



**PHILEX MINING  
CORPORATION**

August 16, 2013

**PHILIPPINE STOCK EXCHANGE, INC.**

4/F PSE Center  
Exchange Road, Ortigas Center  
Pasig City

Attention: **MS. JANET A. ENCARNACION**  
Head, Disclosures Department

Gentlemen:

We submit to you herewith a copy of our Company's amended SEC Form 17-A Annual Report for the year ended December 31, 2012 which we filed with the Securities and Exchange Commission today.

Very truly yours,

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



108162013000955

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Industry Classification  
Company Type Stock Corporation

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WITH LETTER DATED AUGUST 15, 2013



**PHILEX MINING  
CORPORATION**

August 15, 2013

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills  
Mandaluyong City

**Attention MS. JUSTINA F. CALLANGAN**  
Acting Director  
Corporation Finance Department

Gentlemen:

This is in reply to your letter of April 22, 2013, which we received on August 6, 2013, regarding the Honorable Commission's comments on the Company's 2012 Annual Report (SEC Form 17-A) filed on April 5, 2013.

An amended 2012 Annual Report of the Company is hereby submitted based on your comments, incorporating the revenue contribution in tabular form and a statement regarding participants under PCD account owning more than 5% of the voting securities of the Company.

While we believe that we have already adequately stated in the original filing that the Company's product, which is copper concentrate, comprise all or 100% of the Company's sales revenue from its shipments to Japan, we tabulated in the amended report the values of the metals derived from the copper concentrates as additional details in compliance with your comments. In the original filing, we have not stated any reference to participants supposedly owning more than 5% of the Company's voting securities as there are none other than the Social Security System which we showed separately in the table under item 11. We think that the implication of the absence of such statement should be clear; but nonetheless, to comply with your comment, in the amended report we made the categorical statement that no other participant owns more than 5% of the Company's voting securities. We believe that the statements in our original filing regarding mortgage, lien or encumbrance over the Company's properties, as well as on actual and intended leases, already adequately comply with the required disclosures and need no further elaboration in the amended filing.

We hope the enclosed amended 2012 Annual Report would now merit the Honorable Commission's approval.

Very truly yours,

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

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Renato N. Migrino

(Contact Person)

(632) 631-13-81

(Company Telephone Number)

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Month Day  
(Calendar Year)

SEC 17A-A

(Form Type)

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Month Day  
(Annual Meeting)

Not Applicable

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Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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PHILEX MINING CORPORATION  
(Company's Full Name)

Philex Building, No. 27 Brixton Street, Pasig City  
(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

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Amendment Delegation (If applicable)

December 31, 2012  
Period Ended Date

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(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, 2012**
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. **Philex Building, 27 Corner Brixton and Fairlane Streets, Pasig City** **1600**  
Address of principal office Postal Code
8. **(632) 631-1381 to 88**  
Issuer's telephone number, including area code
9. **Not applicable**  
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

| <u>Title of Each Class</u>                               | <u>Number of Shares of<br/>Common Stock Outstanding<br/>and Amount of Debt Outstanding</u> |
|--|--|
| <b>Common shares, P1 par value (as of Mar. 31, 2013)</b> | <b>4,933,207,818</b>   |
| <b>Debt Outstanding (as of December 31, 2012)</b>        | <b>P1,450,000,000</b>  |

11. Are any or all of these securities listed on a Stock Exchange?  
Yes [ ☒ ] 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 [ ☒ ] No [ ☐ ]
  - (b) has been subject to such filing requirements for the past 90 days.  
Yes [ ☒ ] No [ ☐ ]
13. Aggregate market value of the voting stock held by non-affiliates: **P85.3 billion** based on closing prices at the Philippine Stock Exchange on April 2, 2013.

## **PART 1**

### **BUSINESS AND GENERAL INFORMATION**

#### **Item 1. Business**

##### **CORPORATE PROFILE**

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

Philex Mining Corporation was incorporated in the Philippines in 1955 and is listed in the Philippine Stock Exchange since November 23, 1956. The Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary through a holding company and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary through a holding company and PGPI and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co., Inc. (SMMCI), are primarily engaged in large-scale exploration, development and utilization of mineral resources. The Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. SMECI, through SMMCI, owns the Silangan Project covering the Boyongan and Bayugo deposits in Surigao which are currently under pre-feasibility stage.

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 (including the Bulawan mine in Negros Occidental, Negros island which commenced commercial production in January 1996 and continued until 2002 when the mine was decommissioned due to unfavorable metal prices and since then was placed on a care and maintenance up to present) were spun-off to PGPI. Through a swap of shares, ownership in PGPI was subsequently transferred to Philex Gold Inc. (PGI), then a 81%-owned Canadian subsidiary. Following a public offering to primarily North American and European investors, PGI was initially listed in the Toronto Stock Exchange in October 1996, which listing was thereafter transferred to the TSX Venture Exchange. From 2001, PGPI focused on its North Property where the Boyongan copper-gold porphyry deposit in Surigao del Norte was discovered in August 2000 under SMMCI, a joint venture with Anglo American Exploration (Philippines) B.V.(Anglo). On February 6, 2009, the Company acquired Anglo's 50% interest in the Silangan Project under SMMCI for US\$55 million. In April 2010, the Company undertook to buyback the minority shareholdings of PGI which was thereafter privatized and delisted. This transaction made the Silangan companies now owned jointly by the Parent Company and Philex Gold Philippines, Inc.

As of February 28, 2013, the Company has 44,684 stockholders of record with 38% of its outstanding shares owned by foreign nationals and institutions.

Philex Petroleum Corporation (PPC, a 64.79%-owned subsidiary of the Company and incorporated in the Philippines and whose shares are listed in the Philippine Stock Exchange since September 2011) and subsidiaries: Forum Energy plc (FEP, 60.49% owned, directly and indirectly by the Company, and registered in England and Wales) and its subsidiaries, and FEC Resources, Inc. (FEC, 51.24% owned and incorporated in Canada), are engaged primarily in oil and gas operation and exploration, holding participating interest in several oil and gas production and exploration activities through their investee companies. A wholly-owned subsidiary of PPC incorporated in the Philippines, Brixton Energy & Mining Corporation (BEMC), is engaged in coal operation in Diplahan, Zamboanga Sibugay. The Diplahan coal operation is currently under review having ceased underground operations in December 2012.

The Company has long been a silent investor in oil properties owning participation in several service contracts. Philex incorporated PPC in 2007 to engage in the petroenergy business, of

which 49% was subsequently acquired by Anatolian Property BV, a Dutch company whose shareholders are funds managed by Ashmore Investment Management Limited. In July 2009, the Company repurchased the 49% interest of Anatolian Property BV, returning full control over PPC to the Company. In September 2010, the Company transferred its investments in energy and hydro carbon assets to PPC which currently holds 36.44% of FEP, a UK-based company listed at the Alternative Investment Market of the London Stock Exchange. FEP owns participating interests in several service contracts in the Philippines, principally Service Contract 72 (previously GSEC 101) covering the Sampaguita natural gas discovery in Northwest Palawan. PPC also holds, 51.24% of FEC which in turns owns 24.05% of FEP, and 1.08% of Lascogon Mining Corporation (LMC), a 98.92%-owned subsidiary of PGPI incorporated in the Philippines in 2005, 18.46% of Pitkin Petroleum Corporation, (a UK-based company that has various exploration activities principally in Vietnam, Peru and the Philippines), and 100% of BEMC . The Company controls 60.49% of FEP through the direct holdings of PPC and FEC.

### **PRODUCTS/SALES**

The Company has operated for the past 55 years the Sto. Tomas II deposit at Padcal, Tuba, Benguet Province. The Padcal mine is the first underground block cave 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 2012 aggregate to 364.8 million tonnes, producing 2.111 billion pounds of copper, 5.682 million ounces of gold, and 6.182 million ounces of silver.

Of the Company's annual production, 60% are currently committed to Pan Pacific, an integrated Japanese copper producer jointly established by JX Nippon Mining & Metals Corporation and Mitsui Mining & Smelting Co., Ltd. in 2000. Pan Pacific is engaged in a wide range of copper businesses, including the procurement of copper concentrates, the production through tolling arrangement and the marketing of products such as refined copper, precious metals and sulfuric acid. With headquarters in Tokyo, Pan Pacific operates two smelting plants: the Saganoseki plant, where the Padcal mine's copper concentrates are usually sent, and the Hibi plant, contributed by Mitsui to the joint venture. With the huge capacity of Pan Pacific's plants processing more than one and half million tonnes, making it the largest buyer of copper concentrates in the world, the volume of the Company's shipments to them is relatively insignificant in comparison to their other suppliers.

In 2004, Pan Pacific provided the Company with a long-term loan to finance the development of the 782 Meter Level of the Padcal mine. As a concession, the Company agreed to contract portions of its production in a graduating scale to Pan Pacific up to end of the Padcal mine life. Part of the agreement is that should the Company develop other mines that would produce sulfide flotation copper concentrates, the Company will have to discuss the sale of such copper concentrates first with Pan Pacific before offering such concentrates to other parties.

In 2007, the Company entered into a contract with Louis Dreyfus Commodities Metals Suisse S.A. (LDM), a trader who also sends the copper concentrates to the Saganoseki smelting plant, for the uncommitted balance of the Company's copper concentrates. The contract initially covered a period of three years to 2010 but was subsequently extended to March 2013. Up to December 2012, 40% of Padcal's production had been contracted with LDM.

All of the Parent Company's sales revenues for the years 2010 to 2012 were from copper concentrate shipments made to Japan. The value of these shipments are initially determined based on prices during the second calendar week prior to week of shipment, then adjusted to the average prices during the final quotational period, which for contract years 2012 and 2011 was the calendar month following the month of arrival for copper, compared to the second calendar month following the month of arrival copper for contract year 2010.



The 2011 consolidated revenue of the Company includes the net realizable value of mine products inventory at the end of the financial reporting period. About 2.7% of 2012 consolidated revenue came from petroenergy contributed by FEP and BEMC.

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

| (In Thousand Pesos) | For the Years Ended December 31 |                          |                   |                          |                  |                          |
|---------------------|---------------------------------|--------------------------|-------------------|--------------------------|------------------|--------------------------|
|                     | 2010                            |                          | 2011              |                          | 2012             |                          |
|                     | Amount                          | Percent to Total Revenue | Amount            | Percent to Total Revenue | Amount           | Percent to Total Revenue |
| Metals              |                                 |                          |                   |                          |                  |                          |
| Gold                | 7,208,532                       | 54%                      | 9,294,021         | 58%                      | 4,946,041        | 54%                      |
| Copper              | 5,721,373                       | 43%                      | 6,091,803         | 38%                      | 3,865,704        | 42%                      |
|                     | <u>12,929,905</u>               | <u>97%</u>               | <u>15,385,824</u> | <u>95%</u>               | <u>8,811,745</u> | <u>96%</u>               |
| Total Revenue       | <u>13,393,969</u>               |                          | <u>16,134,416</u> |                          | <u>9,137,360</u> |                          |

### **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 virtually non-existent.

### **SOURCES AND AVAILABILITY OF RAW MATERIALS AND SUPPLIES**

The ore that the Company mines from the Padcal orebody are deemed to be the basic raw material of the copper, gold, and silver minerals actually produced by nature. In the milling PROCESS of concentration to produce copper concentrates for shipment to smelters, labor, materials and supplies, power, and services are infused and utilized.

Labor is generally provided by the Company's regular employees, augmented by labor contractors for certain mining activities, mostly in the development of ore blocks preparatory to mining.

Materials and supplies are comprised of various equipment, spare parts, hardware, and construction supplies used for mining and milling operations. Chemicals, reagents (such as frothers, floaters and lime) and steel balls are also used for milling. These materials and supplies, which are generally available, are provided by a number of suppliers both local and abroad on competitive basis.

Energy is currently sourced from Team (Philippines) Energy Corporation under a two-year contract for the supply of electricity ending on December 31, 2013, although the Padcal mine has the capacity to self-generate standby electricity principally for mine underground use in case of supply interruptions, using generating sets run by bunker fuel. The National Grid Corporation of the Philippines provides the transmission lines for the delivery of power to the mine. Diesel fuel and gasoline is used mostly for the Load, Haul, Dump equipment and the Low Profile Trucks mostly acquired from Sandvik Tamrock, 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 carry the ore underground to the mill is contracted with PrinceACE 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 of the Company as of December 31, 2012 consists of 2,398 full-time regular employees, as follows:

|                             |              |
|-----------------------------|--------------|
| Padcal Operations           | 2,205        |
| Pasig Corporate Head Office | <u>193</u>   |
| Total                       | <u>2,398</u> |

Of the Company's employees, 2,118 are in operations, while 280 perform clerical and administrative work. 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 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 PRFEU-ALU (TUCP) replaced the previous National Allied Mines and Workers Union 101 (NAMAWU 101) in 2010. New five-years collective bargaining agreements to expire in 2015 were already signed and executed with both Unions.

Pasig rank-and-file employees are members of the Philex Pasig Employees Union whose agreement with the Company was signed and executed in February 2012. The agreement which was registered with the DOLE on April 27, 2012 covers a period of five years to expire in August 2016.

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

## **MINING PROPERTIES / ROYALTY AGREEMENTS**

The Company's mineral properties in the vicinity of Padcal mine are covered by mineral agreements over a total area of 13,492 hectares all within the municipalities of Tuba and Itogon in Benguet.

The Sto. Tomas II deposit used to be under 12 mineral holdings containing a total area of 95 hectares covered by a royalty agreement with claimowners. Three of the holdings with an aggregate area of 14 hectares are now part of Mineral Production Sharing Agreement (MPSA) 156-2000-CAR issued on April 10, 2000 and valid up to April 10, 2025. The remaining nine holdings with an aggregate area of 81 hectares are under MPSA-276-2009-CAR, valid up to January 19, 2034.

A table of the Padcal vicinity mining tenements is shown below:

| Tenements         | Area (Ha.) | MPSA Date of Expiration |
|-------------------|------------|-------------------------|
| MPSA-156-2000-CAR | 3,848      | 10-Apr-25               |
| MPSA-157-2000-CAR | 2,958      | 10-Apr-25               |
| MPSA-276-2009-CAR | 81         | 19-Jan-34               |
| EXPA-075          | 486        |                         |
| EXPA-078          | 5,994      |                         |

|          |        |  |
|----------|--------|--|
| APSA-098 | 125    |  |
|          | 13,492 |  |

MPSA-276-2009-CAR is under the names of the heirs of Baldomero Nevada, Sr., Trinidad Nevada and Baldomero Nevada, Jr. as contractors given the right to operate the property for the government. This right has earlier been assigned by the contractors to the Company 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 value of minerals after deducting marketing costs.

