439)**	5,642	(323,836)
	(202,143)	(55,082)	40,100
INCOME BEFORE PROVISIONS FOR IMPAIRMENT LOSSES	**2,275,844**	1,286,240	1,787,625
PROVISIONS FOR IMPAIRMENT LOSSES - NET (Notes 12 and 13)	**(2,504,850)**	–	(231,401)
INCOME (LOSS) BEFORE INCOME TAX	**(229,006)**	1,286,240	1,556,224
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)			
Current	**586,483**	245,550	421,108
Deferred	**110,742**	121,030	(78,626)
	697,225	366,580	342,482
	(926,231)	919,660	1,213,742
INCOME (LOSS) ON DECONSOLIDATED SUBSIDIARY GROUP, NET OF TAX (Note 33)			
Loss from deconsolidated subsidiary group	**(29,102)**	(144,025)	(510,897)
Gain from loss of control over a subsidiary group	**2,522,704**	–	–
	2,493,602	(144,025)	(510,897)
NET INCOME	**₱1,567,371**	₱775,635	₱702,845
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**₱1,589,045**	₱896,181	₱1,005,552
Non-controlling interests (Note 26)	**(21,674)**	(120,546)	(302,707)
	₱1,567,371	₱775,635	₱702,845
Basic Earnings Per Share (Note 28)	**₱0.322**	₱0.181	₱0.204
Diluted Earnings Per Share (Note 28)	**₱0.322**	₱0.181	₱0.204

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Thousands)

	Equity Attributable to Equity Holders of the Parent Company											
	Capital Stock (Note 26)	**Additional Paid-In Capital**	**Retained Earnings** (Note 26) **Unappropriated**	**Appropriated**	**Net Unrealized Gain (Loss) on AFS Financial Assets** (Notes 11)	**Equity Conversion Option** (Note 14)	**Cumulative Translation Adjustments**	**Net Revaluation Surplus** (Note 4)	**Effect of Transactions with Non-controlling Interests** (Note 2)	**Subtotal**	**Non-controlling Interests** (Note 26)	**Total**
BALANCES AT DECEMBER 31, 2013	₱4,936,996	₱1,058,497	₱4,128,826	₱10,000,000	₱4,689	₱–	₱25,116	₱1,611,397	₱45,099	₱21,810,620	₱4,106,634	₱25,917,254
Net income (loss)	–	–	1,005,552	–	–	–	–	–	–	1,005,552	(302,707)	702,845
Other comprehensive income (loss):												
Items to be reclassified to profit or loss in subsequent periods:												
Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)	–	–	–	–	(68,699)	–	–	–	–	(68,699)	–	(68,699)
Gain on translation of foreign subsidiaries	–	–	–	–	–	–	4,488	–	–	4,488	3,167	7,655
Items not to be reclassified to profit or loss in subsequent periods:												
Remeasurements of pension obligation, net of tax (Note 19)	–	–	(27,283)	–	–	–	–	–	–	(27,283)	(755)	(28,038)
Gain on fair value of derivative	–	–	–	–	–	–	7,766	–	–	7,766	–	7,766
Total comprehensive income	–	–	978,269	–	(68,699)	–	12,254	–	–	921,824	(300,295)	621,529
Increase in paid-in capital due to exercise of stock option (Note 27)	3,403	33,322	–	–	–	–	–	–	–	36,725	–	36,725
Increase in additional paid-in capital due to stock option plan (Note 27)	–	25,808	–	–	–	–	–	–	–	25,808	–	25,808
Sale of PXP shares	–	–	–	–	–	–	–	–	259	259	193	452
Share buyback transaction (Note 2)	–	–	–	–	–	–	–	–	(26,274)	(26,274)	(364,129)	(390,403)
Equity conversion options (Note 14)	–	–	–	–	–	1,225,518	–	–	–	1,225,518	–	1,225,518
Declaration of cash dividends (Note 26)	–	–	(395,063)	–	–	–	–	–	–	(395,063)	–	(395,063)
BALANCES AT DECEMBER 31, 2014	₱4,940,399	₱1,117,627	₱4,712,032	₱10,000,000	(₱64,010)	₱1,225,518	₱37,370	₱1,611,397	₱19,084	₱23,599,417	₱3,442,403	₱27,041,820

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

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

See accompanying Notes to Consolidated Financial Statements.

PHILEX MINING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information

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

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

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

The Group’s income is derived mainly from the Padcal Mine. Income from petroleum and coal and other sources are relatively insignificant.

The Parent Company’s registered business address is 2nd floor LaunchPad, Reliance cor Sheridan Streets, Mandaluyong City, Metro Manila.

Status of Business Operations - Mining and Metals

Padcal Mine Operations

The Parent Company has the Padcal Mine as its main source of revenue from its metals business segment. The Padcal Mine is on its 60th year of operation producing copper concentrates containing gold, copper and silver.

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

This followed the Parent Company's voluntary suspension of Padcal Mine operations after the Tailings Storage Facility (TSF) No. 3 incident in the mine arising from unabated and historically unprecedented heavy rains during the last two weeks of July 2012 from the two typhoons that brought unusual and heavy accumulation of rain water in TSF No. 3. The sealing of the underground tunnel in November 2012 allowed Padcal Mine to start conducting the necessary remediation and rehabilitation program (which included the rehabilitation of TSF No. 3 and the construction of an open spillway in place of the existing penstock system for water management, and the undertaking of remediation and rehabilitation measures in the areas affected by the tailings spill) relative to the resumption of its operations.

On February 18, 2013, the Parent Company paid ₱1,034,358 Mine Waste and Tailings Fee to MGB in connection with the TSF No. 3 as provided for under Department Administrative Order (DAO) No. 2010-21 implementing the provisions of the Philippine Mining Act of 1995. In an Order dated February 25, 2013, the Pollution Adjudication Board (PAB) lifted its Cease and Desist Order dated November 28, 2012 effective for four months and imposed compliance on certain reportorial matters. On July 5, 2013, the MGB advised the Parent Company that it was authorized to continue implementing such remediation measures in the meantime that the former was thoroughly reviewing the pertinent technical details, subject to the Mineral Industry Coordinating Council's (MICC) guidance. On the same date, the PAB issued an Order extending the temporary lifting of the issued Cease and Desist Order issued last November 28, 2013 to allow the Parent Company to implement its Pollution Control Program.

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

PGPI
PGPI operated the Bulawan mine in Negros Occidental from 1996-2002, when it was decommissioned due to unfavorable metal prices. The Bulawan mine currently has remaining resources of 23.9 million tonnes, including that of the Vista Alegre area. Exploration projects in the Vista Alegre area includes the Nagtalay project and the Laburan/Skid 9 project, which have completed the geological modeling and preliminary resource estimation. PGPI is now looking for possible joint venture partners to explore further and operate the Bulawan and Vista Alegre projects. PGPI currently holds 98.9% of LMC.

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

exploration of which is being undertaken by the Parent Company by virtue of a Farm-in Agreement with Kalayaan Gold & Copper Resources, Inc., a subsidiary of Manila Mining Corporation (MMC) (see Note 29).

Status of Business Operations - Energy and Hydrocarbon

PXP and its subsidiaries

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

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

	Participating Interest		
Service Contract	Pitkin	PXP	FEP
SC 6 (Cadlao Block)	–	1.65%	–
SC 6A (Octon Block)	–	5.56%[1]	5.56%[1]
SC 6B (Bonita Block)	–	–	7.03%
SC 14 (Tara PA)	–	–	10.00%
SC 14 Block A (Nido)	–	–	8.47%
SC 14 Block B (Matinloc)	–	–	12.41%
SC 14 Block B-1 (North Matinloc)	–	–	19.46%
SC 14 Block C (Galoc)	–	–	2.28%
SC 14 Block C-2 (West Linapacan) [1]	–	–	9.10%
SC 14 Block D (Retention Block)	–	–	8.17%
SC 40 (North Cebu Block)	–	–	100.00%
SC 53 (Mindoro)	–	–	–
SC 72 (Reed Bank)	–	–	70.00%
SC 74 (Linapacan) [2]	–	70.00%	–
SC 75 Area 4 (Northwest Palawan)	–	50.00%	–
Peru Block Z-38	25.00%	–	–

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

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

FEP and its Subsidiaries

FEP's principal asset is a 70% interest in Service Contract (SC) 72 which covers an area of 8,800 square kilometers in the West Philippine Sea. FEP is scheduled to accomplish its second sub-phase of exploration activities from August 2011 to August 2013. However, due to maritime disputes between the Philippine and Chinese governments, exploration activities in the area are temporarily suspended as at December 31, 2015.

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

PPP

Pitkin is an international upstream oil and gas group, engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products with operations in the Philippines and Peru. Pitkin's principal asset is 25% interest in Peru Block Z-38.

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

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

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

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

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

<u>Recovery of Deferred Mine and Oil Exploration Costs</u>
The Group's ability to realize its deferred mine and oil exploration costs with carrying value amounting to ₱23,072,040 and ₱28,963,295 as at December 31, 2016 and 2015, respectively (see Note 13), depends on the success of exploration and development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, and the success of converting the Group's EPs or EPAs or APSAs to new mineral agreements, which cannot be determined at this time. The consolidated financial statements do not include any adjustment that might result from these uncertainties.

<u>Authorization for Issuance of the Consolidated Financial Statements</u>
The consolidated financial statements are authorized for issuance by the Parent Company's Board of Directors (BOD) on February 28, 2017.

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2. Summary of Significant Accounting Policies and Financial Reporting Practices

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

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

Changes in Accounting Policies and Disclosures
The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

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

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

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

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

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

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

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

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

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

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

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

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

  These amendments do not have any impact to the Group.

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

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

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

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

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

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

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

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

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

- Annual Improvements to PFRSs 2012 - 2014 Cycle

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

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

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

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2017

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2018

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

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

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

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

- PFRS 9, *Financial Instruments*

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

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

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

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

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

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

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

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

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

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

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

Deferred effectivity

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

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

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

Summary of Significant Accounting Policies

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31, 2016 and 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss

- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

Subsidiaries	Nature and Principal Place of Business
PGPI	Incorporated in the Philippines on August 9, 1996 as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. In 2015, PGPI was acquired and 100% owned by the Parent Company. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both on care and maintenance status since 2002. PGPI currently owns 98.9% of the outstanding shares of LMC.
LMC	Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, particularly the Lascogon Project in Surigao.
SMECI	Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources; currently the holding company of SMMCI.
SMMCI	Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.
PXP*	Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, oil, and other sources of energy. PXP's shares are listed in the Philippine Stock Exchange.
FEP*	Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines. FEP shares were delisted in the Alternative Investment Market of the London Stock Exchange in 2015.
FEC*	Incorporated on February 8, 1982 under the laws of Alberta, Canada primarily to engage in the business of exploration and development of oil and gas and other mineral related opportunities.
BEMC*	Incorporated in the Philippines on July 19, 2005 to engage in exploration, development and utilization of energy-related resources, particularly the Brixton coal operations in Diplahan, Zamboanga Sibugay. On September 1, 2013, BEMC announced the closure of its coal mine in Diplahan, Zamboanga Sibugay. On January 6, 2014, BEMC has finalized the agreement for the assignment of COC 130 to Grace Coal Mining and Development Inc. (GCMDI). On May 12, 2015, the DOE has approved the assignment completing the transfer of COC 130 from BEMC to GCMDI.
PPP*	Incorporated and registered in United Kingdom (UK) of Great Britain and Northern Ireland on April 6, 2005 and is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production of hydrocarbon products. PPP registered its Philippine Branch, Pitkin Petroleum (Philippines) Plc, on March 19, 2008 and is presently engaged in the exploration of oil and gas assets in the Philippine territories.
Fidelity Stock Transfers, Inc. (FSTI)	Incorporated in the Philippines on December 28, 1981 to act as a stock transfer agent and/or registrar of client corporations. The company is currently in dormant status.

Subsidiaries	Nature and Principal Place of Business
Philex Land, Inc. (PLI)	Incorporated in the Philippines on February 26, 2007 to own, use, develop, subdivide, sell, exchange, lease, and hold for investment or otherwise, real estate of all kinds including buildings, houses, apartments and other structures. The company is currently in dormant status.
Philex Insurance Agency, Inc. (PIAI)	Incorporated in the Philippines on May 20, 1987 to act as a general agent for and in behalf of any domestic and/or foreign non-life insurance company or companies authorized to do business in the Philippines. PIAI is currently in dormant status.
Philex Gold Holdings, Inc. (PGHI)	Incorporated in the Philippines on August 28, 1996 to serve as an intermediary holding company through which its subsidiaries and the Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owned 100% of the outstanding shares of PGPI effective April 27, 2010. In 2015, PGHI sold 100% of its ownership in PGPI to the Parent Company.
Philex Gold Inc. (PGI)**	Incorporated in Canada on June 14, 1996 and owned 100% of the outstanding shares of PGPI until April 26, 2010.

**Deconsolidated subsidiaries on July 15, 2016. See Notes 26 and 33.*
***Dissolution took place in January 2016.*

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

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

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

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

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

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

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

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

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

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

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

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

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

In relation to its interests in joint operations, the Group recognizes its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Business Combination and Goodwill

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

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

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

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

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

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

Foreign Currency Translation of Foreign Operations

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

For purposes of consolidation, the financial statements of FEL and Pitkin, which are expressed in United States (US) dollar amounts, and the financial statements of FEC, which are expressed in Canadian (Cdn) dollar amounts, have been translated to Peso amounts as follows:

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

Cash and Cash Equivalents

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

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial recognition and classification of financial instruments

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

As at December 31, 2016 and 2015, the Group's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and other financial liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as "Net unrealized gain (loss) on AFS financial assets."

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

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

Other Financial Liabilities
Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

As at December 31, 2016 and 2015, included in other financial liabilities are the Group's accounts payable and accrued liabilities, dividends payable, and loans and bonds payable.

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

Impairment of Financial Assets
The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

AFS financial assets
For AFS financial assets, the Group assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as 20% or more and “prolonged” as greater than 12 months for quoted equity securities. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income is removed from equity and recognized in the consolidated statement of income.

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

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Noncurrent Non-financial Assets
The Group's noncurrent non-financial assets include property, plant and equipment, deferred mine exploration costs, and other noncurrent assets. The Group assesses at each reporting date whether there is indication that a noncurrent non-financial asset or CGU may be impaired. If any indication exists, or when an annual impairment testing for such items is required, the Group makes an estimate of their recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use, and is determined for an individual item, unless such item does not generate cash inflows that are largely independent of those from other assets or group of assets or CGUs. When the carrying amount exceeds its recoverable amount, such item is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows to be generated by such items are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. Impairment losses of continuing operations are recognized in the consolidated statement of income in the expense categories consistent with the function of the impaired asset.

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

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

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

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

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

Capital Stock
Ordinary or common shares are classified as equity. The proceeds from the increase of ordinary or common shares are presented in equity as capital stock to the extent of the par value issued shares and any excess of the proceeds over the par value or shares issued less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as additional paid-in capital.

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

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

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

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

Revenue Recognition
Revenue is recognized upon delivery to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

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

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

The cost of equity-settled transactions with employees is measured by reference to their fair value at the date they are granted, determined using the acceptable valuation techniques. Further details are given in Note 27.

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

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

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

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

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

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

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

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

- When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) [excess MCIT], and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered.

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

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

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

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

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

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

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

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

Operating Segment
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. For management purposes, the Group is organized into business units based on their products and services, and has three (3) reportable operating segments. Financial information on business segments is presented in Note 5. The Group operates in one geographical segment, being the location of its current mining activities; therefore, geographical segment information is no longer presented.

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

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

Accounting assumptions, estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

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

Recognition of Deferred Income Tax Assets
The Group reviews the carrying amounts at each end of reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The sufficiency of future taxable profits requires the use of assumptions, judgments and estimates, including future prices of metals, volume of inventories produced and, sold and amount of costs and expenses that are subjectively determined like depreciation. As at December 31, 2016 and 2015, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱322,023 and ₱306,335, respectively (see Note 25). As at December 31, 2016 and 2015, no deferred income tax assets were recognized on the following deductible temporary differences amounting to about ₱2,730,995 and ₱2,655,280, respectively (see Note 25), because management believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

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

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

The Group determines the classification at initial recognition and re-evaluates this classification, where allowed and appropriate, at every reporting date (see Note 20).