Certain areas of the Padcal mineral properties are also under royalty agreements with basically similar terms and conditions.

As of December 31, 2012, the Padcal Mine's mineral resources and proved reserves are estimated as follows:

| MINERAL RESOURCES |                |          |          |                       |                 |
|-------------------|----------------|----------|----------|-----------------------|-----------------|
|                   | Million Tonnes | Copper % | Gold g/t | Contained             |                 |
|                   |                |          |          | Copper (Million lbs.) | Gold (000 ozs.) |
| 908 ML            | 48             | 0.25     | 0.58     | 265                   | 900             |
| 782 ML            | 88             | 0.24     | 0.48     | 462                   | 1,350           |
| Total             | 136            | 0.24     | 0.51     | 727                   | 2,250           |

CuEq cut-off grade = 0.36%; Metal Prices: US\$3.00 per pound Cu, US\$1,500 per ounce Au; Metal Recoveries: 82% Cu, 72% Au

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.

| PROVED RESERVES |                |          |          |                       |                 |
|-----------------|----------------|----------|----------|-----------------------|-----------------|
|                 | Million Tonnes | Copper % | Gold g/t | Recoverable           |                 |
|                 |                |          |          | Copper (Million lbs.) | Gold (000 ozs.) |
| 908 ML          | 15.5           | 0.21     | 0.43     | 59                    | 161             |
| 782 ML          | 28.2           | 0.22     | 0.45     | 111                   | 309             |
| 798 ML          | 28.9           | 0.2      | 0.34     | 105                   | 213             |
| Total           | 72.6           | 0.21     | 0.40     | 275                   | 683             |

CuEq cut-off grade = 0.317%; Metal Prices: US\$3.00 per pound Cu, US\$1,500 per ounce Au; Metal Recoveries: 82% Cu, 72% Au

This reserve statement was prepared by Engr. Eulalio B. Austin, Jr. (BSEM), President and Chief Operating Officer. Engr. Austin 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 0001814.

In August 2011, the declared life of the Padcal Mine has been extended to year 2020 from 2017 based on then declared proved reserves which now include tonnage from the 798 Meter Level.

### **PATENTS, TRADEMARKS AND LICENSES**

The Company has several target areas aimed for exploration in the vicinity of the Padcal mine where it has a total of 13,492 hectares covered by mining tenements discussed above.

Other than the mining tenement discussed above, the Company has no patents, trademarks, copyrights, licenses, franchises and concessions on which the Company's Padcal operations depend.

### **GOVERNMENT REGULATIONS AND APPROVALS**

The effect on the Company's operation of existing governmental regulations are mainly on their corresponding costs of compliance to the Company which are appropriately reflected either as expense or as capital asset under generally accepted accounting principles. The effect on the Company of any probable government regulation could not be determined until the specific provisions are known.

Other than the usual business licenses or permits, there are no government approvals needed on the Company's principal products.

### **EXPLORATION AND DEVELOPMENT**

Exploration and development (the equivalent of research and development for a mining company) are currently done internally by the Company by itself or through drilling contractors. Expenses for 2012, 2011 and 2010 amounted to P1.812 billion, P1.967 billion and P1.246 billion, respectively.

Note 12 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 is also incorporated hereto by reference.

### **Silangan Project**

Comprised of the Boyongan and Bayugo deposits of the Company, and with the addition of the adjacent Kalayaan property in 2011, the Silangan Project located in Surigao del Norte is the Company's most mature exploration project expected to be its next operating mine.

#### **Boyongan and Bayugo Deposits**

The Silangan Project (then known as the Boyongan Project) came into existence in 1999 when the Company and PGPI entered into separate joint venture arrangements with Anglo American Exploration (Philippines) BV (Anglo), a subsidiary of Anglo American plc, which is a British company and one of the world's largest multinational mining companies with global operations. The joint venture was formed for the purpose of exploring a group of the Company's claims in Benguet province, as well as those of PGPI in the province of Surigao del Norte. The focus of the joint ventures had been mainly in PGPI's North property where Boyongan, the first of the two ore bodies in the Silangan Project, was discovered in August 2000. Bayugo was discovered in 2003 by Anglo during the definition drilling for the Boyongan ore body. The definition drilling for Bayugo was initially pursued in 2007 but was stopped by Anglo in late 2008.

In November 2008, Anglo offered to sell its 50% interest in the Silangan joint venture to the Company. Negotiations on this offer ensued between the parties which was completed in February 2009, with the Company acquiring all of Anglo's interest in the joint venture for \$55 million. This gave the Company control over the property together with its then 81% indirectly

owned subsidiary, PGPI, which holds the other 50% interest. After the buy-back of the minority shares of PGI in 2010 which made PGPI wholly owned, the Company acquired 100% indirect ownership over the project through Silangan Mindanao Exploration Company, Inc. (SMECI) and Silangan Mindanao Mining Corporation, Inc. (SMMCI). The covering joint venture agreement for the project, being no longer necessary, was accordingly terminated.

After acquiring Anglo's interest in the project, the Company continued and completed the infill and definition drilling of Bayugo. In November 2009, an external consultant, Independent Resource Estimations, submitted an initial estimate of the Bayugo resource. Thus, the project was renamed as Silangan, to distinguish from the previous name Boyongan, with both Bayugo and Boyongan now comprising the project.

In November 2010, as part of the Project's pre-feasibility study, SRK Consulting, a third party engineering consultant, was engaged by the Company to make an independent evaluation of the project. SRK is an independent international consulting practice providing professional advice and solutions to clients mainly for earth and water resource industries, having over 46 offices on six continents. SRK recommended the construction of an exploration decline or ramp to the bottom of the Bayugo/Boyongan deposits as part of geotechnical investigation to provide more reliable and specific information on ground condition for purposes of mine planning and design. Portal development of the decline was started in April 2011 and the first blast was done in August 2011. Driving of the decline is ongoing and is targeted to reach the Boyongan orebody by the first half of 2014. The sinking of a ventilation shaft concurrent with the decline driving is currently being studied for alternative methods to reduce cost and time savings, with the first stage of work projected by May or June 2013.

Several support activities have also been commenced to advance the pre-feasibility study of the Silangan Project. Mining studies are being done by SRK Vancouver, metallurgical test works by Arizona-based KD Engineering and Metcom Research, and engineering studies by Golder Associates of Perth for the tailings storage facility. AECOM Australia Pty. Ltd. ("**AECOM**") was commissioned as lead consultant and study manager for the preparation of the project's Declaration of Mine Project Feasibility ("**DMPF**") to comply with government requirement for MPSA-149-99-XIII covering the Boyongan ore body, which DMPF was provisionally submitted on February 28, 2013 to the MGB, pending the issuance of the covering Environmental Clearance Certificate ("**ECC**") being awaited from the EMB after the Environmental Impact Assessment and Environmental Impact Statements have been done and submitted in early February 2013 as a requirement for the ECC. AECOM was also engaged for decline engineering and for the detailed mine infrastructure design. Lycopodium Minerals QLD Pty Ltd was engaged to develop the process plant design, GHD Pty Ltd for the surface infrastructures, and Geotecnica Corporation for the geotechnical investigation of the tailings storage facility. All of these technical consultants are well known globally in their respective fields of expertise.

Based on the latest project timetable, completion of the pre-feasibility study is targeted for March 2014. The preparation of the definitive or bankable feasibility study will thereafter follow and is projected for completion by September 2014, at about which time work on the project's financing will be conducted. The full scale mine development and construction work for the project should commence by 2015. Commercial operations are targeted to commence by 2017.

Since 2009 when the Company engaged itself directly in the exploration of the Silangan Project, total expenditures as of December 31, 2012 amounted to P5.1 billion, consisting of P1.4 billion incurred prior to 2009 when the project was under Anglo, and P3.7 billion actually spent by the Company thereafter. Expenditures of Kalayaan has reached to P830 million. The latest estimate for total project cost to commencement of commercial operations is US\$1.2 billion. Projected mine life based on initial estimates at the production rate of 30,000 tonnes per day is at least 30 years.

The Silangan Project is registered with the BOI as a non-pioneer project entitled to four years of income tax holiday from 2017, extendible for another two years subject to certain conditions.

The Silangan Project tenements currently comprising of the Boyongan and Bayugo deposits, are covered by MPSA-149-99-XIII and EP-XIII-03 Lot-B located in Surigao del Norte. These two tenements under SMMCI are surrounded by several tenements of the Company within the Surigao del Norte Province, as listed below:

| Tenements           | Area (Has.)   | Operator / Contractor | MPSA Date of Expiration |
|---------------------|---------------|-----------------------|-------------------------|
| MPSA-149-9-XIII     | 2,880         | SMMCI                 | December 29, 2024       |
| EP-XIII-013 Lot-A&B | 11,934        | SMMCI                 |                         |
| EPA-XIII-012        | 1,755         | SMMCI                 |                         |
| EPA-000039-XIII     | 6,309         | SMMCI                 |                         |
| MPSA-034-95-X       | 405           | SMMCI                 | February 1, 2021        |
| <b>Total</b>        | <b>23,283</b> |                       |                         |

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

|                      | Tonnes (millions) | Copper % | Gold g/t | Contained             |                 |
|----------------------|-------------------|----------|----------|-----------------------|-----------------|
|                      |                   |          |          | Copper (million lbs.) | Gold (000 ozs.) |
| <b>BOYONGAN</b>      |                   |          |          |                       |                 |
| 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             |
| <b>BAYUGO</b>        |                   |          |          |                       |                 |
| 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 more than 16 years 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.

### Kalayaan Project

In May 2011, the Company executed a Farm-In Agreement with Manila Mining Corporation (MMC) for the purchase for \$25 million of 5% interest in Kalayaan Gold-Copper Resources Inc. (KGCRI) and the right to explore the Kalayaan properties covering 286 hectares under EP-XIII-014B adjacent to EP-XIII-013 containing the Bayugo deposit.

Under the agreement, the Company is obligated to conduct exploration activities in the property for three years, and should the Company declare commercial feasibility within the period, it will have the right to increase its holdings in KGCRI to 60% by subscribing to additional 55% of KGCRI's outstanding capital stock for a minimal amount. Should this event occur, the mining operation for the Kalayaan deposit will most likely be conducted jointly with the Bayugo deposit which will make the Silangan Project comprise of three deposits together with Boyongan.

Since 2009 when Philex engaged itself directly in the exploration of the Silangan Project, its total expenditures has amounted to P3.7 billion to date. Combined with those incurred by Anglo, the total expenditures in this project would aggregate to P5.1 billion as of December 31, 2012. Total expenditures for 2012, 2011 and 2010 amounted to P1.1 billion, P621 million and P1.4 billion, respectively.

From June 2011 up to the end of the year, ground preparation with the corresponding environmental mitigating measures, including community initiatives, were conducted by the Company. Due to accessibility issues, diamond drilling did not commence until December 2011. Quite a number of drill rigs were then employed to fast track the drilling over the area and by February 2013, 53,962 meters (or 77% of projected) definition drilling and 3,570 meters (or 36% of projected) scout drilling work have been accomplished. The mineral resource estimation for the Kalayaan orebody is currently in progress and estimated for completion by May 2013.

## **Other Projects**

### **Bulawan Project**

The Bulawan Project used to be PGPI's gold operation which was mothballed in 2002 and since then kept under care and maintenance. The mine was decommissioned because of the low metal prices prevailing then. With the level of the price of gold having become significantly higher since the Company and PGPI started looking into the possibility of reopening the mine for operation but deemed it best to first determine if its current resource which stand at 23.9 million tonnes containing 1.91 grams of gold per tonne could be increased before committing further funds for the Project. With this objective, the Company embarked on its exploration program in the old Bulawan deposit, the Vista Alegre gold zone and the Nagtalay area.

### **Old Bulawan Mine**

In 2011, PGPI undertook a deep drilling campaign to find additional resource in the old Bulawan mine area. Two rigs were commissioned and operated simultaneously completing 17 holes equivalent to 4,944m of core. The holes were distributed in the periphery of the known Bulawan orebody. Alongside drilling, induced polarization survey was conducted in the Bulawan area to aid in the search for additional scout holes. Three lines were programmed and each line covered a distance of 2 km with array spacing of 100m interval. After the completion of the scout drilling program within the fourth quarter of 2011, geotechnical drilling started. A total of nine (9) geotechnical holes were proposed and two (2) of these were completed in the same year. In 2012, the remaining seven geotechnical holes were completed with an aggregate meterage of 1,863.60. Together with this were a total of 1,939 pulp samples from 10 batches prepared and delivered by Core Farm and Sample Preparation Laboratory to Intertek for assay. Based on the results, an engineering study of the old Bulawan mine will then have to be undertaken.

### **Vista Alegre Gold Zone and Nagtalaya Area**

The Vista Alegre Gold Zone, a 2km x 800m northeast trending gold corridor southwest of Bulawan deposit, had been the target for exploration by PGPI since 2007. It is composed of 7 gold prospects including Nagtalay, Skid-9, Skid-7, Laka Quarts, Laburan, South Ridge and Libertad. The definition drilling of the Nagtalay breccia-hosted gold deposit resulted in a tentative estimate of 12 million tons at 0.7 g/t of gold using 0.5g/tAu cut-off.

In 2011, stream sediment geochemistry, soil geochemistry, and the geophysical survey was conducted. The induced polarization (IP) survey was performed to determine the ground resistivity and chargeability. The potential at Skid 9, Laburan and Libertad was the focus of exploration.

Scout drilling commenced on the 4<sup>th</sup> quarter of 2011 up to the 3<sup>rd</sup> quarter of 2012 completing a total of 55 diamond drill holes with an aggregate meterage of 13, 825 meters of core. The

rehabilitation of the drilling area was also completed before the end of the year. Database management and geologic modeling is on process and the Company aims to come out with a resource estimate from these areas for possible open pit mining.