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

Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:
- The structure of the joint arrangement - whether it is structured through a separate vehicle

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

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

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

Accounting Estimates and Assumptions

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

Measurement of Mine Products Revenue

Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine products revenue, gross of smelting charges, amounted to ₱10,271,665, ₱9,189,382 and ₱10,586,663 in 2016, 2015 and 2014, respectively.

Impairment of Loans and Receivables

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

The Group did not assess its loans and receivables for collective impairment due to few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. The amount of loss is recognized in the consolidated statements of income with a corresponding reduction in the carrying value of the loans and receivables through an allowance account. Total carrying value of loans and receivables amounted to ₱3,123,522 and ₱1,769,486 as at December 31, 2016 and 2015, respectively (see Note 21). Allowance for impairment on these financial assets amounted to ₱1,747, as at December 31, 2016 and 2015 (see Note 7).

Valuation of AFS Financial Assets

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

Any change in fair value of its AFS financial assets is recognized in the consolidated statements of comprehensive income. As at December 31, 2016 and 2015, the Group has net cumulative unrealized loss on its AFS financial assets amounting to ₱3,094 and ₱1,022, respectively (see Note 11). As at December 31, 2016 and 2015, the carrying value of the Group's AFS financial assets amounted to ₱104,615 and ₱106,687, respectively (see Note 11).

Impairment of AFS Financial Assets
The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. As at December 31, 2016 and 2015, the carrying value of the Group's AFS financial assets amounted to ₱104,615 and ₱106,687, respectively (see Note 11). No impairment loss was recognized in 2016, 2015 and 2014.

Impairment of Goodwill
The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2016, 2015 and 2014, whereas the carrying value of goodwill as at December 31, 2016 and 2015 amounted to nil and ₱1,238,583, respectively (see Notes 1, 4 and 33).

Measurement of NRV of Mine Products Inventory
The NRV of mine products inventory is the estimated sales value less costs to sell, which can be derived from such inventory based on its weight and assay for metal content, and the LME and LBMA for prices, which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as at December 31, 2016 and 2015 amounted to ₱1,059,280 and ₱543,228, respectively, which were also reflected as part of mine products revenue for the years then ended (see Note 8).

Write-down of Carrying Values of Coal and Materials and Supplies Inventories
The Group carries coal and material and supplies inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence or other causes. When it is evident that the NRV is lower than its cost based on physical appearance and condition of inventories, an allowance for inventory obsolescence is provided. Related allowance for inventory obsolescence on materials and supplies amounted to ₱100,126 and ₱116,185 as at December 31, 2016 and 2015, respectively. The carrying value of materials and supplies inventories amounted to ₱1,259,570 and ₱1,334,272 as at December 31, 2016 and 2015, respectively (see Note 8). Additional provision for

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

Related allowance for decline in coal inventory and materials and supplies derecognized during the year amounted to ₱220,083 and ₱46,059, respectively. The carrying amount of coal inventory amounted to nil as at December 31, 2016 and 2015 (see Note 8).

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

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

As at December 31, 2016 and 2015, net book value of property, plant and equipment amounted to ₱6,735,578 and ₱6,828,052 respectively (see Note 10).

Estimation of Recoverable Reserves
Recoverable reserves were determined using various factors or parameters such as market price of metals and global economy. These are economically mineable reserves based on the current market condition and concentration of mineral resource. The estimated recoverable reserves are used in the calculation of depreciation, amortization and testing for impairment, the assessment of life of the mine, and for forecasting the timing of the payment of mine rehabilitation costs. On June 30, 2011, the Padcal Mine life had been extended from 2017 to 2020. On March 20, 2015, the Padcal Mine life has been extended once again from 2020 to 2022. The extension of mine life is due to the additional reserves from the mineral resources delineated below the current mining level.

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

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

Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. If the net rehabilitation provisions of revised mine assets for mature mines exceed the carrying value, that portion of the increase is charged directly to the consolidated statements of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income. Provision for mine rehabilitation costs amounted to ₱129,234 and ₱134,898 as at December 31, 2016 and 2015, respectively (see Note 10).

Impairment of Non-financial Assets
The Group's non-financial assets include input tax recoverable, property, plant and equipment, deferred mine and oil exploration costs, other noncurrent asset, net pension asset, and investment in associates. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses amounting to ₱2,504,850, nil and ₱231,401 were recognized in 2016, 2015 and 2014, respectively. As at December 31, 2016 and 2015, the carrying value of non-financial assets amounted to ₱33,017,307 and ₱38,270,648, respectively (see Notes 9, 10, 12, 13 and 19).

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

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in Note 20.

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

Provisions for Losses
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each end of the reporting

period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information (see Note 31).

Estimation of Net Pension Obligations (Plan Assets) and Costs
The Group's net retirement benefits costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Parent Company's net excess retirement plan asset amounted to ₱328,118 and ₱285,835 as at December 31, 2016 and 2015, respectively (see Note 19). SMMCI's retirement liability amounted to ₱15,548 and ₱21,968 as at December 31, 2016 and 2015, respectively (see Note 19).

4. Business Combinations

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

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

Acquisition of PPP
On April 5, 2013, PXP increased its stake in PPP from 18.46% to 50.28% through acquisition of additional 46.4 million shares at US$0.75 per share which resulted to PXP obtaining control over PPP. The goodwill of ₱1,534,168 arising from the acquisition pertains to the revenue potential the Group expects from PPP Peru Block Z-38, SC 14 Block C-2 (West Linapacan) and other Philippine blocks.

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

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

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

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

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

The aggregate consideration follows:

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

The Group measured NCI using the fair value method.

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

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

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

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

Acquisition of FEP
On July 3, 2008, PXP acquired control over FEP through a transaction which qualified as a step acquisition. A revaluation surplus amounting to ₱39,012 was recognized which pertains to the adjustment to the fair values of the net assets of FEP relating to the previously held interest of the Parent Company in FEP through FEC.

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

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

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

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

5. Segment Information

The Group is organized into business units on their products and activities and has two reportable business segments: the mining and metals segment, and the energy and hydrocarbon segment until July 15, 2016 when the deconsolidation of the energy and hydrocarbon took place. The operating businesses are organized and managed separately through the Parent Company and its subsidiaries according to the nature of the products provided, with each segment representing a strategic business unit that offers different products to different markets.

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

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

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

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

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

	December 31, 2016				
	Metals	**Energy and Hydrocarbon***	**Unallocated Corporate Balances**	**Eliminations**	**Total**
Revenue					
External customers	**₱9,378,387**	**₱–**	**₱–**	**₱–**	**₱9,378,387**
Consolidated revenue	**₱9,378,387**	**₱–**	**₱–**	**₱–**	**₱9,378,387**
Results					
EBITDA	**₱3,429,066**	**(₱30,840)**	**₱979**	**₱455,020**	**₱3,854,225**
Interest income – net	**1,997**	**1,899**	**84**	**–**	**3,980**
Income tax benefit	**(697,224)**	**436**	**–**	**–**	**(696,788)**
Depreciation and depletion	**(1,481,405)**	**–**	**–**	**–**	**(1,481,405)**
Non-recurring items	**(112,044)**	**(597)**	**–**	**–**	**(112,641)**
Consolidated net income (loss)	**₱1,140,390**	**(₱29,102)**	**₱1,063**	**₱455,020**	**₱1,567,371**
Core net income (loss)	**₱1,665,195**	**(₱7,567)**	**(₱224)**	**₱–**	**₱1,657,404**
Consolidated total assets	**₱41,860,372**	**₱–**	**₱9,129**	**(₱3,207,672)**	**₱38,661,829**
Consolidated total liabilities	**₱13,735,121**	**₱–**	**₱443**	**₱1,527,005**	**₱15,262,569**
Other Segment Information:					
Capital expenditures and other non-current assets	**₱2,091,610**	**₱–**	**₱–**	**₱–**	**₱2,091,610**

**January 1 to July 15, 2016.*

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

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

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

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

Core net income per share is computed as follows:

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

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

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

6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

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

Cash with banks and short-term deposits earn interest at bank deposit rates. Short-term deposits are made for varying periods, usually of up to three months depending on the cash requirements of the Group. Interest income arising from cash with banks and short-term deposits amounted to ₱2,081, ₱4,085 and in ₱5,182 in 2016, 2015 and 2014, respectively.

7. Accounts Receivable

Accounts receivable consist of:

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

The Parent Company's trade receivables arise from shipments of copper concentrates which are initially paid based on 90% of their provisional value, currently within one week from shipment date. The 10% final balance does not bear any interest until final settlement, which usually takes around three months from shipment date for Pan Pacific or after a month for LD Metals. The Group has US dollar (US$) accounts receivable amounting to US$7,838 and US$13,194 as at December 31, 2016 and 2015, respectively (see Note 23).

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

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

	2016	2015
January 1		
Others	**₱1,747**	₱2,613
Reversals during the year		
Others	**–**	(866)
December 31	**₱1,747**	₱1,747

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

8. Inventories

Inventories consist of:

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

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

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

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

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

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

9. Other Current Assets

Other current assets consist of:

	2016	2015
Input tax recoverable - net	**₱1,354,958**	₱1,366,311
Prepaid expenses and others	**82,794**	112,437
	₱1,437,752	₱1,478,748

Allowance for impairment loss on input tax amounted to ₱56,474 and ₱99,433 as at December 31, 2016 and 2015.

10. Property, Plant and Equipment

Property, plant and equipment consist of:

	December 31, 2016						
	Mine, Mining and Oil and Gas Properties	**Land, Buildings and Improvements***	**Machinery And Equipment**	**Surface Structures**	**Construction in Progress**	**Non-operating Property and Equipment at Bulawan Mine**	**Total**
Cost:							
January 1	**₱12,637,305**	**₱459,279**	**₱8,701,320**	**₱188,675**	**₱343,693**	**₱2,088,913**	**₱24,419,185**
Additions	**1,224,273**	**161,457**	**516,371**	**2,155**	**90,013**	**–**	**1,994,269**
Disposals	**–**	**(4,715)**	**(609,301)**	**–**	**–**	**–**	**(614,016)**
Reclassifications	**–**	**140,720**	**–**	**–**	**(140,720)**	**–**	**–**
Effect of deconsolidation due to loss of control (Note 33)	**(814,518)**	**–**	**(33,181)**	**–**	**–**	**–**	**(847,699)**
December 31	**13,047,060**	**756,741**	**8,575,209**	**190,830**	**292,986**	**2,088,913**	**24,951,739**
Accumulated Depletion and Depreciation:							
January 1	**9,196,340**	**241,071**	**5,917,698**	**147,111**	**–**	**2,088,913**	**17,591,133**
Depletion and depreciation for the year (Note 18)	**760,263**	**41,949**	**900,170**	**11,136**	**–**	**–**	**1,713,518**
Disposals	**–**	**(4,715)**	**(575,581)**	**–**	**–**	**–**	**(580,296)**
Effect of deconsolidation due to loss of control (Note 33)	**(476,994)**	**–**	**(31,200)**	**–**	**–**	**–**	**(508,194)**
December 31	**9,479,609**	**278,305**	**6,211,087**	**158,247**	**–**	**2,088,913**	**18,216,161**
Net Book Values	**₱3,567,451**	**₱478,436**	**₱2,364,122**	**₱32,583**	**₱292,986**	**₱–**	**₱6,735,578**

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

	December 31, 2015						
	Mine, Mining and Oil and Gas Properties	Land, Buildings and Improvements*	Machinery And Equipment	Surface Structures	Construction in Progress	Non-operating Property and Equipment at Bulawan Mine	Total
Cost:							
January 1	₱11,706,548	₱413,492	₱8,403,607	₱186,358	₱502,187	₱2,085,073	₱23,297,265
Additions	481,968	87,857	655,715	2,317	258,472	3,840	1,490,169
Disposals	–	(42,070)	(361,854)	–	–	–	(403,924)
Reclassifications	416,966	–	–	–	(416,966)	–	–
Effect of CTA	31,823	–	3,852	–	–	–	35,675
December 31	12,637,305	459,279	8,701,320	188,675	343,693	2,088,913	24,419,185
Accumulated Depletion and Depreciation:							
January 1	8,316,034	254,055	5,369,828	133,363	–	2,085,073	16,158,353
Depletion and depreciation for the year (Note 18)	865,214	29,086	906,400	13,748	–	3,840	1,818,288
Disposals	–	(42,070)	(361,854)	–	–	–	(403,924)
Effect of CTA	15,092	–	3,324	–	–	–	18,416
December 31	9,196,340	241,071	5,917,698	147,111	–	2,088,913	17,591,133
Net Book Values	₱3,440,965	₱218,208	₱2,783,622	₱41,564	₱343,693	₱–	₱6,828,052

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

Mine and mining properties as at December 31, 2016 and 2015 include mine development costs of the 908 Meter Level, 782 Meter Level and 798 Meter Level project amounting to ₱7,213,316 and ₱6,692,789, respectively. In 2011, the estimated mine life of the Parent Company's Padcal Mine was extended until 2020, or an additional three years from the original estimated mine life of until 2017. In 2015, with the discovery of additional resources, the estimated mine life of the Padcal Mine was again extended for an additional two years until 2022. Correspondingly, the extensions in mine life were considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost of machinery and equipment used in exploration projects amounting to ₱232,061, ₱254,032 and ₱321,336 in 2016, 2015 and 2014, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for PMC, SMMCI and PGPI.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine from 2023 up to 2030, discounted at a rate of 2.79%. In 2015, the Parent Company performed a reassessment of its provision for mine rehabilitation costs which increased the liability and related asset by ₱100,459. Accretion of interest totaled ₱3,510 and ₱3,414 in 2016 and 2015, respectively.

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

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

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

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

AFS Financial Assets

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

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

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

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

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

As at December 31, 2016 and 2015, the cumulative change in value of AFS financial assets amounted to a decrease of ₱3,094 and ₱1,022, respectively. These changes in fair values in the same amounts have been recognized and shown as "Net unrealized gain (loss) on AFS financial assets" account in the equity section of the consolidated statements of financial position and are also shown in the consolidated statements of comprehensive income.

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

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

12. **Investment in Associates**

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

Lepanto

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

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

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

The following table summarizes the financial information of Lepanto:

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

	2016*	2015*
Revenue	**₱1,121,195**	₱907,999
Cost and expenses	**(1,658,721)**	(1,391,951)
Finance costs	**(16,010)**	(18,327)
Other income (expenses)	**59,295**	(8,321)
Loss before income tax	**(494,241)**	(510,600)
Income tax expense	**(6,309)**	(328)
Loss for the year	**₱500,550**	₱510,928
Total comprehensive loss	**₱500,550**	₱510,928
Group's share of loss for the year (annualized)	**₱33,370**	₱13,200

**Balances are based on unaudited September 30, 2016 interim financial statements submitted by Lepanto to PSE.*

PXP

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

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

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

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

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

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

Deferred exploration costs and other noncurrent assets consist of:

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

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

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

Deferred Mine and Oil Exploration Costs
Deferred mine and oil exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas that can be produced in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable. Allowances recognized are included under "Provision for impairment on investment in an associate and deferred exploration costs" in the consolidated statements of income amounted to ₱2,284,557, ₱429,848 and ₱569,944 in 2016, 2015 and 2014, respectively.

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

Other Noncurrent Assets
Bank accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (RA) No. 7942, otherwise known as "The Philippine Mining Act of 1995." The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad Mines, and for research in the social, technical and preventive aspects

of their rehabilitation. As at December 31, 2016 and 2015, the Parent Company's MRF amounted to ₱5,469 and ₱5,361, while PGPI's MRF amounted to ₱6,870 and ₱6,825, respectively.

14. Loans and Bonds Payable

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

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

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

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

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

On July 1, 2014, the Parent Company obtained unsecured short term loan from BDO amounting to US$10,000. The loan carries 2.5% interest per annum and will mature on September 29, 2014. The loan was renewed several times with the Parent Company renegotiating on June 17, 2015 for a lower interest rate per annum of 2.3%. The loan was rolled several times with the latest renewal setting the maturity date on March 11, 2016. Partial payments amounting to US$4,000 were made in 2015 which reduced the outstanding balance to US$6,000. Partial payment was made during February 2016 amounting to US$1,000 which reduced the outstanding balance to US$5,000. After several maturity and renewals, the latest maturity date of the loan is set at March 6, 2017.