### **Sibutad Project**

Drill target selection started in October 2011 after completing the IP and magnetic survey within selected areas of the tenement. Diamond drilling was operated in West Lalab and Mt. Nanca Prospects completing seven (7) drill holes with a total meterage of 2,624.50 meters of core. The West Lalab drill holes located within the Sibutad mine site were drilled using the proposed model for Lalab, and IP anomaly maps as reference. Two (2) drill holes were drilled to test the breccia root model of Lalab while the other (2) drill holes targeted the IP anomalies in Mt. Emily. Drilling program proceeded to Mt. Nanca that targeted soil geochem anomalies.

A total of 1,725 pulp samples (routine samples and QAQC insertions) were submitted to the laboratory for multi-element analysis in 2012. The drill core samples are selected intervals from LSD-01 to RSD-04, and were prepared at the In-house sample preparation facility within the PGPI Sibutad mine site.

### **Bulog Project**

Pending resolution on surface access issues, exploration activities in Bulog for the year 2012 focused on LGU endorsement, IEC-project presentation and community relations work. No ground exploration activities were performed in the area. The exploration team plans to undertake geophysical surveys within the approved tenement. In line with the proposed survey program, community relation activities are now concentrated on securing the required formal consent of CBFMA and CENRO for the conflict area.

### **Cayas Project**

Exploration activities in Cayas Project focused on soil geochemical survey and geophysical survey. Identification of positive anomaly on the East Cayas prospect led to the delineation of scout drilling targets. A total of eleven (11) scout holes equivalent to 4,099.70 meters were drilled this year. The completed drill holes are distributed within the soil geochemical grid block at Sitio Upper Cayas, Brgy. Cabadiangan in Sipalayp city, Negros Occidental. Drill holes CBH-01 and CBH-02 reveal significant Cu-Au mineralization, hosted by Qtz+Bio Diorite and Breccia intervals. Cu-Mo mineralization is correlated to quartz-chalcopyrite veining with minor cpy occurring as specks and fracture fills. Copper-gold assays are also observed to be enhanced in fault-shear zones. A total of 1,768 core pulp samples, comprising of fourteen batches were prepared and dispatched by Bulawan Sample Preparation Facility to Intertek-McPhar Laboratory in Manila for chemical analysis. Of the abovementioned samples, 1,351 are regular samples and 417 are QA-QC samples.

### **East Patag**

The East Patag exploration prospect lies within Parcel 1 of MPSA-149-99-XIII. It has a total area of about 1,132 hectares and is located approximately 5kms NE of Bayugo and Boyongan deposit. The project site covers 3 municipalities and seven barangays: 1) Placer - Anislagan, Sta. Cruz, San Isidro; 2) Taganaan - Upper Libas; 3) Sison - San Pablo (Poblacion), Lower Patag, Upper Patag. The area is to be drilled to probe for possible mineralization and other purposes.

Drilling commenced in May completing eleven (11) holes by the end of 2012 with a total of 3,235.8 meters of drill cores. A total of 100 pulp samples, or 152.88m of cores, from EPH04 were sent to Intertek-McPhar for assaying, of which 23% are QA/QC samples. The sampling interval is two meters and the samples were analyzed for Au, Cu, Pb, Zn, and Ag. Official assay results were not yet received by SMMCI.

### **COMPLIANCE WITH ENVIRONMENTAL LAWS**



The Company's Padcal mine has been ISO14001 Certified since 2002 for Environmental Management System. This certification is, however, currently suspended because of the tailings spill accident in the second half of 2012.

With the Company's commitment to its environmental and policy statement of protecting and enhancing the environment, it has spent total environmental expenses of P298 million in 2012, bringing the Company's expenditures from 1967 to date to P3.93 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, as the Best Mining Forest champion in 2012 and 2011, and first runner-up in 2010, and for the Silangan Project, as first runner –up in 2011 and third runner-up in 2010. Silangan Project also won the Platinum Achievement Award (Mineral Exploration category) for the Presidential Mineral Industry Environmental Award in 2012 and 2011.

### **RELATED PARTY TRANSACTIONS**

Part III, Item 12 discusses related party transactions.

### **MAJOR BUSINESS RISKS**

#### **Nature of Mineral Exploration and Mining**

The exploration for, development and exploitation of, mineral properties entail significant operating risks. There is no certainty that the activities of the Company, which by the character of its business involve substantial expenditures and capital investments in the exploration and development of its resource properties, will result in the discovery of mineralized materials in commercial quantities and thereafter in a viable commercial operation. The Company tries to temper its exposure to these risks by prudent management, due diligence and the use of up-to-date technology.

#### **Price Risks**

The Company is highly dependent on world market prices for gold, copper and silver which are subject to volatility and which change for reasons beyond the Company's control. To protect the Company from disadvantageous price fluctuations, it hedged significant portions of its annual production, a practice which started way back 1996. One way the Company protected its revenue from a significant downturn in prices was by buying put options or through forward selling which establishes a minimum level for a portion up to substantially all of its production for a certain period as the Company may decide upon. Another was through zero-cost collars which establishes a price range below which the Company is paid for the difference between the actual price and the floor strike price, but above which range the Company is to pay the counterparty for the difference between the actual price and the strike ceiling price.

#### **Environmental and Natural Events Risks**

As a natural resource operation, the Company is inherently subject to potential environmental concerns. Thus, it puts a great amount of effort and invests a substantial amount of money into environmental protection and rehabilitation. The Company is also subject to Philippine laws and regulations governing the environmental impact of its operations. As a manifestation of its commitment to responsible and sustainable mineral resource development, the Company has adopted an environmental policy statement and has been ISO 14001 certified on Environmental Management Systems. The Company was also covered by a pollution liability insurance to answer for claims against it by reason of environmental pollution caused by its Padcal mining operation.

While the Company believes it is in substantial compliance with all material environmental regulations, it can give no assurance that changes in these regulations will not be made or environmental incidents will not happen which may adversely impact its operation and/or

impose added costs to the Company. For example, on August 1, 2012, the Company voluntarily suspended its Padcal operations when it was discovered that nontoxic water and sediment had discharged accidentally from its tailings pond due to heavy rainfall brought about by successive typhoons. As a result of the accident, the Company paid the local government in February 2013 P1.034 billion in fees to cover costs of remediation and rehabilitation activities for the affected area, and was fined by the Pollution Adjudication Board on January 18, 2013 in the amount of P92.8 million for violating the Philippine Clean Water Act of 2004 and the terms of its environmental compliance certificate.

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

## **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 property where its Corporate Head Office is situated. It likewise owns real properties and support facilities in its Padcal mine site, and a concentrate loading facility at Poro Point, San Fernando, La Union, which properties are used in operation. PGPI similarly owns real properties and support facilities in its Bulawan and Sibutad Projects which are currently on care and maintenance basis.

Properties of the Company for its head office comprising land, land improvements and building, and in its Padcal minesite classified under land, buildings, other land improvements, and certain machinery and equipment such as for crushing, ball mill, concentrator, reclamation, mill and mine sections are covered by a Mortgage Trust Indenture (MTI) which secured certain loans from creditor banks in previous years. While the MTI remain in place, currently the Company has no loan for which the MTI is used as security. Certain mining assets of PGPI are covered by a Collateral Trust Indenture to secure its loans from the Parent Company.

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.

The real estate property of the Company for its head office has an appraisal value of P657 million. The Padcal mine's property, plant, machinery and equipment have an appraised value of P2.3 billion, while the property, plant, machinery and equipment of PGPI have an appraised value of P453 million. SMMCI's machinery and equipment have an appraised value of P180 million. The Company's coal assets under BEMC have an appraised value of P187 million.

## **Item 3. Legal Proceedings**

There are three legal proceedings related to the August 1, 2012 Padcal tailings spill incident, as set out below:

|   | CASE TITLE /<br>SUBJECT<br>MATTER  | VENUE              | NATURE  | PROBABLE<br>AMOUNT/PENALTY   | STATUS   |
|---|--|--------------------|---|--|--|
| 1 | Notice of Violation and/or Report on Investigation Re: Mill Tailings Fee and Liabilities | MGB-Central (DENR) | Violation of item C of Section 190, DAO No. 2010-12                               | ₱1.034 billion (paid on 18 February 2013)  | Under appeal   |
| 2 | Water Pollution Control and Abatement Case   | PAB-NCR            | Violation of RA 9275 (Clean Water Act) and its Implementing Rules and Regulations | ₱92.8 million as of 18 November 2012   | Under motion for reconsideration and motion to lift the cease and desist order |
| 3 | Notice of Adverse Findings   | EMB-CAR            | Violation of RA 9275 (Clean Water Act) and its Implementing Rules and Regulations | Suspension and/or cancellation of the ECC and/or P50,000.00 fine for every violation | Pending response received yet from EMB-CAR                                     |

The Parent Company may be liable under lawsuits and claims arising from the ordinary course of business, which are either pending decision by the courts or are being contested, the outcomes of which are not presently determinable. The Company expects that the outcomes from 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 2012 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 March 31, 2013 is 32.84%

The average stock prices for the Company's common shares within the last two years were as follows:

| Year | Quarter     | High  | Low   |
|------|-------------|-------|-------|
| 2013 | 1st Quarter | 19.76 | 14.92 |
| 2012 | 4th Quarter | 15.80 | 12.52 |

|      |             |       |       |
|------|-------------|-------|-------|
| 2011 | 3rd Quarter | 24.40 | 13.98 |
|      | 2nd Quarter | 27.85 | 20.10 |
|      | 1st Quarter | 24.15 | 20.05 |
|      | 4th Quarter | 24.80 | 20.00 |
|      | 3rd Quarter | 28.95 | 18.50 |
|      | 2nd Quarter | 23.50 | 14.98 |
|      | 1st Quarter | 16.30 | 13.74 |
|      |             |       |       |

The Company's stock was traded at P17.30 per share as of April 2, 2013.

### **Holders**

Of the Company's 44,647 shareholders as of March 31, 2013 with 4,933,207,818 common shares issued and outstanding, the top 20 are as follows:

|              | <b>Name of Stockholder</b>   | <b>Number of Shares</b> | <b>% of Ownership</b> |
|--------------|--|-------------------------|-----------------------|
| 1            | Asia Link B. V.  | 1,023,275,990           | 20.74                 |
| 2            | Social Security System (inclusive of 153,826,199 shares lodged with PCD Nominee Corporation) | 1,015,271,128           | 20.58                 |
| 3            | PCD Nominee Corporation (As record owner. See Item 11 for additional information.)           | 959,980,821             | 19.46                 |
| 4            | Two Rivers Pacific Holdings Corp.  | 738,871,510             | 14.98                 |
| 5            | Kirtman Limited  | 242,011,062             | 4.91                  |
| 6            | Maxella Limited  | 239,479,900             | 4.85                  |
| 7            | The First National Investment Company  | 12,195,042              | 0.25                  |
| 8            | Albert Awad  | 8,844,478               | 0.18                  |
| 9            | Makati Supermarket Corp.   | 8,353,226               | 0.17                  |
| 10           | Estate of Allen Cham   | 6,720,476               | 0.14                  |
| 11           | Estate of Eudaldo Boix   | 5,025,422               | 0.10                  |
| 12           | Philippine Remnants Co., Inc.  | 4,875,000               | 0.10                  |
| 13           | Manuel V. Pangilinan   | 4,655,000               | 0.09                  |
| 14           | Frank Pao  | 3,639,260               | 0.07                  |
| 15           | Religious of the Virgin Mary-B   | 3,125,777               | 0.06                  |
| 16           | Estate of Eudaldo Boix & Petra Hernando  | 3,093,203               | 0.06                  |
| 17           | Paulino de Ugarte &/or Elena de Ugarte   | 3,068,143               | 0.06                  |
| 18           | Carol Joan Reif  | 2,974,086               | 0.06                  |
| 19           | Robin John Pettyfer  | 2,644,747               | 0.05                  |
| 20           | Estate of Jose Tan Yan Doo   | 2,569,251               | 0.05                  |
| <b>Total</b> |  | <b>4,290,673,522</b>    | <b>86.98</b>          |

### **Dividends**

Starting from 2010, the Company's Board of Directors has adopted a policy to declare cash dividend at 25% of the Company's core net income should the circumstances allow for its declaration. Previously, the policy was based on 25% of annual cash flow before debt service.

In 2012 and 2011, the following dividends were declared:

1. On July 25, 2012, a regular cash dividend of ₱0.11 per share at 25% of first half 2012 core net income; for record date of August 8, 2012; paid on September 3, 2012.
2. On February 29, 2012, a regular cash dividend of ₱0.14 per share at 25% of second half 2011 core net income, and a special cash dividend of ₱0.28 per share at 25% of full year 2011 core net income; for record date of March 15, 2012; paid on April 12, 2012.
3. On July 27, 2011, cash dividend of P0.14 per share at 25% of first half 2011 core net income; for record date of August 10, 2011; payable on August 31, 2011.
4. On May 25, 2011, dividend comprising of 598,626,045 shares or 35.21% of Philex Petroleum Corporation (PPC) held by the Company as property component at one PPC shares for every eight Philex shares, and a cash component of P0.052 per share; for record date of June 8, 2011; payable on August 18, 2011 was also declared.
5. On February 23, 2011, cash dividend of P0.16 per share at 25% of second half 2010 core net income; for record date of March 10, 2011; payable on April 5, 2011.

#### **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.

The Company's stockholders at its April 21, 2009 meeting approved to amend the Articles of Incorporation to increase the authorized capital stock of the Company from Five Billion Pesos divided into five billion shares at par value of One Peso per share to Eight Billion Pesos divided into eight billion shares at par value of One Peso per share. On May 22, 2009, the SEC approved the amendment of the Articles of Incorporation for the increase in authorized capital stock.

On June 23, 2006, the Company's stockholders approved and adopted a Stock Option Plan 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.

As of December 31, 2012, the total option shares granted amounted to 150,728,832, of which 111,341,082 option shares have been exercised and 26,417,100 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.

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

### **For the years ended December 31, 2012, 2011 and 2010**

Information on the Company's results of operations and financial condition presented in the 2012 Audited Consolidated Financial Statements and accompanying Notes to the Consolidated Financial Statements are incorporated hereto by reference.

The Company's net income attributable to the equity holders of the Parent Company in 2012 amounted to P224.9 million, compared to P5.771 billion in 2011 and P3.963 billion in 2010. The significant drop in income was primarily due to the suspension of the Padcal Mine operations from August 1, 2012 when mine tailings were accidentally discharged from its Tailings Storage Facility No. 3 (TSF3) following two weeks of unabated heavy rains brought about by two typhoons, which suspension has continued and affected the Company's ability to generate earnings during the balance of the year. With non-controlling interests further contributing losses, the Company's results of operations ended in a consolidated net loss for the year 2012 of P294.6 million, as compared to the consolidated net income in 2011 of P5.800 billion, which was the highest thus far in the Company's 55 years of operating history, and the net income in 2010 of P3.945 billion, the third highest. Core net income was lower at P1.705 billion in 2012, compared to P5.568 billion in 2011 and P4.151 billion in 2010. EBITDA amounted to P1.025 billion in 2012, P8.851 billion in 2011 and P6.566 billion in 2010.

As a consequence of the suspension of the Padcal Mine operations in the second half, the Company recorded a decline in consolidated operating revenue to P9.137 billion in 2012, significantly lower by 43% and 32% from the full year operating revenues of P16.134 billion in 2011, the highest, and P13.394 billion in 2010, the second highest, to date, respectively. Gold revenue, comprising 54% of total revenue, declined to P4.946 billion in 2012 from P9.294 billion in 2011 and P7.209 billion in 2010. Copper revenue, comprising 42% of total, dropped to P3.866 billion in 2012 from P6.092 billion in 2011 and P5.721 billion in 2010. Revenues from silver, coal, petroleum and others, which made up the remaining 4%, were likewise lower at P325.6 million from P748.6 million in 2011 and P464.1 million in 2010. The 65% drop in revenue from petroleum was brought about by the suspension of the Galoc operations from November 2011 to April 2012 to allow for the upgrading of its facilities, where most of Philex Petroleum Corporation's 60.49%-owned subsidiary, Forum Energy Plc's (FEP), income comes from.

Metal production were lower at 71,297 ounces gold and 22,306,172 pounds copper, but at higher average realized price of \$1,638 per ounce gold and \$3.99 per pound copper in 2012. In 2011, gold produced were at 140,113 ounces at average realized price of \$1,536 per ounce, while copper produced were at 37,955,132 pounds at average realized price of \$3.70 per pound. In 2010, gold produced were at 133,516 ounces at average realized price of 1,217 per ounce, while copper produced were at 35,620,784 million pounds at average realized price of \$3.63 per pound. The higher metal production combined with the stronger realized metal prices boosted operating revenue in 2011 from 2010.

Operating cost and expenses amounted to P5.250 billion in 2012, lower respectively by 29% and 21% than the P7.380 billion in 2011 and P6.615 billion in 2010. Marketing charges in 2012 amounted to P439.8 million, likewise 46% and 38% lower than the P810.5 million in 2011 and P714.0 million in 2010, when production volume were higher. Income from

operations amounted to only P3.447 billion in 2012 which was 57% and 43% lower than the P7.943 billion income in 2011 and P6.065 billion in 2010, respectively.

The Company incurred maintenance costs of P907.8 million during the period even without operations from August to December 2012 as the workforce were all retained and as maintenance work for the underground and the mill have to be undertaken to keep the mine ready for immediate resumption. Relative to the TSF3 incident, the Company made provisions in 2012 in the amount of P1.447 billion to cover the mine waste & tailings fee (MWT Fee) of P1.034 billion assessed by the Mine and Geosciences Bureau (MGB) against the Company, the estimated penalty for the suggested violation of the Clean Water Act, and for the rehabilitation and remediation of the areas affected by the tailings spill. The MWT fee of P1.034 billion was paid in full to the MGB on February 18, 2013.

Under Philex Petroleum Corporation (PPC), an impairment loss of P966.9 million was recorded which consisted of P388.6 million on Forum Energy plc's (FEP) deferred oil exploration costs and P578.3 million on Brixton Energy & Mining Corporation's (BEMC) assets. FEP assessed the remaining potential of the North Cebu block under Service Contract No.40 based on a third party report in the first quarter of 2013 primarily downgrading the potential of the block. Following this report, FEP has written down its deferred oil exploration costs in SC 40, resulting to the remaining carrying value of P133.4 million at the PPC level and eventually at the Company's consolidated accounts. The impairment loss recognized by BEMC following the suspension of its mining operations, on the other hand, covers 100% of the carrying value of all its property, plant and equipment amounting to P434.3 million and a significant volume of its coal inventory due to high ash content which poses a risk on the recoverability of the inventory costs of P143.5 million.

The Company recognized foreign exchange losses of P164.7 million mainly from the revaluation of the Company's net foreign-currency denominated assets due to the effect of the appreciation of the Philippine peso against the US dollar. The unwinding in August 2012 of all of the Company's outstanding metal and foreign currency hedge contracts prompted by the suspension of Padcal operations generated a marked-to-market gain of P307.9 million. The provisions for the TSF 3 incident, the impairment losses of PPC, the foreign exchange losses, as well as the gain realized from the pre-termination of outstanding metal and currency hedging contracts are non-recurring in nature and therefore do not form part of the Company's core net income.

After net interest income of P58.2 million and other income in aggregate amount of P33.6 million, net income before income tax amounted to P259.9 million, a decrease from P8.131 billion in 2011 and P5.684 billion in 2010. Provision for income tax in 2012, 2011 and 2010 amounted to P554.5 million, P2.331 billion and P1.739 billion, respectively.

In 2011, the Company booked a gain on dilution of interest in associates of P523.7 million, as a result of the reclassification of the Company's investment in shares of stock of Pitkin Petroleum Plc (Pitkin) to Available for Sale Investment (AFS) when the Company's holdings in Pitkin was diluted from 21% to 18.46%. The Company also booked interest income from cash and cash equivalents of P86.0 million. These were partially offset by impairment loss on Lascogon's deferred exploration costs of P170.8 million; equity in net losses of associates of P44.1 million, mostly from Pitkin; interest expense from loans of P36.2 million; foreign exchange losses of P14.7 million; and provision for losses consisting of directors compensation of P113.0 million, value-added tax claims disallowances of P7.1 million, and other provisions of P37.8 million. The net positive effects of these, plus the net income from operations of P7.943 billion, comprised the net income before income tax of P8.131 billion.

In 2010, an extraordinary loss of P119.8 million was recognized as a result of the reclassification of the Company's investment in shares of stock of PetroEnergy Resources Corporation (PERC) to AFS investment when the Company's holdings in PERC was diluted from 20.62% to 10.31%. Equity in net losses of associates, mostly from Pitkin, amounted to P37.6 million. Interest expense from loans amounted to P20.9 million, while foreign exchange losses amounted to P96.5 million. Provision for losses included directors' compensation of

P75.0 million and inventory losses and obsolescence of P55.6 million. The negative effects of all of these reduced net income before income tax to P5.684 billion.

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

In 2012, the Company earned additional revenue of P384.7 million from hedging transactions, comprising of P410.6 million gain from copper and P22.0 million gain from currency, minus P47.9 million loss from gold. In 2011, on the other hand, the Company's revenue was reduced by a net loss of P165.1 million from hedging transactions consisting of P203.9 million loss from gold, partially offset by P14.1 million gain from copper and P24.7 million gain from currency. Similarly, in 2010, the Company's revenue was reduced by a net loss of P637.1 million from hedging transactions consisting of P420.4 million loss from gold and P229.1 million loss from copper, partially offset by the P12.4 million gain from currency. The net hedging gains recorded as revenue in 2012 does not include the P307.9 million marked-to-market gain from the pre-termination of the outstanding hedging contracts in August 2012 recorded under Other Income.

The Company had no outstanding derivative financial instruments as of December 31, 2012 and 2010. As of December 31, 2011, however, the Company had outstanding derivative financial instruments consisting of gold, copper and currency hedging contracts. For gold, 48,000 ounces of put options at a strike price of US\$1,400 per ounce with monthly maturity of 8,000 ounces from January to June 2012; and 32,100 ounces of collars at an average put price of US\$1,600 per ounce and call price of US\$1,930 per ounce, were outstanding at year-end 2011. For copper, the outstanding contracts were for 3,900 DMT of collars at a put price of US\$4.00 per pound and call price of US\$4.81 per pound; 3,900 DMT at a forward price of US\$4.43 per pound, and 3,780 DMT of put options at a strike price of US\$3.00 per pound. Additionally for currency, collar contracts for US\$120 million were outstanding at an average put price of P42.50 : US\$1 and call price of P44.78 : US\$1.

As of December 31, Current Assets of the Company amounted to P4.356 billion in 2012, 48% and 44% lower than the P8.332 billion in 2011 and P7.751 billion in 2010, primarily from lower cash and cash equivalents which decreased to P1.670 billion in 2012, compared to P3.947 billion in 2011 and P3.782 billion in 2010, because of the lower cash provided from operations of P2.913 billion in 2012, down from P6.641 billion and P4.507 billion in 2011 and 2010, respectively.

Accounts Receivable consisted of Trade Receivable from sales of the Company's copper concentrates or bullion, Accrued Interest Receivables and Other Receivables. As a result of the suspension of Padcal operations, no further shipment was made by the Company in the second half of 2012 after the full shipment in August 2012, the proceeds of which were fully collected in December 2012, and the minimal shipment in October 2012 to exhaust the remaining 516 DMT copper concentrate in stockpile. The Company also shipped 378 ounces in gold bullion in December 2012, with the proceeds remaining outstanding as at year-end 2012. This resulted to a lower balance of Accounts Receivable in 2012 amounting to P207.7 million as against P1.596 billion in 2011 and P2.180 billion in 2010 which have higher Trade Receivable balances in both years. The Padcal mine's copper concentrates shipments were provisionally valued based on prices in the second calendar week immediately prior to the week of shipment. These were then adjusted to the applicable final prices based on their "quotational period (QP)", which for contract years 2012 and 2011 was the calendar month following the month of the shipment's arrival in Japan for gold and silver, and the third calendar month following the month of arrival for copper, compared to the second calendar month following the month of arrival for copper for contract year 2010

Inventories, mostly materials and supplies, were higher at P1.315 billion in 2012, compared to P1.119 billion in 2011 and P1.094 billion in 2010. In 2012, the amount of materials and



supplies accounted for 93% of the total amount of inventories, with the remainder from coal and petroleum inventories and none from mine products inventory.

Derivative Assets pertaining to marked-to-market gains on the outstanding hedging contracts at year end, is nil in 2012 and 2010, as there were no outstanding hedging contracts as of year-end compared to P904.7 million in 2011. Prepaid Income Tax of P166.5 million in 2012 was due to the higher income tax payments made in the first three quarters against the amount payable for the year due to losses incurred towards the end of 2012. The increase in Other Current Assets to P997.3 million in 2012 from P765.3 million in 2011 and P694.6 million in 2010 pertains mainly to the increase in input value-added tax claims on importation of materials and supplies and equipment pending with the Department of Finance.

As of December 31, 2012, Non-Current Assets of the Company slightly increased to P25.051 billion from P24.123 billion in 2011 but much higher than P17.902 billion in 2010.

Property, plant and equipment (PPE) as of December 31 increased to P6.035 billion compared to P5.400 billion in 2011 and P5.095 billion in 2010. The yearly increases in the past three years were mainly due to capital expenditures of P2.105 billion, P1.347 billion and P1.465 billion, respectively, incurred by the Company and its subsidiaries.

Available for Sale (AFS) financial assets, recorded at fair value decreased to P3.991 billion in 2012 from P5.428 billion in 2011 but higher compared to P886.7 million only in 2010. The lower balance in 2012 versus 2011 is due to the decrease in fair value of investments in quoted shares of stock amounting to P1.420 billion; while the higher balance in 2011 is mainly due to the increase in fair values of investment in quoted shares of stock amounting to P1.602 billion, as well as due to the acquisition of interests in Lepanto Consolidated Mining Company at P1.433 billion and in Indophil at P254 million, and the reclassification of investment in Pitkin of P829.5 million to AFS Financial Assets due to a loss of significant influence of PPC in the Company.

Deferred Exploration Costs and Other Non-current Assets increased to P14.767 billion in 2012 from P13.024 billion in 2011 and P10.828 billion in 2010. The increase in balances was on account of the on-going exploration activities in the Silangan and Kalayaan projects as well as in the oil exploration projects of FEP.

At year-end, Total Assets of the Company amounted to P29.407 billion in 2012 compared to P32.454 billion in 2011 and P25.653 billion in 2010.

As of December 31, 2012, Total Current Liabilities amounted to P4.618 billion, 79% higher than the P2.576 billion in 2011 which is 11% higher than the P2.312 billion in 2010.

Short-term loans increased to P1.450 billion in 2012 from P350.0 million in 2011 and P150.0 million in 2010. The increase in 2012 was due to the P1.100 billion availment of the Company from the P2.1 Billion loan facility with Kirtman Limited, a subsidiary of First Pacific Company Limited. The remaining P350 million short-term loan pertains to BEMC's availment for its working capital requirement of a P150 million with the Bank of the Philippine Islands (BPI) in 2010, increased by P100 million also from BPI and another P100 million from Banco De Oro in 2011.

Accounts Payable and Accrued Liabilities, mainly payables to suppliers and contractors, slightly decreased to P1.096 billion in 2012 from P1.160 billion in 2011 which is higher than the P968.5 million in 2010. No significant amount of the Company's trade payables have been unpaid within their acceptable terms agreed upon with suppliers.

Dividends Payable amounted to P483.3 million in 2012 compared to P325.3 million in 2011 and P207.9 million in 2010, as higher dividend totaling to P0.53 per share in 2012 were declared by the Parent Company, compared to P0.352 per share in 2011 and P0.14 per share in 2010. In 2011, cash dividend of P0.96 per share were paid to US stockholders in lieu of the PPC shares declared by the Company as property dividend.

Provisions and Other Payables increased to P1.590 billion in 2012 from P317.1 million in 2011 and P128.3 million in 2010. The higher balance in 2012 was mainly on account of the provision for MWT fee and for the rehabilitation and clean-up costs related to TSF3 amounting to P1.447 billion, while the increase in 2011 versus 2010 was mainly due to the higher provision for directors' compensation of P113.0 million and P75.0 million, respectively. No provision for directors' compensation was made in 2012.