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

PNB Loans

On November 6, 2013, the Parent Company obtained unsecured short-term loans from PNB amounting to US$20,000. The loan carries 2.5% interest per annum and will mature on February 4, 2014. The loan was renewed several times upon maturity for an additional 90 days or until May 5, 2014 under the same terms. Subsequent renewal followed with last renewal maturing on April 15, 2015. The loan was fully paid in 2015.

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

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

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

BPI Loans

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

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

On May 12, 2014, PMC obtained an unsecured short-term loan from BPI amounting to US$10,000. The loan carries 2.5% interest per annum and will mature on June 1, 2014. After several maturity and renewals, the loan was fully settled on November 25, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

15. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

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

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

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

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

16. **Costs and Expenses**

Costs and expenses include the following:

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

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

17. **Personnel Cost**

Details of personnel costs are as follows:

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

(Forward)

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

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

18. Depletion and Depreciation

Details of depletion and depreciation expense are as follows:

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

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

19. Retirement Benefits

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

Parent Company Retirement Fund

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

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

2016

	Net benefit cost in charged to consolidated statements of income					Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest	Actuarial Changes arising from changes in Experience Adjustments	Actuarial changes arising from changes in financial Assumptions	Subtotal	Contribution by employer	December 31, 2016
Present value of defined benefit obligation	₱878,093	₱65,563	₱35,046	₱–	₱978,702	(₱40,352)	₱–	(₱37,392)	(₱28,005)	(₱65,397)	₱–	₱872,953
Fair value of plan assets	(1,163,928)	–	(48,709)	–	(1,212,637)	40,352	(28,786)	–	–	(28,786)	–	(1,201,071)
	(₱285,835)				(₱233,935)	₱–	(₱28,786)	(₱37,392)	(₱28,005)	(₱94,183)	₱–	(₱328,118)

2015

	Net benefit cost in charged to consolidated statements of income					Remeasurements in other comprehensive income						
	January 1, 2015	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest	Actuarial Changes arising from changes in Experience Adjustments	Actuarial changes arising from changes in financial Assumptions	Subtotal	Contribution by employer	December 31, 2015
Present value of defined benefit obligation	₱798,089	₱63,240	₱25,466	₱–	₱886,795	(₱13,092)	₱–	₱55,575	(₱51,185)	₱4,390	₱–	₱878,093
Fair value of plan assets	(₱1,162,041)	–	(38,812)	–	(1,200,853)	13,092	23,833	–	–	23,833	–	(1,163,928)
	(₱363,952)				(₱314,058)	₱–	₱23,833	₱55,575	(₱51,185)	₱28,223	₱–	(₱285,835)

	2014											
	Net benefit cost in charged to consolidated statements of income					Remeasurements in other comprehensive income						
	January 1, 2014	Current service cost	Net interest	Settlement/ Curtailment	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest	Actuarial Changes arising from changes in Experience Adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2014
Present value of defined benefit obligation	₱1,138,837	₱71,905	₱33,064	(₱492,422)	₱751,384	(₱78,155)	₱–	₱130,802	(₱5,942)	₱124,860	₱–	₱798,089
Fair value of plan assets	(1,436,542)	–	(45,508)	363,591	(1,118,459)	78,155	(89,737)	–	–	(89,737)	(32,000)	(1,162,041)
	(₱297,705)				(₱367,075)	₱–	(₱89,737)	₱130,802	(₱5,942)	₱35,123	(₱32,000)	(₱363,952)

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

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

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

Actuarial valuation assumptions	**2016**	2015
Discount rate	**4,64%**	4.25%
Future salary increases	**5.00%**	5.00%
Expected rate of return on plan assets	**6.00%**	6.00%

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

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

	Increase (decrease)	Effect on defined benefit obligation
Discount rates	1.00%	(₱38,502)
	(1.00%)	52,220
Future salary increases	1.00%	₱42,599
	(1.00%)	(40,782)

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

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

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

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

Pension expense from the defined benefit retirement plan is actuarially determined using the projected unit credit method. The latest actuarial valuation report was made as at December 31, 2016.

SMMCI Retirement Fund

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Present value of defined benefit obligation:

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

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

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

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

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

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

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

20. **Financial Instruments**

Fair Values of Financial Instruments

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

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

21. **Financial Risk Management Objectives and Policies and Hedging Activities**

Financial Risk Management Objectives and Policies

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

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

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

Credit and Concentration Risks
Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual production of concentrates is sold to Pan Pacific Copper Co., Ltd. The balance of the Parent Company's annual production of concentrates is contracted with LD Metals which is covered by several short-term agreements up to March 2018.

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

The table below summarizes the Group's exposure to credit risk for the components of the consolidated statements of financial position as of December 31, 2016 and 2015:

	2016	2015
Cash and cash equivalents		
Cash with banks	**₱272,345**	₱693,894
Short-term deposits	**183,384**	312,422
Accounts receivable		
Trade	**411,795**	701,328
Others	**62,169**	61,842
Advances to a related party	**2,193,829**	–
Gross maximum credit risk exposure	**₱3,123,522**	₱1,769,486

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

	December 31, 2016			
	Neither Past Due nor Impaired		**Past Due and Individually**	
	High-Grade	**Standard**	**Impaired**	**Total**
Cash and cash equivalents				
Cash with banks	**₱272,345**	**₱–**	**₱–**	**₱272,345**
Short-term deposits	**183,384**	**–**	**–**	**183,384**
Accounts receivable				
Trade	**411,795**	**–**	**–**	**411,795**
Others	**62,169**	**–**	**1,747**	**63,916**
Advances to a related party	**2,193,829**	**–**	**–**	**2,193,829**
Total	**₱3,123,522**	**₱–**	**₱1,747**	**₱3,125,269**

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

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

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

Liquidity Risk

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

The tables below summarize the maturity profile of the Group's financial assets that can be used by the Group to manage its liquidity risk and the maturity profile of the Group's financial liabilities, based on contracted undiscounted repayment obligations (including interest) as at December 31, 2016 and 2015, respectively:

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

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

Market Risks

Foreign Currency Risk
Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency. All of the Parent Company's sales are denominated in US dollar. Also, the Parent Company is exposed to foreign exchange risk arising from its US dollar-denominated cash and cash equivalents, trade receivables and loans payable. For the years ended December 31, 2016, 2015 and 2014, the Group recognized net foreign exchange losses of ₱145,213, ₱158,697 and ₱56,484, respectively, arising from the translation of these foreign currency-denominated financial instruments.

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

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

Year Ended December 31, 2016	
US$ Appreciate (Depreciate)	**Effect on Income before Income Tax**
4%	**(₱97,088)**
(4%)	**97,088**

Year Ended December 31, 2014	
US$ Appreciate (Depreciate)	Effect on Income before Income Tax
4%	(₱123,005)
(4%)	123,005

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

Equity Price Risk
Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company and PXP, which are classified in the consolidated statements of financial position as AFS financial assets (see Note 11). As of December 31, 2016 and 2015, investments in quoted shares totaling ₱31,924 and ₱33,975 representing 0.08% of the total assets of the Group, in 2016 and 2015, respectively. Reasonable possible changes were based on an evaluation of data statistics using 1-year historical stock price data.

The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as AFS financial assets as at December 31, 2016 and 2015 that could be brought by changes in equity indices with all other variables held constant are as follows:

December 31, 2016

Currency	**Change in Quoted Prices of Investments Carried at Fair Value**	**Effect on Equity**
Peso	**Increase by 21%**	**₱7,020**
	Increase by 41%	**14,040**
	Decrease by 21%	**(7,020)**
	Decrease by 41%	**(14,040)**

December 31, 2015

Currency	Change in Quoted Prices of Investments Carried at Fair Value	Effect on Equity
Peso	Increase by 21%	₱7,474
	Increase by 41%	14,949
	Decrease by 21%	(7,474)
	Decrease by 41%	(14,949)

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

The following table shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Company as at December 31, 2016. The change in metal prices is based on 1-year historical price movements.