There was no Income Tax Payable at year-end 2012 which resulted in a tax loss and an overpayment of P166.5 million from the quarterly payments, following the suspension of Padcal operations. In 2011, Income Tax Payable amounted to P376.0 million compared to P857.0 million in 2010. The lower balance in 2011 versus 2010 was because the fourth quarter income in 2011 was lower than in 2010, while the fourth quarter income in 2010 was higher than in 2009.

There were no hedge contracts outstanding as of December 31, 2012 and 2010, thus the nil amount for Derivative Liabilities. In 2011, however, Derivative Liabilities amounted to P47.3 million covering the marked-to-market losses on the outstanding currency hedging contracts during that period.

Total Non-Current Liabilities at year-end slightly decreased to P2.572 billion in 2012 compared to P2.827 billion in 2011 and P2.583 billion in 2010.

Deferred Income Tax Liabilities amounted to P2.381 billion in 2012 compared to P2.635 billion in 2011 and P2.013 billion in 2010. Provision for losses slightly decreased to P171.6 million in 2012 from P173.7 million in 2011 and P538.1 million in 2010, which was mainly for the contingent liability of a subsidiary acquired in 2008 that is consolidated into the Company's accounts. Provision for Mine Rehabilitation slightly increased to P18.9 million in 2012 from P17.8 million in 2011, which were lower than the P31.7 million in 2010.

As of December 31, 2012, 2011 and 2010, there were no outstanding Retirement Benefits Liability as the accrued liability on the retirement plan of the Company has been fully funded per actuarial valuation. The Company contributed to the Philex Retirement Trust P96.0 million annually from 2010 to 2012.

As of December 31, Total Liabilities of the Company amounted to P7.190 billion in 2012, 33% higher than the P5.403 billion in 2011, which is 10% higher than the P4.895 billion in 2010.

Stockholders' Equity as of December 31 amounted to P22.217 billion in 2012 compared to P27.051 billion in 2011 and P20.758 billion in 2010. The 18% decrease versus the prior year was mainly due to the (i) lower consolidated net income attributable to equity holders of the Parent company of P224.9 million in 2012, compared to P5.771 billion in 2011 and P3.963 billion in 2010, (ii) the lower balance of Unrealized Gain on AFS financial assets of P601.1 million in 2012 from P2.021 billion in 2011 but higher than P419.4 million in 2010, (iii) the negative balance of Cumulative Translation Adjustment of P41.8 million in 2012 from positive P495.0 million in 2011 and also a negative P66.2 million in 2010, (iv) the lower balance of the Effect of transactions with non-controlling interests (the difference between the acquisition cost and the book value of the interest acquired on Philex Gold Inc., FEP and FEC Resources, Inc. shares) of P45.1 million in 2012 from P106.0 million in 2011 and 2010, and (v) the higher cash dividends declared of P0.53 per share in 2012 from P0.352 in 2011 and P0.14 in 2010.

For the year, Net cash provided by operating activities amounted P2.913 billion in 2012, P6.641 billion in 2011 and P4.507 billion in 2010. Cash used in investing activities, principally for the additions to PPE and Deferred Exploration Costs, which included the consolidation of the non-cash asset of the Silangan companies, amounted to P3.931 billion in 2012, compared to P5.095 billion in 2011 and P2.956 billion in 2010. Net cash used in financing activities amounted to P1.253 billion in 2012 on account of higher cash dividend payments of P2.456 billion, compared to the net cash used in financing activities of P1.400 billion in 2011 and P441.7 million in 2010.

Please refer to Note 2 of the Notes to the Consolidated Financial Statements for discussions on the new and revised accounting standards that the Company adopted in 2012.

### **Top Five (5) Key Performance Indicators**

#### **Average Metal Price**

The average realized prices for the Company's products are key indicators in determining the Company's revenue level. While the world spot market prices quoted in the London Metal Exchange for copper and the London Bullion Market Association for gold and silver are applied on the Company's shipments as well as on mine products inventory, and provisional prices initially used are adjusted to forward prices at the end of each reporting period, the effect of hedging prices are also taken into consideration on hedging transactions entered into from time to time to protect revenue from any significant fluctuations in prices and where reasonable floor levels could be provided on the Company's production. At certain points, the spot price or forward price, and the hedge price would comprise the Company's average realized prices, which in 2012 amounted to \$1,638 per ounce gold (net of hedging loss of \$16 per ounce) and \$3.99 per pound copper (after hedging gain of \$0.44 per pound). In 2011, the realized price amounted to \$1,536 per ounce gold (net of hedging costs of \$32 per ounce) and \$3.70 per pound copper (after hedging gain of \$0.01 per pound). In 2010, the realized price amounted to \$1,217 per ounce gold (net of hedging loss of \$68 per ounce) and \$3.63 per pound copper (net of hedging loss of \$0.14 per pound).

As of December 31, 2012, gold and copper prices were at \$1,670 per ounce and \$3.71 per pound, respectively.

#### **Tonnes Milled and Ore Grade**

Tonnes milled and ore grade determine concentrates production and sales volume. The higher the tonnage and the grade of ore, the more metals are produced and sold. Tonnes milled were 5.537 million tonnes in 2012, which was less by five months due to the suspension of operations from August 1, compared to the full year production of 9.487 million in 2011 and 9.364 million in 2010. The tonnage milled for the whole year of 2011 actually reflects the highest level achieved in over the past eleven years of Padcal's operation. Ore grade averaged 0.507 grams per tonne gold in 2012, 0.564 grams per tonne gold in 2011 and 0.552 grams per tonne gold in 2010. Copper average grade were 0.224% in 2012, 0.221% in 2011 and 0.210% in 2010. Despite the high grade, concentrates produced decreased to 40,562 dry metric tons in 2012 because of lower ore tonnage, compared to 69,613 dry metric tons concentrates in 2011 and 65,340 dry metric tons concentrates in 2010. Equivalent metal production also decreased to 71 thousand ounces gold and 22.3 million pounds copper in 2012, compared to 140 thousand ounces gold and 38.0 million pounds copper in 2011; and 134 thousand ounces gold and 35.6 million pounds copper in 2010.

#### **Foreign Exchange Rate**

As the Company's sales proceeds and bank loans are in U.S. dollars, a higher Philippine peso to U.S. dollar exchange rate means higher peso sales revenue, but would also reflect a foreign exchange loss on the restatement of the Company's dollar obligations. Conversely, a lower exchange rate reduces the Company's revenue in pesos, but brings about foreign exchange income on the loans. As a significant portion of the Company's cash and cash equivalents are also in U.S. dollar, higher exchange rates would reflect foreign exchange gain, and at lower exchange rate, a loss. The Company's average realized exchange rates were P42.58 in 2012, P43.32 in 2011 and P44.49 in 2010, which were after the effects of the average currency hedging gains of P0.11 in 2012, P0.07 in 2011 and P0.05 in 2010. As of December 31, 2012, the peso to dollar exchange rate was P41.05 compared to P43.84 in 2011 and 2010.

#### **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 operating performance of the Company. At the same cost level, the higher the production volume the lower the cost per tonne, as would also be the result at the same production volume but 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 metal unit as well, but with the grade, as it affects metal production, and the exchange rate, as it affects the conversion from peso to dollars, getting into consideration.

During the operating period up to August 1 in 2012, the total production cost (minesite cost and expenses excluding marketing charges, excise tax and royalties) per tonne of ore milled was P647 from the total production cost of P3.517 billion over ore milled of 5.537 million tonnes, compared to the lower cost per tonne of P560 from the total production cost of P5.313 billion over ore milled of 9.487 million tonnes for the whole year in 2011, and the cost per tonne of P534 from the production cost of P5.029 billion over ore milled of 9.364 million tonnes in 2010. The total operating cost per tonne of ore milled was P809 from the total operating cost of P4.412 billion in 2012, compared to the 10% lower operating cost per tonne of ore milled of P735 from the total operating cost of P6.977 billion in 2011, and 18% lower operating cost per tonne of P686 from the total operating cost of P6.455 billion in 2010.

Expressed in operating cost (all cost and expenses excluding corporate overhead) per ounce of gold produced, operating cost before copper revenue credits was \$1,475 per ounce in 2012 compared to \$1,149 per ounce in 2011 and \$1,082 per ounce in 2010. After copper revenue credit, the corresponding cost per ounce was \$216 in 2012 compared to \$114 in 2011 and \$92 in 2010. On the other hand, expressed in terms of operating cost per pound of copper produced before gold revenue credit, the cost per pound was \$4.71 per pound in 2012, compared to \$4.24 in 2011 and \$4.06 in 2010. After gold revenue credit, the cost per pound was negative \$0.58 in 2012 compared to the cost of negative \$1.55 in 2011 and negative \$0.59 in 2010.

#### **Basic /Diluted Earnings Per Share**

The basic earnings per share reflect the Net income attributable to equity holders of the Company expressed in amount per share of the Company's average outstanding capital stock. Assuming a constant outstanding number of shares, as the Company's earnings increase, the earnings per share correspondingly increase.

The basic earnings per share in 2012 was P0.046 based on the 4,932,216,253 weighted average shares outstanding for the period. In 2011, the basic earnings per share was P1.171 based on the 4,926,583,729 weighted average shares outstanding for the period. In 2010, the basic earnings per share was P0.806 based on the 4,914,719,911 weighted average shares outstanding for the period.

Considering the effect of the Company's potentially dilutive stock options outstanding for the period, an assumed exercise of the options would have resulted in additional common shares of 6,416,061 in 2012, 5,703,668 in 2011, and 5,484,741 in 2010. The diluted earnings per share in 2012 was P0.046 based on the 4,938,632,314 weighted average shares adjusted for the effect of such assumed exercises of stock options. The diluted earnings per share in 2011 was P1.170 based on the 4,932,287,397 weighted average shares adjusted for the effect of such assumed exercises of stock options. In 2010, the diluted earnings per share was P0.805 based on the 4,920,204,652 weighted average shares adjusted for the effect of exercises of stock options for the period.

#### **Known Trends, Events or Uncertainties**

On January 9, 2013, BEMC suspended the underground mining operations of its coal mine in Zamboanga Sibugay to undertake a detailed review of the operations and prospects of the coal mining project. Project employees were separated.

On January 9, 2013, the Department of Energy (DOE) approved the extension of the Sub-Phase 2 of Service Contract No. 72 from August 2013 to August 2015, which extension is not

to affect the term of the service contract and will not form part of its ten year exploration period.

On January 14, 2013, the Company availed of the remaining balance of the P2.1 billion-loan agreement with Kirtman Limited amounting to P1 billion. The P2.1 billion loan, equivalent to about US\$50 million, is part of the US\$200 million commitment of FPC to the Company. On March 12, 2013, loan agreements covering the balance of US\$150 million with Kirtman Limited for US\$25 million, Maxella Limited for US\$25 million and Asia Link B.V. for US\$100 million were executed by the parties.

On February 12, 2013, the Company received US\$25 million from Chartis Philippines Insurance, Inc. (Chartis) in full settlement of insurance claims under the Company's Pollution Legal Liability Insurance Policy pertaining to the 2012 TSF 3 incident at the Padcal mine. The settlement was covered by a Settlement, Release and Policy Buy Back Agreement signed on February 8, 2013 with Chartis.

Following the payment by the Parent Company on February 18, 2013 of P1.034 billion MWT fee assessment, the MGB issued on February 26, 2013 its Order granting the Company the authority to temporarily resume operations to undertake the urgent remediation measures for the Tailings Storage Facility No. 3 of the Padcal Mine, subject to the conditions that the resumption of operation shall not exceed four months, and that an independent third party chosen jointly with the MGB shall be commissioned to undertake a monitoring and audit of the remediation measures to be undertaken by the Company. This was similarly followed by the Order from the Pollution Adjudication Board dated February 25, 2013 received by the Company on March 7, 2013 temporarily lifting the cease and desist operation order on the Padcal mine for the same number of months. These orders paved the way for Padcal to temporarily resume operation which it commenced on March 8, 2013.

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 what have been 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 are likewise no significant seasonality or cyclicity 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**

### **External Audit Fees and Services**

#### **Audit and Audit-Related Fees**

For 2012, 2011 and 2010, 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 were P9.7 million for 2012, P9.7 million for 2011 and P6.9 million for 2010.

### **Tax Fees**

In 2011, the Company engaged the external auditors' tax group to assist the Company handle the Bureau of Internal Revenue's tax assessment on the Company's income tax return for the taxable year 2007. The tax fees for these engagements was P950 thousand in 2011.

### **All Other Fees**

The external auditors were also engaged to render financial and tax due diligence services to the Company relative to certain acquisitions prospects in 2012 and 2011 for fees amounting to P7.8 million and P4.6 million, respectively.

All audit and non-audit engagements are 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 present their program and schedule to the Company's Board Audit Committee which include 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 are likewise presented by the external auditors to the Audit Committee for committee approval and endorsement to the full Board for final approval. On quarterly basis, the external auditors also prepare a report on their review of the Company's quarterly financial reports based on agreed upon audit procedures with the Audit Committee before the reports are filed with the SEC.

### **Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

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** - 66, Filipino citizen. Mr. Pangilinan has been Chairman of the Board since June 24, 2009, and Chairman & Chief Executive Officer since December 7, 2009. He has been a Director of the Company and PGPI since November 2008, and was re-elected on June 27, 2012. He is also Managing Director and Chief Executive Officer of First Pacific

Company Limited, and Chairman of the Philippine Long Distance Telephone Company (PLDT) since 2004, after serving as its President and Chief Executive Officer since 1998. He is also Chairman of Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (PILTEL), Metro Pacific Investments Corporation, 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, 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.

**ELIZA R. ANTONINO** - 35, Filipino citizen. Ms. Antonino has been a Director of the Company and PGPI since April 27, 2011 and was re-elected on June 27, 2012. She is currently Commissioner of the Social Security Commission (SSS), where she is Chairperson of its IT Committee and a Member of its Investments Oversight, Budget, OFW Coverage, and Rationalization Committees. She is also Director of the Union Bank of the Philippines and Philamlife Tower Management Corporation. Ms. Antonino was Consultant to the Commission of Appointments and the Bio-fuel Act Oversight Committee of the Philippine Senate, where she also served as Director V under the Office of former Senator Manuel Roxas II. She was also Vice President for Business Development of WEMILCO Management and Development Company.

**MARILYN A. VICTORIO-AQUINO** – 57, Filipino citizen. Ms. Aquino has been a Director of the Company and PGPI since December 7, 2009 and was re-elected on June 27, 2012. She is also a Director of Silangan Mindanao Mining Co., Inc. She is currently Assistant Director of First Pacific Company Limited, following her 32-year law practice at SyCip Salazar Hernandez and Gatmaitan Law Offices, where she was Partner from 1989 to 2012. Ms. 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.

**EULALIO B. AUSTIN, JR.** – 51, Filipino citizen. Mr. Austin has been a Director of the Company and PGPI since June 29, 2011 and was re-elected on June 27, 2012. He became President and Chief Operating Officer of the Company in January 2012, after serving 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 President and Director of Silangan Mindanao Mining Co., Inc. and Director of Philex Petroleum Corporation. He likewise sits on the Board of Directors of the Philippine Society of Mining Engineers (PSEM), and was Founding President of PSEM's Philex Chapter.

**OSCAR J. HILADO** – 76, Filipino citizen. Mr. Hilado has been an Independent Director of the Company since December 7, 2009, and was last re-elected on June 27, 2012. He is currently the Chairman of the Board of Directors of Philippine Investment Management (Phinma), Inc., Phinma Corp., Holcim Philippines, Inc., Trans Asia Oil and Energy Development Corporation, Phinma Property Holdings Corporation and Union Galvasteel Corporation, and Vice Chairman of Trans Asia Power Generation Corporation. Mr. Hilado is also a Director of A. Soriano Corporation, First Philippine Holdings Corporation, 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., and Trans Asia Renewable Energy Corporation.

**BIENVENIDO E. LAGUESMA**. 62, Filipino citizen. Mr. Laguesma was elected to the Board of Directors of the Company and PGPI on February 27, 2013. He is presently a Commissioner of the Social Security Commission (SSS) and has held such position since March 2011. Mr. Laguesma was Secretary of the Department of Labor and Employment (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 also Senior Partner of the Laguesma Magsalin Consulta and Gastardo Law Offices.

**ROBERT C. NICHOLSON** - 57, British citizen. Mr. Nicholson has been a Director of the Company and PGPI since November 28, 2008, and was re-elected on June 27, 2012. He is Executive Director of First Pacific Company Limited, Executive Chairman of Forum Energy Plc, and Commissioner of PT Indofood Sukses Makmur Tbk. He is also a Director of Metro Pacific Investments Corporation, Philex Petroleum Corporation and Silangan Mindanao Mining Co., Inc., and an Independent Non-Executive Director of QPL International Holdings Limited and Pacific Basin Shipping Limited. A qualified solicitor in England and Wales and in Hong Kong, Mr. Nicholson was Senior Partner of Richards Butler from 1985 to 2001, and Senior Advisor to The Board of Directors of PCCW Limited from 2001 to 2003.

**WILFREDO A. PARAS** - 66, Filipino citizen. Mr. Paras was elected as an Independent Director of the Company on June 29, 2011 and was re-elected on June 27, 2012. He is currently President of WAP Holdings, Inc., and a Director of Granexport Manufacturing Corporation, Iligan Oil Mills Inc. and Cagayan de Oro Oil Mills Inc., all under the CIIF Oil Mills Group of Companies. He is also a member of the Board of Trustees of Dualtech Training Center. Mr. Paras was previously the Executive Vice-President, 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.

**JUAN B. SANTOS** - 74, Filipino citizen. Mr. Santos has been a member of the Company's Board of Directors since September 28, 2010, and currently serves as its Vice Chairman. He was most recently re-elected as Director on June 27, 2012. He is currently Chairman of the Social Security Commission (SSS) and a Director of the Philippine Long Distance Telephone Company (PLDT), First Philippine Holdings Corporation, Zuellig Group, Inc., Sun Life Grepa Financial, Inc. and Alaska Milk Corporation. He also sits on the Board of Advisors of Coca-Cola Bottlers Phils., Inc., and East-West Seeds Co., Inc., and serves as Trustee of the St. Luke's Medical Center and the Ramon Magsaysay Award Foundation, and Consultant of the Marsman-Drysdale Group of Companies. Mr. Santos was Chairman, President and Chief Executive Officer of Nestle Philippines, Inc. from 1987 to 2003, and Secretary of the Department of Trade and Industry in 2005.

**EDWARD A. TORTORICI** – 73, American citizen. Mr. Tortorici has been a Director of the Company and PGPI since December 7, 2009 and was re-elected on June 27, 2012. He is an Executive Director of First Pacific Company Limited, and Commissioner of PT Indofood Sukses Makmur Tbk. He also serves as Director of Metro Pacific Investments Corporation, Silangan Mindanao Mining Co. Inc., FEC Resources Inc. of Canada, and AIM-listed Forum Energy Plc. Mr. Tortorici also serves as Trustee of the Asia Society Philippines, Director of Jeti Investments, LLC and FPM Power Ltd., and Adviser for Ideospace Foundation, Inc. Mr. Tortorici is also 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, and previously served as Commissioner of the U.S. ASEAN Strategy Commission.

**JOSE ERNESTO C. VILLALUNA, JR.** – 73, Filipino citizen. Mr. Villaluna has been a Director of the Company and PGPI since 2005 and was re-elected on June 27, 2012. He previously served as President and Chief Operating Officer of the Company from January 2005 to December 2011, and of Philex Petroleum Corporation from 2007 to 2009, which he now serves as a member of its Board of Directors. Mr. Villaluna is also a Director of Brixton Energy & Mining Corporation, Lascogon Mining Corporation and ISM Communications Corporation, and Director, President and Chief Executive Officer of FEC Resources, Inc.



### **Executive Officers**

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

**MANUEL V. PANGILINAN** - 66, Filipino citizen. Mr. Pangilinan has been Chairman of the Board since June 24, 2009, and Chairman & Chief Executive Officer since December 7, 2009. He is also Managing Director and Chief Executive Officer of First Pacific Company Limited, and Chairman of the Philippine Long Distance Telephone Company (PLDT) since 2004, after serving as its President and Chief Executive Officer since 1998. He is also Chairman of Smart Communications, Inc., PLDT Communications and Energy Ventures, Inc. (PILTEL), Metro Pacific Investments Corporation, 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, Maynilad Water Services Corporation (Maynilad), 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.

**EULALIO B. AUSTIN, JR.** – 51, Filipino citizen. Mr. Austin has been President, Chief Operating Officer of the Company since January 2012. He was previously 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 also serves as President and Director of Silangan Mindanao Mining Co., Inc. and as Director of Philex Petroleum Corporation.

**RENATO N. MIGRIÑO.** – 63, Filipino citizen. Mr. Migriño has been Treasurer, Chief Financial Officer, Senior Vice President for Finance and Compliance Officer since November 2010. He was previously Treasurer, Chief Financial Officer, Vice President – Finance and Compliance Officer from 2003 to 2010, and Vice President – Finance from 1998 to 2003. He is also Director and Chief Financial Officer of Philex Gold, Inc., and Director and Treasurer of FEC Resources, Inc., Philex Petroleum Corporation, Brixton Energy & Mining Corporation, Lascogon Mining Corporation and Fidelity Stock Transfers, Inc. He is also Treasurer of Silangan Mindanao Exploration Co., Inc., Silangan Mindanao Mining Co., Inc. and Philex Insurance Agency, and Trustee and Treasurer of Philex Group Foundation, Inc. He was formerly Senior Vice President and Controller of Benguet Corporation.

**BARBARA ANNE C. MIGALLOS.** – 58, Filipino citizen. Atty. Migallos has been Corporate Secretary since July 1998. She was Director of the Company and PGPI from March 12, 2001 to July 31, 2003. She is currently Director and Corporate Secretary of Philex Petroleum Corporation and Brixton Energy & Mining 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. She has been a Director of Mabuhay Vinyl Corporation since 2000, a Director of the Philippine Resins Industries since 2001 and Corporate Secretary of Eastern Telecommunications Philippines, Inc. since 2005 and Nickel Asia Corporation since 2010.

**BENJAMIN DEODATO R. GARCIA.** – 51, Filipino citizen. Mr. Garcia has been Senior Vice President for Human Resource since November 2010. He was previously with Mead Johnson Nutrition as its Human Resource Director for Asia Pacific from 2000 to 2010, Regional Human Resource Director for North Asia, Philippines, Malaysia, Singapore in 1999 and Human Resource and Corporate Affairs Director for the Philippines from 1996 to 1999.

**MICHAEL T. TOLEDO.** – 52, 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 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.

**REDEMPTA P. BALUDA.** – 57, 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.

**VICTOR A. FRANCISCO.** – 48, 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.

**RAYMUND BRETT C. MEDEL.** – 48, Filipino citizen. Mr. Medel joined the Company as Vice President and Chief Information Officer on May 29, 2012. Before joining the Company, Mr. Medel was Vice President and Chief Information Officer of PNB Life Insurance from 2010 to 2012, Vice President for Information Systems of Prulife U.K., Philippines from 2002 to 2010, and Senior Consulting Manager for C&T Solutions, Singapore from 2001 to 2002.

**ENRIQUE C. RODRIGUEZ, JR.** – 53, Filipino citizen. Atty. Rodriguez has been Vice President for Legal since January 2, 2009. He was previously Assistant Vice President – Legal from 2007 to 2008. Before joining the Company, he was Corporate Legal Counsel and Senior Manager of SunRise Holiday Concepts, Specified Holdings and Management Inc. and Specified Construction and Development Inc. from 2000 to 2006.

**LIBBY R. RICAFORT** – 60, Filipino citizen. Mr. Ricafort has been Vice President for Padcal Operations and Resident Manager since January 1, 2012. He was previously Padcal Assistant Resident Manager and Mill Division Manager in 2011, Padcal Mill Division Manager from 1999 to 2011, and Mill Division Manager of the Bulawan mine under PGPI from 1995 to 1999. Before joining the Company, Mr. Ricafort was Metallurgical Engineer of Atlas Consolidated Mining & Development Corporation's copper operations in Cebu and gold operations in Masbate.

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**

Directors are paid per diem of P8,000 per board meeting or committee participation attended.

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 2011, 2010 and 2009 amounted to P62.0 million, P31.7 million and P49.1 million, respectively.

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. Note 24 of the Notes to Consolidated Financial Statements of the Exhibits in Part V, Item 14 on the Company's Stock Option Plan.

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.

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.

|   |
|---|
| <b>SUMMARY OF COMPENSATION TABLE</b><br><b>(In Thousands)</b> |
|---|

|                  |
|------------------|
| <b>DIRECTORS</b> |
|------------------|

| <u>Year</u>      | <u>Directors' Fee</u> |
|------------------|-----------------------|
| 2013 (Estimated) | P 2,120               |
| 2012             | P 121,256             |
| 2011             | P 70,892              |
| 2010             | P 66,670              |

|  |
|--|
| <b>CEO AND FOUR MOST HIGHLY COMPENSATED OFFICERS</b> |
|--|

| <u>Year</u>      | <u>Salary</u> | <u>Bonus/Others</u> |
|------------------|---------------|---------------------|
| 2013 (Estimated) | P 37,100      | P 3,210             |
| 2012             | P 36,040      | P 38,786            |
| 2011             | P 32,918      | P 38,214            |
| 2010             | P 15,120      | P 18,883            |

The aggregate amount of compensation paid in 2012, 2011 and 2010 and estimated amount expected to be paid in 2013 as presented in the above table are for the following executive officers:

2013 - Manuel V. Pangilinan (CEO), Eulalio B. Austin, Jr., Renato N. Migrño, Benjamin R. Garcia and Michael T. Toledo

2012 - Manuel V. Pangilinan (CEO), Eulalio B. Austin, Jr., Renato N. Migrño, Benjamin R. Garcia and Michael T. Toledo

2011 - Manuel V. Pangilinan (CEO), Jose Ernesto C. Villaluna, Jr., Eulalio B. Austin, Jr., Renato N. Migrño and Benjamin R. Garcia

2010 - Manuel V. Pangilinan (CEO), Jose Ernesto C. Villaluna, Jr., Eulalio B. Austin, Jr., Renato N. Migrño and Edgardo C. Crisostomo

|  |
|--|
| <b>ALL DIRECTORS &amp; OFFICERS AS A GROUP</b> |
|--|

| <u>Year</u>      | <u>Total Amount</u> |
|------------------|---------------------|
| 2013 (Estimated) | P 64,520            |
| 2012             | P 272,554           |
| 2011             | P 179,011           |
| 2010             | P 131,083           |

## 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 March 31, 2013 follows:

| <b>Title of Class</b> | <b>Name and Address of Record Owner and Relationship with Issuer</b>   | <b>Name of Beneficial Owner and Relationship with Record Owner</b> | <b>Citizenship</b> | <b>Amount of Ownership</b> | <b>%</b> |
|-----------------------|--|--|--------------------|----------------------------|----------|
| Common                | Asia Link B.V.<br><i>Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands</i><br><i>Stockholder</i>   | First Pacific Company Limited<br>See Note 1 below .                | Dutch              | 1,023,275,990              | 20.74    |
| Common                | Social Security System<br><i>East Avenue, Quezon City</i><br><i>Stockholder</i>  | Social Security System,<br>See Note 2 below .                      | Filipino           | 1,015,271,128              | 20.58    |
| Common                | PCD Nominee Corp.<br><i>G/F MSE Building, 6767 Ayala Ave., Makati City.</i><br><i>Stockholder</i>  | See Note 3 below .   | Filipino           | 959,980,821                | 19.46    |
| Common                | Two Rivers Pacific Holdings Corp.<br><i>10/F MGO Building, Legazpi corner de la Rosa Streets, Legazpi Village, Makati City</i><br><i>Stockholder</i> | Two Rivers Pacific Holdings Corp.<br>See Note 4 below .            | Filipino           | 738,871,510                | 14.98    |

<sup>1</sup> Asia Link B.V., a wholly-owned subsidiary of First Pacific Company Limited (First Pacific), is the registered owner of 1,023,275,990 shares. In its SEC Form 23-A dated December 3, 2009, First Pacific disclosed that it beneficially owns 1,542,589,352 shares inclusive of the shares held by Asia Link B.V. First Pacific is represented by Messrs. Manuel V. Pangilinan, Robert C. Nicholson and Edward A. Tortorici on the Company's Board of Directors.