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

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

As at December 31, 2015, there were outstanding gold derivatives designated as cash flow hedges wherein fair value changes are reported under equity. The following table summarizes the impact on equity of reasonably possible change in the prices of gold and copper.

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

Derivative Financial Instruments

Gold Derivatives

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

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

In February 2016, the Parent Company entered into gold collar hedging contracts covering 3,000 ounces of monthly gold production from February to July 2016 at a strike price of US$1,170 per ounce for the put options and US$1,242 per ounce for the call options. Further in June 2016, the Company entered into gold collar hedging contracts covering 3,000 ounces of monthly production from July to December 2016 at a strike price of US$1,300 per ounce for the put options and US$1,350 per ounce for the call options. These contracts were also designated as cash flow hedges.

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

Embedded Derivatives
As at December 31, 2015 the Parent Company has embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Notes 5 and 7). Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated statements of financial position. The Parent Company determines mark-to-market prices using the forward price for quotational periods after the consolidated statements of financial position date stipulated in the contract. The effect of these fair value adjustments arising from embedded derivatives amounted to a net loss of ₱152,906 in 2015 which was included under revenue and adjusted against receivables.

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

22. Capital Management

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

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

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

23. Foreign Currency-Denominated Monetary Assets and Liabilities

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

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

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

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

24. Related Party Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

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

Intercompany transactions are eliminated in the consolidated financial statements. The Group's does not have significant related party transactions except for the settlement of loans from FPC Group as disclosed in Note 14.

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

	Amount/ Volume	Outstanding Balance	Terms	Conditions
Related party				
Advances to PXP				
2016	**₱2,193,829**	**₱2,193,829**	On demand	Secured
2015	₱–	₱–		

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

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

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

25. **Income Taxes**

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

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

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

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

c. As at December 31, 2016 and 2015, no deferred income tax assets were recognized on deductible temporary differences amounting to about ₱2,730,995 and ₱2,655,280, respectively.

d. As at December 31, 2016, significant NOLCO and MCIT of the Parent Company's subsidiaries for which no deferred income taxes were recognized are as follows:

SMMCI
As at December 31, 2016, SMMCI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year	Available	NOLCO		Excess
Incurred	Until	Amount	Tax Effect	MCIT
2014	2017	₱11,149	₱3,345	₱71
2015	2018	26,960	16,977	–
2016	2019	11,970	3,591	–
		₱50,079	₱23,913	₱71

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

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

PGPI
As at December 31, 2016, PGPI's NOLCO and excess MCIT that can be claimed as deduction from future taxable income are as follows:

Year Incurred	Available Until	NOLCO	Excess MCIT
2014	2017	₱32,567	₱–
2015	2018	–	188
2016	2019	1,119	203
		₱33,686	₱391

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

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

26. **Equity**

Capital Stock

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

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

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

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

Year	Date of Approval	Change in Number of Authorized Capital Stock	New Subscriptions/ Issuances***
2009	May 22, 2009	3,000,000,000	1,019,753,789
2010			21,525,999
2011			7,619,783
2012			3,276,075
2013			3,969,250
2014			3,403,000
2015			–
2016			–
		8,000,000,000	4,940,399,068

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

As at December 31, 2016 and 2015, the Parent Company's total stockholders is 44,219 and 44,296 respectively.

Retained Earnings
Retained earnings consist of the following:

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

On December 13, 2013, the Parent Company's BOD approved the appropriation of ₱10,000,000 of the unappropriated retained earnings for purposes of mine development and construction of the Silangan Project from 2016 to 2020. On February 28, 2017, the Parent Company's BOD approved further appropriation of ₱500,000 of the unappropriated retained earnings for purposes of mine and development and construction of the Silangan Project from 2017 to 2018, thereby increasing total appropriation to ₱10,500,000.

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

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

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

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

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

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

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

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

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

NCI

NCI consist of the following:

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

Transactions with NCI are disclosed in Note 2.

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

Income (loss) allocated to material NCI:

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

Other comprehensive income allocated to material NCI:

	2015
PPP and its subsidiaries	₱524
PXP	–

Statements of comprehensive income as of December 31, 2015:

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

Statements of financial position as at December 31, 2015:

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

Statements of cash flows as of December 31, 2015:

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

Statements of cash flows as of December 31, 2014:

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

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

27. **Share-based Payments**

2006 Parent Company Stock Option Plan (SOP)

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

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

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

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

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

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

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

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

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

The following table shows the movements in 2016 and 2015 of the 2006 Parent Company SOP:

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

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

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

2011 Parent Company SOP

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

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

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

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

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

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

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

The following table shows the movements in 2016 of the 2011 SOP of the Parent Company:

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

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

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

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

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

28. Basic/Diluted Earnings Per Share

Basic earnings per share are computed as follows:

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

Diluted earnings per share amounts are calculated as follows:

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

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

29. **Farm-in Agreement with MMC**

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

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

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

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

As at December 31, 2016, the Company is undergoing discussions with MMC to revise, and consequently, extend the term of the farm-in agreement on the Kalayaan Project.

30. **Joint Ventures with Anglo**

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

On December 7, 2011, the Parent Company entered into an agreement with Anglo and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Parent Company agreed to buy and Anglo agreed to sell all Anglo's rights, interests and obligations in SMECI for US$25. In addition, AAEPI agreed with the Parent Company that all of its rights, interests and title in and to its receivable to SMECI will be assigned to the Parent Company for a consideration amounting to US$175. The purchase of share and assignment of receivable will become effective and legally enforceable only upon fulfillment of the closing obligations. The term to fulfill the closing obligations expired in 2013.

31. **Other Matters**

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

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

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

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

33. **Deconsolidation of a Subsidiary**

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

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

	July 15, 2016
Assets	
Cash and cash equivalents	**₱606,585**
Accounts receivable	**82,212**
Inventories	**4,043**
Other current assets	**3,345**
Property, plant and equipment	**339,475**
Deferred exploration costs and other noncurrent assets	**4,997,549**
Goodwill	**1,238,583**
Deferred income tax assets - net	**4,153**
Total assets	**7,275,945**
Liabilities	
Accounts payable and accrued expenses	**(65,354)**
Advances from related parties	**(2,149,036)**
Deferred income tax liabilities	**(1,093,035)**
Provision for losses and mine rehabilitation costs	**(209,842)**
Total liabilities	**(3,517,267)**
Net assets directly associated with disposal group	**3,758,678**
Non-controlling interest	**(2,863,617)**
Net assets of deconsolidated subsidiary group attributable to Parent	**₱895,061**

b. Gain from loss of control over a subsidiary group

		July 15, 2016
Fair value of dividends distributed		**₱2,442,387**
Fair value of retained interest in PXP		**1,050,131**
Consideration		**3,492,518**
Less: Net assets of deconsolidated subsidiary group	**₱895,061**	
Cumulative equity items reclassified to profit or loss	**59,439**	
Transaction costs	**15,314**	**969,814**
Gain from loss of control over a subsidiary group		**₱2,522,704**

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

	2016*	2015	2014
Net cash flows from (used in) operating activities	**₱66,845**	(₱115,195)	(₱84,287)
Net cash flows from (used in) investing activities	**13,211**	(58,612)	(199,862)
Net cash flows from (used in) financing activities	**174**	(1,205,035)	(428,827)
Effect of exchange rate changes	–	(3,168)	(133)
Net cash inflow (outflow)	**₱80,230**	(₱1,382,010)	(₱713,109)

** From January 1 to July 15, 2016.*

Results of deconsolidated subsidiary group

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

** From January 1 to July 15, 2016.*

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

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

34. **Events After Reporting Period**

a. DENR Issues on Mining Operations

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

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

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

b. Appropriation of Retained Earnings

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

c. Declaration of Cash Dividends

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

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance cor Sheridan Streets
Mandaluyong City, Metro Manila

We have examined the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries (the Group) as at and for the year ended December 31, 2016, on which we have rendered the attached report dated February 28, 2017.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the said Company has a total number of thirty-six thousand seven hundred ninety-five (36,795) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-3 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908781, January 3, 2017, Makati City