<sup>2</sup> The total shares held by the Social Security System (SSS) presented above is inclusive of 153,826,199 shares lodged with the PCD Nominee Corporation as the record owner as of February 28, 2013. Messrs. Juan B. Santos and Bienvenido E. Laguesma, and Ms. Eliza R. Antonino currently represent the SSS in the Company as members of the Board of Directors.

<sup>3</sup> 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 959,980,821 shares shown above as of April 2, 2013 are exclusive of the 153,826,199 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.

<sup>4</sup> 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.

- <sup>5</sup> 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 March 31, 2013 follows:

| <b>Title of Class</b>             | <b>Name of Beneficial Owner</b> | <b>Nature of Ownership</b> | <b>Number of Shares</b> | <b>Citizenship</b> | <b>%</b> |
|-----------------------------------|---------------------------------|----------------------------|-------------------------|--------------------|----------|
| Common                            | Manuel V. Pangilinan            | Direct                     | 4,655,000               | Filipino           | 0.094%   |
| Common                            | Eliza R. Antonino               | Direct                     | 1                       | Filipino           | 0.000%   |
| Common                            | Marilyn A. Victorio-Aquino      | Direct                     | 100                     | Filipino           | 0.000%   |
| Common                            | Eulalio B. Austin, Jr.          | Direct                     | 1,360,937               | Filipino           | 0.028%   |
| Common                            | Oscar J. Hilado                 | Direct                     | 173                     | Filipino           | 0.000%   |
| Common                            | Bienvenido E. Laguesma          | Direct                     | 1                       | Filipino           | 0.000%   |
| Common                            | Robert C. Nicholson             | Direct                     | 1,250                   | British            | 0.000%   |
| Common                            | Wilfredo A. Paras               | Direct                     | 1                       | Filipino           | 0.000%   |
| Common                            | Juan B. Santos                  | Direct                     | 1                       | Filipino           | 0.000%   |
| Common                            | Edward A. Tortorici             | Direct                     | 3,285,100               | American           | 0.067%   |
| Common                            | Jose Ernesto C. Villaluna, Jr.  | Direct                     | 4,818,070               | Filipino           | 0.098%   |
| Common                            | Renato N. Migriño               | Direct                     | 450,000                 | Filipino           | 0.009%   |
| Common                            | Barbara Anne C. Migallos        | Direct                     | 203,875                 | Filipino           | 0.004%   |
| Common                            | Benjamin Deodato R. Garcia      | Direct                     | 149,500                 | Filipino           | 0.003%   |
|                                   | Michael T. Toledo               |                            | 0                       | Filipino           | 0.000%   |
| Common                            | Redempta P. Baluda              | Direct                     | 20                      | Filipino           | 0.000%   |
| Common                            | Victor A. Francisco             | Direct                     | 155,000                 | Filipino           | 0.003%   |
|                                   | Raymund Brett C. Medel          |                            | 0                       | Filipino           | 0.000%   |
| Common                            | Libby R. Ricafort               | Direct                     | 416,800                 | Filipino           | 0.008%   |
| Common                            | Enrique C. Rodriguez, Jr.       | Direct                     | 615,000                 | Filipino           | 0.012%   |
| Directors and Officers as a Group |                                 |                            | 16,110,829              |                    | 0.3266%  |

Note: Shares owned by Messrs. Edgardo C. Crisostomo and Denis Ricardo G. Lucindo were excluded in the table above following announcement of their retirement/separation from the Company effective April 1, 2013.

### **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, 2012, 2011 and 2010, which are under terms that are no less favorable than those arranged with third parties, and account balances are as follows:

- The Company was reimbursed by Anglo American Exploration (Philippines) B.V. ("**Anglo**") for the advances made to Northern Luzon Exploration & Mining Co., Inc. ("**NLEMCI**"), which advances amounted to P921 thousand in 2012, P1.2 million in

2011, and P1.3 million in 2010. As of December 31, 2012, 2011, and 2010, the Company's receivables from these transactions amounted to P431 thousand, P281 thousand, and P364 thousand, respectively.

On December 7, 2011, the Company entered into an agreement with Anglo where the Company agreed to buy and Anglo agreed to sell all its rights, interests and obligations in Minphil Exploration Company, Inc. ("**Minphil**"), the parent company of NLEMCI, for US\$25,000.00. In addition, Anglo agreed with the Company that all of Anglo's rights, interest and title in and to its receivable to Minphil will be assigned to the Company for a consideration amounting to US\$175,000.00. The purchase of shares and assignment of receivable will, however, become effective and legally enforceable only upon fulfillment of the closing obligations under the agreement. As at December 31, 2012, the closing obligations have not yet been fulfilled.

- b. Assignment to Philex Gold Holdings, Inc. ("**PGHI**") in 2001 of the Company's net advances to Philex Gold Philippines, Inc. ("**PGPI**") amounting to ₱2.2 billion as of December 31, 2000, to be offset by the amount of cash advances in 1996 of ₱795.6 million received by the Company from PGMC-BV in behalf of PGHI representing the net proceeds from PGI's secondary public offering. With the intention of the Company to convert these net advances to equity in PGI should it be warranted in the future, these net advances were reclassified from current advances in 2000 to the "Investments in shares of stock" account. As of December 31, 2012, 2011, and 2010, the advances to PGHI amounted to P1.7 billion and presented as part of the carrying amounts of investments in shares of stocks.
- c. Non-interest-bearing cash advances amounting to P1.6 billion, P1.1 billion and P932.7 million as of December 31, 2012, 2011, and 2010, respectively, to PGPI for its working capital and capital expenditure requirements. Part of these advances is secured by collateral participation certificates from the Collateral Trust Indenture on certain mining assets of PGPI.
- d. On February 6, 2009, the Company acquired the 50% equity interest of Anglo over the Silangan Project for US\$55 million under a share and asset purchase agreement which also included the assignment of receivables from the Philex-Anglo joint venture company, Silangan Mindanao Mining Co., Inc. ("**SMMCI**"), amounting to ₱1.3 billion. Upon completion of the purchase, the Company assumed the responsibility to provide funds to SMMCI for the advancement of the Silangan project.
- e. The Company made non-interest-bearing cash advances to Philex Petroleum Corporation ("**PPC**") amounting to P621.0 million, P646.4 million, and P635.9 million as of December 31, 2012, 2011, and 2010, respectively, for its working capital requirements and for the acquisition of investment in shares in Forum Energy Plc. ("**FEP**").
- f. The Company provided non-interest-bearing cash advances to Brixton Energy and Mining Corporation ("**BEMC**") amounting to P400 million, P185.2 million, and P139.2 million as of December 31, 2012, 2011, and 2010, respectively, for funding of its exploration and development activities.
- g. In April 2011, the Company sold US\$30 million to First Pacific at forward rate of P43.06 per dollar in converting part of the Company's dollar fund for routine working capital requirement. Also sold to First Pacific in April 2010 was US\$20 million at the forward rate of P45.03 per dollar.
- h. In November 2010, the Company entered into a US\$10 million loan facility agreement with Forum Philippines Holdings Ltd., a wholly-owned subsidiary of FEP, to finance the funding requirement for the first sub-phase of its work program for Service Contract 72. The facility is available over a 3-year period at an interest rate of 4.5% over US LIBOR on drawn amount. In May 2012, the agreement was amended to

provide for a US\$15 million loan facility. As of December 31, 2012, total drawdown amounted to US\$15 million.

- i. In October 2012, First Pacific Company Limited committed to provide funding of up to US\$200 million to the Company for capital expenditures of the Padcal mine and Silangan Project as well as for the Company's working capital requirements. In this regard, a P2.1 billion loan was granted by Kirtman Limited, a wholly-owned subsidiary of First Pacific, to the Company in November 2012 under a Term Loan Facility Agreement. The loan is unsecured, repayable within a year and subject to an interest rate of 5%. A commitment fee of 1% is also due for the undrawn amount. As of December 31, 2012, P1.1 billion has been drawn from the facility. The balance of P1.0 billion was drawn in January 2013.

Note 23 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**

Compliance by the Company with its Manual on Corporate Governance for the years 2012, 2011 and 2010 was monitored and no significant deviation was noted, with the Company, as well as all its directors, officers and employees substantially complying with the leading practices and principles on good corporate governance as embodied in the manual. The Company has also complied with the appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance.

In 2003, the Company's Board of Directors and management reaffirmed their commitment to the principles and best practices contained in the Company's manual on corporate governance by adopting the first addendum to its Manual on Corporate Governance.

In February 2004, the Company adopted as second addendum to the Manual on Corporate Governance the revised disclosure rules of the Philippine Stock Exchange prohibiting the communication of material non-public information without simultaneously disclosing the same information to the stock exchange.

In 2005, the Company engaged the services of a risk management consultant as part of the Company's risk management system under corporate governance. Further to this endeavor, the Company formalized in 2007 a risk management structure for its Padcal operations and the Corporate office and organized committees to oversee its risk management activities, a comprehensive review of which was done in 2008.

In May 2008, the Company was adjudged one of the top 20 of the 2007 ICD Corporate Governance Scorecard for publicly-listed companies in the Philippines given by the Institute of Corporate Directors together with the SEC, PSE and Ateneo de Manila.

In February 2011, the Company submitted a Revised Manual on Corporate Governance with the SEC to further adjust certain provisions of the Code of Corporate Governance.

In May 2012, the Company was a Silver Awardee of the 2010 ICD Corporate Governance Scorecard for publicly-listed companies in the Philippines given by the Institute of Corporate Directors together with the SEC, PSE and Ateneo de Manila University.



In October 2012, the Company submitted to the SEC its revised Audit Committee Charter with the inclusion of an initial plan for compliance with the Manual and the Guidelines for the Assessment of Performance of Audit Committees of Companies Listed on the Exchange, which plan shall be revised and refined as necessary. Among others, the Charter mandates that the Committee shall oversee the adoption of risk management policies to address the different risk exposures of the Company including the adoption of self- assessment performance sheet consistent with the Guidelines.

The Company plans to adopt whatever new principles and practices applicable that may evolve to improve its corporate governance.

## **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, 2012

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 Affiliates)

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

Schedule G. Guarantees of Securities of Other Issuers

Schedule H. Capital Stock

**(b) Reports on SEC Form 17-C**

There were twenty eight reports filed by the Company on SEC Form 17-C during the last six months in 2012 covered by this report and up to filing of this report, part of which follows:

| <u>Report Date</u> | <u>Item Reported</u>  |
|--------------------|---|
| March 18, 2013     | Amendment of the record date for shareholders entitled to vote on the annual stockholders meeting from March 19, 2013 to April 24, 2013.  |
| March 12, 2013     | <p>Temporary resumption of operations of the Padcal Mine on March 8, 2013 at about 12:00 A.M. pursuant to the Orders served by the Mines and Geosciences Bureau and the Pollution Adjudication Board dated February 26, 2013 and February 25, 2013, respectively, on February 26, 2013 and March 7, 2013, respectively.</p> <p>Receipt on March 7, 2013 of Notice of Issuance of Resolution/Order dated on the same day from the Pollution Adjudication Board.</p>  |
| March 8, 2013      | Receipt on March 5, 2013 of Securities and Exchange Commission Resolution No. 03 dated February 22, 2013 on the approval of the Company's 2011 Stock Option Plan.   |
| March 1, 2013      | <p>Election on February 27, 2013 of Mr. Bienvenido E. Laguesma to the Company's Board of Directors vice Mr. Emilio S. de Quiros, Jr.</p> <p>Retirement of Mr. Edgardo C. Crisostomo as Senior Vice President for Materials Management and Corporate Office Administration and separation of Mr. Denis Ricardo G. Lucindo as Vice President for Business Development from the Company effective April 1, 2013.</p>   |
| February 28, 2013  | <p>Press release on the audited results of operations for the year 2012.</p> <p>Receipt of Order dated February 26, 2013 from Mines and Geosciences Bureau on the Urgent Remediation Measures for Tailings Storage Facility No. 3.</p> <p>Declaration of the Company's 2013 Annual Stockholders' meeting scheduled on June 26, 2013 with stockholders of record as of March 19, 2013 entitled to vote.</p> <p>Declaration of proved reserves and mineral resource for the Company's Padcal Mine as of December 31, 2012.</p> <p>Certification from the Mines and Geosciences Bureau dated January 23, 2013 on the Company's</p> |

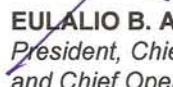
|                   |  |
|-------------------|--|
|                   | mining claims and properties, disclosed to the Philippine Stock Exchange on February 25, 2013.   |
| February 20, 2013 | Payment on February 18, 2013 of the mine waste and tailings fee amounting to P1,034,358,071 as assessed by the Mines and Geosciences Bureau.   |
| February 12, 2013 | Comprise settlement of the Company's insurance claims covered by a Settlement, Release and Policy Buy-back Agreement with Chartis Philippines Insurance, Inc. dated February 8, 2013.  |
| January 29, 2013  | Extension of the second exploration sub-phase of Service Contract 72 as announced by Forum Energy Plc in the London Stock Exchange on January 25, 2013.  |
| December 21, 2012 | Resignation of Mr. Emilio S. de Quiros, Jr. from the Company's Board of Directors effective immediately.   |
| November 23, 2012 | Filing on November 22, 2012 of the Company's Padcal Mine TSF3 Rehabilitation and Clean-up Plan with the Mines and Geosciences Bureau (MGB) and receipt by the Company of the a letter dated November 21, 2012 from the MGB, directing the Company to pay P1,034,358,971 as mine waste and tailings fee to MGB within forty-five days upon receipt of the MGB letter. |
| November 16, 2012 | Press statement on the rehabilitation of the Company's Padcal Operations' Tailings Pond No. 3, and the US\$200 million funding facility provided by First Pacific Company Limited, its single biggest shareholder.   |
| November 9, 2012  | Execution of an unsecured interest-bearing P2.1 billion Term Loan Facility Agreement with an indirect wholly-owned subsidiary of First Pacific Company Limited as Lender.  |
| October 30, 2012  | Press release on the Company's results of operations for the Third Quarter and the Nine Months ended September 30, 2012 submitted to the Philippine Stock Exchange on October 30, 2012.  |
| October 5, 2012   | Adoption of Audit Committee Manual   |
| October 1, 2012   | Disclosure on the receipt by the Company of a "Notice to Adverse Findings" from the Environmental Management Bureau (EMB) of the Department of Environment and Natural Resources relating to the Company's Padcal mine Tailings Pond No. 3.  |


|                |  |
|----------------|--|
| August 9, 2012 | Receipt by the Company of the letter of the Environmental Management Bureau dated the same day serving the Company a copy of the Notice of Issuance of Resolution/Order dated January 18, 2013 from the Pollution Adjudication Board   |
| August 9, 2012 | Press release on the Company's continuing suspension of its Padcal mine operations   |
| August 3, 2012 | Cessation of operation of the Company's Padcal mine in Benguet Province on account of the current situation in its tailings pond as discussed in the disclosure to the Philippine Stock Exchange   |
| July 27, 2012  | Press release on the Company's results of operations for the six (6) months ended June 30, 2012  |
|                | Declaration on July 25, 2012 of Eleven Centavos (P0.11 per share cash dividend by the Board of Directors of the Company with record date of August 8, 2012 and payment date of September 3, 2012.  |
| July 3, 2012   | Resolutions approved during the annual Stockholders meeting held on June 27, 2012 on the following: approval of the minutes of the June 29, 2011 annual stockholders meeting; approval of the Annual Report and Audited Financial Statements for the year 2012; ratification and approval of all acts of the Board of Directors and Executive Officers in 2011; appointment of Sycip Gorres Velayo & Company as independent auditors for the year 2012; appointment and election of inspectors to serve until the close of the next annual stockholders meeting; and the election of directors for corporate year 2012-2013. |
| July 3, 2012   | Election/Appointment of the Company's officers for the corporate year 2012-2013  |

There were two routinary reports on the Company's monthly production and shipments that were also filed on various dates with the SEC.