February 28, 2017

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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Tel: (632) 891 0307
Fax: (632) 819 0872
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Philex Mining Corporation
2nd floor LaunchPad,
Reliance cor Sheridan Streets
Mandaluyong City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philex Mining Corporation and its subsidiaries (the Group) as at December 31, 2016 and 2015, and each of the three years in the period ended December 31, 2016 included in this Form 17-A and have issued our report thereon dated February 28, 2017. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

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

February 28, 2017

PHILEX MINING CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2016

<u>**SCHEDULE I**</u>

RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2016

PHILEX MINING CORPORATION
2nd Floor, Launch Pad Building, Reliance St., Mandaluyong City
(Amounts in Thousands)

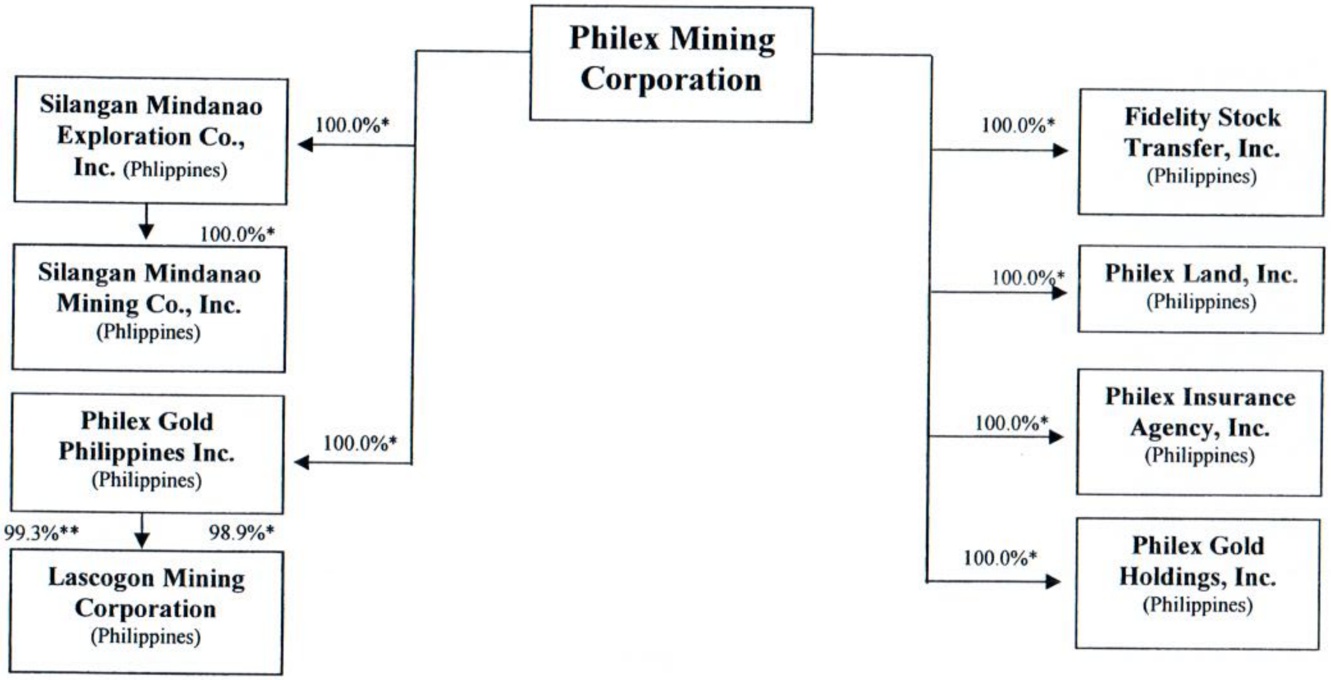
Unappropriated retained earnings, ***as adjusted to available for dividend distribution*****, December 31, 2015**		**₱6,117,846**
Net income during the period closed to retained earnings	**₱2,044,125**	
Less: Recognized deferred tax asset that increased net income	(30,592)	
Equity in net income (loss) of an associate	44,572	
Other realized gains (loss) or adjustments to the retained earnings as a result of certain transactions accounted under the PFRS	(120,135)	
	(106,155)	
Net income actually earned during the period		**1,937,970**
Less: Dividend declared during the year		(2,696,003)
Unappropriated retained earnings as at December 31, 2016, as adjusted		**₱5,359,813**

SCHEDULE II
PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE SHOWING FINANCIAL SOUNDNESS
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2016

	2016	2015	2014
Current/Liquidity ratios			
Current ratio	**1.24**	0.92	1.27
Quick ratio	**0.17**	0.33	0.84
Solvency ratios and debt to equity ratio			
Debt-to-equity ratio	**0.65**	0.60	0.65
Solvency ratio	**0.20**	0.14	0.13
Financial leverage ratios			
Asset-to-equity ratio	**1.65**	1.60	1.65
Interest rate coverage ratio	–	–	3.97
Profitability ratios			
Return on assets	**3.81%**	1.76%	1.66%
Return on equity	**6.18%**	2.86%	2.65%
Net profit margin	**16.71%**	9.29%	7.22%

SCHEDULE III

PHILEX MINING CORPORATION AND SUBSIDIARIES
CHART SHOWING OWNERSHIP AND RELATIONSHIP BETWEEN THE PARENT COMPANY AND ITS SUBSIDIARIES
PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2016



*Interest of immediate parent

**Effective interest of Philex Mining Corporation

SCHEDULE IV
PHILEX MINING CORPORATION AND SUBSIDIARIES
TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED
DECEMBER 31, 2016

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	✓		
	Amendments to PFRS 1: *Additional Exemptions for First-time Adopters*			✓
	Amendment to PFRS 1: *Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters*			✓
	Amendments to PFRS 1: *Severe Hyperinflation and Removal of Fixed Date for First-time Adopters*			✓
	Amendments to PFRS 1: *Government Loans*			✓
PFRS 2	*Share-based Payment*	✓		
	Amendments to PFRS 2: *Vesting Conditions and Cancellations*	✓		
	Amendments to PFRS 2: *Group Cash-settled Share-based Payment Transactions*			✓
PFRS 3 (Revised)	*Business Combinations*	✓		
PFRS 4	*Insurance Contracts*			✓
	Amendments to PAS 39 and PFRS 4: *Financial Guarantee Contracts*			✓
PFRS 5	*Non-current Assets Held for Sale and Discontinued Operations*			✓
PFRS 6	*Exploration for and Evaluation of Mineral Resources*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PFRS 7	*Financial Instruments: Disclosures*	✓		
	Amendments to PFRS 7: *Transition*	✓		
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets*	✓		
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets - Effective Date and Transition*	✓		
	Amendments to PFRS 7: *Improving Disclosures about Financial Instruments*	✓		
	Amendments to PFRS 7: *Disclosures - Transfers of Financial Assets*	✓		
	Amendments to PFRS 7: *Disclosures - Offsetting Financial Assets and Financial Liabilities*			✓
	Amendments to PFRS 7: *Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not early adopted		
PFRS 8	*Operating Segments*	✓		
PFRS 9	*Financial Instruments*	✓		
	Amendments to PFRS 9: *Mandatory Effective Date of PFRS 9 and Transition Disclosures*	✓		
PFRS 10	*Consolidated Financial Statements*	✓		
PFRS 11	*Joint Arrangements*	✓		
PFRS 12	*Disclosure of Interests in Other Entities*	✓		
PFRS 13	*Fair Value Measurement*	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	*Presentation of Financial Statements*	✓		
	Amendment to PAS 1: *Capital Disclosures*	✓		
	Amendments to PAS 32 and PAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	Amendments to PAS 1: *Presentation of Items of Other Comprehensive Income*	✓		
PAS 2	*Inventories*	✓		
PAS 7	*Statement of Cash Flows*	✓		
PAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors*	✓		
PAS 10	*Events after the Balance Sheet Date*	✓		
PAS 11	*Construction Contracts*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 12	*Income Taxes*	✓		
	Amendment to PAS 12 - *Deferred Tax: Recovery of Underlying Assets*	✓		
PAS 16	*Property, Plant and Equipment*	✓		
PAS 17	*Leases*	✓		
PAS 18	*Revenue*	✓		
PAS 19 (Amended)	*Employee Benefits*	✓		
	Amendments to PAS 19: *Actuarial Gains and Losses, Group Plans and Disclosures*	✓		
	Amendments to PAS 19: *Defined Benefit Plans: Employee Contributions*			
PAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*			✓
PAS 21	*The Effects of Changes in Foreign Exchange Rates*	✓		
	Amendment: *Net Investment in a Foreign Operation*	✓		
PAS 23 (Revised)	*Borrowing Costs*	✓		
PAS 24 (Revised)	*Related Party Disclosures*	✓		
PAS 26	*Accounting and Reporting by Retirement Benefit Plans*			✓
PAS 27 (Amended)	*Separate Financial Statements*	✓		
PAS 28 (Amended)	*Investments in Associates and Joint Ventures*	✓		
PAS 29	*Financial Reporting in Hyperinflationary Economies*			✓
PAS 31	*Interests in Joint Ventures*	✓		
PAS 32	*Financial Instruments: Disclosure and Presentation*	✓		
	Amendments to PAS 32 and PAS 1: *Puttable Financial Instruments and Obligations Arising on Liquidation*			✓
	Amendment to PAS 32: *Classification of Rights Issues*	✓		
	Amendments to PAS 32: *Offsetting Financial Assets and Financial Liabilities*	✓		
PAS 33	*Earnings per Share*	✓		
PAS 34	*Interim Financial Reporting*	✓		
PAS 36	*Impairment of Assets*	✓		
PAS 37	*Provisions, Contingent Liabilities and Contingent Assets*	✓		
PAS 38	*Intangible Assets*	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 39	Financial Instruments: *Recognition and Measurement*	✓		
	Amendments to PAS 39: *Transition and Initial Recognition of Financial Assets and Financial Liabilities*			✓
	Amendments to PAS 39: *Cash Flow Hedge Accounting of Forecast Intragroup Transactions*			✓
	Amendments to PAS 39: *The Fair Value Option*			✓
	Amendments to PAS 39 and PFRS 4: *Financial Guarantee Contracts*			✓
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets*			✓
	Amendments to PAS 39 and PFRS 7: *Reclassification of Financial Assets - Effective Date and Transition*			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: *Embedded Derivatives*	✓		
	Amendment to PAS 39: *Eligible Hedged Items*	✓		
PAS 40	*Investment Property*			✓
PAS 41	*Agriculture*			✓
Philippine Interpretations				
IFRIC 1	*Changes in Existing Decommissioning, Restoration and Similar Liabilities*	✓		
IFRIC 2	*Members' Share in Co-operative Entities and Similar Instruments*			✓
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*	✓		
IFRIC 5	*Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	✓		
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			✓
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			✓
IFRIC 9	*Reassessment of Embedded Derivatives*	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: *Embedded Derivatives*	✓		
IFRIC 10	*Interim Financial Reporting and Impairment*	✓		
IFRIC 12	*Service Concession Arrangements*			✓
IFRIC 13	*Customer Loyalty Programmes*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016		Adopted	Not Adopted	Not Applicable
IFRIC 14	*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	✓		
	Amendments to Philippine Interpretations IFRIC- 14, *Prepayments of a Minimum Funding Requirement*	✓		
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*			✓
IFRIC 17	*Distributions of Non-cash Assets to Owners*	✓		
IFRIC 18	*Transfers of Assets from Customers*			✓
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*			✓
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*			✓
SIC-7	*Introduction of the Euro*			✓
SIC-10	*Government Assistance - No Specific Relation to Operating Activities*			✓
SIC-12	*Consolidation - Special Purpose Entities*			✓
	Amendment to SIC - 12: *Scope of SIC 12*			✓
SIC-13	*Jointly Controlled Entities - Non-Monetary Contributions by Venturers*			✓
SIC-15	*Operating Leases - Incentives*			✓
SIC-25	*Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*			✓
SIC-27	*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	✓		
SIC-29	*Service Concession Arrangements: Disclosures*			✓
SIC-31	*Revenue - Barter Transactions Involving Advertising Services*			✓
SIC-32	*Intangible Assets - Web Site Costs*			✓

SCHEDULE V
PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE A
FINANCIAL ASSETS
(Amounts in Thousands, Except Number of Shares)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income received and accrued
Investments in quoted shares:			
Philippine Realty & Holdings Corporation	68,865,002	₱28,579	₱–
Others	Various	3,345	–
		31,924	
Investments in unquoted shares:			
Pacific Global One Aviation	1	37,500	–
Philippine Associated Smelting and Refining Corporation	14,047,247	14,055	–
Others	Various	21,136	–
		72,691	–
		₱104,615	₱–

Quoted AFS financial assets are valued based on PSE quotation as at December 31, 2016. AFS financial assets in quoted shares of stock are carried at fair value with cumulative changes in fair values presented as a separate account in equity. Meanwhile, AFS financial assets in unquoted shares of stock are carried at cost because fair value bases (i.e., quoted market prices) are neither readily available nor is there an alternative basis of deriving a reliable valuation at the end of the reporting period.

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE B
AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
December 31, 2016

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
PXP Energy Corporation	₱2,193,829	–	–	–	2,193,829	–	₱2,193,829

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE C
AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION
December 31, 2016
(Amounts in Thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
Subsidiary: *(Advances)*							
Silangan Mindanao Mining Co., Inc.	₱–	₱650,562	(₱–)	(₱–)	₱650,562	₱–	₱650,562
	₱–	₱650,562	(₱–)	(₱–)	₱650,562	₱–	₱650,562

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE D
INTANGIBLE ASSETS - OTHER ASSETS
December 31, 2016
(Amounts in Thousands)

Description	Beginning balance	Additions at Cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
i) Intangible Asset						
Goodwill	₱1,238,583	₱–	(₱–)	₱–	(₱1,238,583)	₱–
ii) Other Assets						
Deferred mine exploration costs	25,482,996	1,366,937	–	–	–	26,849,933
Allowance for impairment	(1,493,336)	(2,284,557)	–	–	–	(3,777,893)
	23,989,660	(917,620)	–	–	–	23,072,040
Deferred oil exploration costs	5,399,948	–	–	–	(5,399,948)	–
Allowance for impairment	(426,313)	–	–		426,313	–
	4,973,635	–	–	–	(4,973,635)	–
Others	189,715	–	–	–	(103,430)	86,285
	189,715	–	–	–	(103,430)	86,285
	₱30,391,593	(₱917,620)	(₱–)	₱–	(₱6,315,648)[1]	₱23,158,325

Note:
1. The decrease in value of the Other Assets was due to the deconsolidation of PXP.

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE E
LONG TERM DEBT
December 31, 2016

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt"	Amount shown caption "Long-term Debt"
Convertible Bonds	₱7,200,000	₱–	₱6,592,854[1]

Note:

1. 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% per annum payable semi-annually. The bonds are convertible into 400,000 common shares of SMECI at ₱18 per share 12 months after the issue date ("Standstill Period"). 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). Bonds amortization is calculated on the effective interest basis by applying effective interest rate of 6.97% per annum (compounded semi-annually) for an equivalent non-convertible bonds at the date of issue of the convertible bond to the liability component of the convertible bonds.

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE F
INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)
December 31, 2016

Name of the Related Party	Balance at beginning of period	Balance at end of period

NOT APPLICABLE

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE G
GUARANTEES OF SECURITIES OF OTHER ISSUERS
December 31, 2016

Name of the issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is lifted	Nature of guarantee

NOT APPLICABLE

PHILEX MINING CORPORATION AND SUBSIDIARIES
SCHEDULE H
CAPITAL STOCK
December 31, 2016

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding and shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common	8,000,000,000	4,940,399,068	–	–	10,096,456	–

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant who performed the compilation services to the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the period ended December 31, 2016, and a summary of significant accounting policies and other explanatory information. The compilation services was performed in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

In discharging this responsibility, I hereby declare that I am the Group Manager for Financial Projects and Management Services of Philex Mining Corporation (the "Parent Company").

Furthermore, in my compilation services for the preparation of these consolidated financial statements, I was not assisted by or did not avail of the services of SyCip Gorres Velayo & Co., the external auditor who rendered the audit opinion to the consolidated financial statements.

I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.

John Reaner I. Nocum
Professional Identification Card No. 115162,
valid until November 5, 2019
Accreditation Number 230,
valid until November 5, 2019

February 28, 2017