## 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 Pasig on August 15, 2013.

  
**EULALIO B. AUSTIN, JR.**  
*President, Chief Executive Officer  
and Chief Operating Officer*

  
**BARBARA ANNE C. MIGALLOS**  
*Corporate Secretary*

  
**RENATO N. MIGRIÑO**  
*Treasurer, Chief Financial Officer  
and Senior Vice President - Finance*

  
**PARALUMAN M. NAVARRO**  
*Division Manager – Corporate Finance*

AUG 16 2013

SUBSCRIBED AND SWORN TO before me this \_\_\_\_ day of August 2013 at Pasig City.  
Affiants exhibiting to me their Competent Evidence of Identity indicated opposite their names:

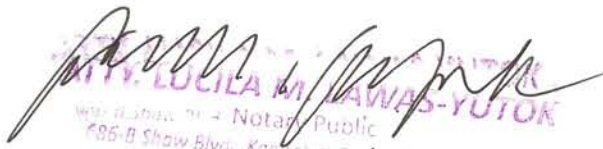
### Name

Eulalio B. Austin, Jr.  
Renato N. Migrino  
Barbara Anne C. Migallos  
Paraluman M. Navarro

### Competent Evidence of Identity

Passport No. EB0177105  
Passport No. EB0510118  
Passport No. XX4141156  
Passport No. XX2810152

Doc. No. 446  
Page No. 97  
Book No. 11958  
Series of 2 0 1 3

  
**MRS. LUCILA M. LAWAS-YUTOR**  
Notary Public  
686-B Shaw Blvd., Kalayaan, Pasig City/ 492-6473  
Until December 31, 2014  
PTR No. 8048577, Issued on 01-04-13 at Pasig City  
IDP No. 908710, Issued on 12-06-12 at Pasig City  
TIN No. 152-982-905-000  
IBP Roll No. 28494  
Notary Commission No. 1-0006100



# PHILEX MINING CORPORATION

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

### SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills

The management of Philex Mining Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards except for the Parent Company's mine products inventories that are measured at Net Realizable Value, which was permitted by the Philippine SEC. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

**MANUEL V. PANGILINAN**  
Chairman & Chief Executive Officer

**EULALIO B. AUSTIN, JR.**

President & Chief Operating Officer

**RENATO N. MIGRIÑO**

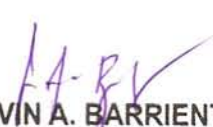
Treasurer, Chief Financial Officer  
and Senior Vice President-Finance

Philex Mining Corporation  
Statement of Management's Responsibility for Financial Statements  
Page 2

Subscribed and sworn to before me this APR 04 2013 as Pasig 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 |
| Renato N. Migrino      | 03-3471795-9 |

Doc. No. 412  
Page No. 84  
Book No. 11  
Series of 2013

  
**ARVIN A. BARRIENTOS**  
Notary Public for and in the City of Pasig  
Appointment No. 73 (2012-2013)  
Commission Expires on December 31, 2013  
No. 27 Brixton Street  
Barangay Kapitolyo, Pasig City 1600  
PTR No. 8428914  
IBP Lifetime No. 08800; Rizal Chapter  
ROLL No. 51169; MAY 2005

COVER SHEET

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(Company's Full Name)

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

Renato N. Migrino

(Contact Person)

(632) 631-1381

(Company Telephone Number)

|   |   |   |   |
|---|---|---|---|
| 1 | 2 | 3 | 1 |
|---|---|---|---|

Month Day  
(Calendar Year)

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(Form Type)

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Month Day  
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Not Applicable

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

44,742

Total No. of Stockholders

Total Amount of Borrowings

|              |                |
|--------------|----------------|
| ₱350,000,000 | ₱1,100,000,000 |
| Domestic     | Foreign        |

To be accomplished by SEC Personnel concerned

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SyCip Gorres Velayo & Co.  
6760 Ayala Avenue  
1226 Makati City  
Philippines

Phone: (632) 891 0307  
Fax: (632) 819 0872  
www.sgv.com.ph

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Philex Mining Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

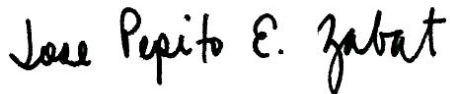
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Philex Mining Corporation and its subsidiaries as at December 31, 2012, 2011 and 2010, and their financial performance and their cash flows for the years then ended in accordance with accounting principles generally accepted in the Philippines applied on the basis described in Note 2 to the consolidated financial statements.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-2 (Group A),

March 1, 2012, valid until March 1, 2015

Tax Identification No. 102-100-830

BIR Accreditation No. 08-001998-60-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3670041, January 2, 2013, Makati City

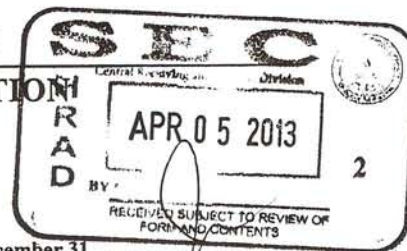
February 27, 2013



# PHILEX MINING CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands, Except Par Value Per Share)



|   | December 31        |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | 2012               | 2011               | 2010               |
| <b>ASSETS</b>   |                    |                    |                    |
| <b>Current Assets</b>   |                    |                    |                    |
| Cash and cash equivalents (Note 6)  | ₱1,669,542         | ₱3,947,295         | ₱3,782,248         |
| Accounts receivable (Notes 7, 20 and 22)                                    | 207,749            | 1,595,629          | 2,180,432          |
| Inventories (Note 8)  | 1,314,851          | 1,118,667          | 1,093,636          |
| Derivative assets (Note 20)   | -                  | 904,701            | -                  |
| Prepaid income tax (Note 24)  | 166,467            | -                  | -                  |
| Other current assets (Note 9)   | 997,340            | 765,334            | 694,625            |
| <b>Total Current Assets</b>   | <b>4,355,949</b>   | <b>8,331,626</b>   | <b>7,750,941</b>   |
| <b>Noncurrent Assets</b>  |                    |                    |                    |
| Property, plant and equipment (Note 10)                                     | 6,035,174          | 5,399,716          | 5,095,029          |
| Available-for-sale (AFS) financial assets (Note 11)                         | 3,990,761          | 5,428,069          | 886,737            |
| Goodwill (Note 4)   | 258,593            | 258,593            | 258,593            |
| Deferred income tax assets - net (Note 24)                                  | -                  | 12,720             | -                  |
| Investments in shares of stock (Note 11)                                    | -                  | -                  | 833,355            |
| Deferred exploration costs and other noncurrent assets (Notes 1, 12 and 18) | 14,766,674         | 13,023,504         | 10,828,065         |
| <b>Total Noncurrent Assets</b>  | <b>25,051,202</b>  | <b>24,122,602</b>  | <b>17,901,779</b>  |
| <b>TOTAL ASSETS</b>   | <b>₱29,407,151</b> | <b>₱32,454,228</b> | <b>₱25,652,720</b> |
| <b>LIABILITIES AND EQUITY</b>   |                    |                    |                    |
| <b>Current Liabilities</b>  |                    |                    |                    |
| Short-term loans (Note 13)  | ₱1,450,000         | ₱350,000           | ₱150,000           |
| Accounts payable and accrued liabilities (Note 14)                          | 1,095,550          | 1,160,205          | 968,506            |
| Income tax payable (Note 24)  | -                  | 376,006            | 856,954            |
| Dividends payable (Note 25)   | 483,257            | 325,333            | 207,875            |
| Provisions and subscriptions payable (Notes 1, 11 and 31)                   | 1,589,578          | 317,111            | 128,335            |
| Derivative liabilities (Note 20)  | -                  | 47,270             | -                  |
| <b>Total Current Liabilities</b>  | <b>4,618,385</b>   | <b>2,575,925</b>   | <b>2,311,670</b>   |
| <b>Noncurrent Liabilities</b>   |                    |                    |                    |
| Deferred income tax liabilities - net (Notes 4 and 24)                      | 2,381,163          | 2,635,330          | 2,013,230          |
| Provision for losses (Notes 31)   | 171,631            | 173,731            | 538,141            |
| Provision for mine rehabilitation costs (Note 10)                           | 18,892             | 17,775             | 31,709             |
| <b>Total Noncurrent Liabilities</b>   | <b>2,571,686</b>   | <b>2,826,836</b>   | <b>2,583,080</b>   |
| <b>Total Liabilities</b>  | <b>7,190,071</b>   | <b>5,402,761</b>   | <b>4,894,750</b>   |
| <b>Equity Attributable to Equity Holders of the Parent Company</b>          |                    |                    |                    |
| Capital stock - ₱1 par value (Note 25)                                      | 4,933,027          | 4,929,751          | 4,922,131          |
| Additional paid-in capital  | 963,867            | 887,290            | 812,378            |
| Retained earnings (Note 25)   | 13,704,164         | 16,093,059         | 12,716,722         |
| Net unrealized gain on AFS financial assets (Notes 11 and 24)               | 601,055            | 2,020,940          | 419,404            |
| Cumulative translation adjustments (Notes 20 and 24)                        | (41,785)           | 495,019            | (66,174)           |
| Net revaluation surplus (Note 4)  | 1,611,397          | 1,611,397          | 1,611,397          |
| Effect of transactions with non-controlling interests (Note 2)              | 45,099             | 106,027            | 106,027            |
|   | 21,816,824         | 26,143,483         | 20,521,885         |
| <b>Non-controlling interests (Note 25)</b>                                  | <b>400,256</b>     | <b>907,984</b>     | <b>236,085</b>     |
| <b>Total Equity</b>   | <b>22,217,080</b>  | <b>27,051,467</b>  | <b>20,757,970</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>₱29,407,151</b> | <b>₱32,454,228</b> | <b>₱25,652,720</b> |

See accompanying Notes to Consolidated Financial Statements.



# PHILEX MINING CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share)

Years Ended December 31

|  | 2012              | 2011              | 2010              |
|--|-------------------|-------------------|-------------------|
| <b>REVENUE</b> (Notes 7, 20 and 30)  |                   |                   |                   |
| Gold   | P4,946,041        | P9,294,021        | P7,208,532        |
| Copper   | 3,865,704         | 6,091,803         | 5,721,373         |
| Silver   | 79,571            | 187,893           | 134,553           |
|  | 8,891,316         | 15,573,717        | 13,064,458        |
| Less marketing charges   | 439,771           | 810,467           | 714,018           |
|  | 8,451,545         | 14,763,250        | 12,350,440        |
| Petroleum  | 191,003           | 551,568           | 298,449           |
| Coal   | 48,030            | 1,288             | 31,062            |
| Others   | 7,011             | 7,843             | -                 |
|  | 8,697,589         | 15,323,949        | 12,679,951        |
| <b>COSTS AND EXPENSES</b>  |                   |                   |                   |
| Mining and milling costs (including depletion and depreciation) (Note 15)        | 3,457,837         | 5,248,910         | 4,966,704         |
| General and administrative expenses (Note 15)                                    | 1,144,803         | 1,036,537         | 664,698           |
| Mine products taxes and royalties (Note 15)                                      | 454,858           | 854,229           | 712,536           |
| Petroleum production costs   | 98,245            | 175,883           | 189,471           |
| Handling, hauling and storage  | 59,339            | 63,723            | 62,159            |
| Cost of coal sales   | 35,238            | 1,210             | 19,422            |
|  | 5,250,320         | 7,380,492         | 6,614,990         |
| <b>OTHER INCOME (CHARGES)</b>  |                   |                   |                   |
| Padcal maintenance costs during suspension of operations (Notes 1 and 15)        | (907,777)         | -                 | -                 |
| Provision for rehabilitation, clean up and other costs (Notes 1 and 31)          | (1,446,859)       | -                 | -                 |
| Impairment loss on deferred exploration costs and others (Notes 7, 8, 10 and 12) | (1,023,376)       | (170,772)         | -                 |
| Foreign exchange losses - net  | (164,716)         | (14,681)          | (96,485)          |
| Interest expense (Notes 10 and 13)   | (44,355)          | (36,161)          | (20,898)          |
| Equity in net losses of associates (Note 11)                                     | -                 | (44,116)          | (37,594)          |
| Gain (loss) on dilution of interests in associates (Note 11)                     | -                 | 523,710           | (119,804)         |
| Interest income (Note 6)   | 58,201            | 86,017            | 27,133            |
| Marked to market gains (Note 20)   | 307,928           | -                 | -                 |
| Others - net (Notes 11, 12, 20 and 31)   | 33,599            | (156,773)         | (133,251)         |
|  | (3,187,355)       | 187,224           | (380,899)         |
| <b>INCOME BEFORE INCOME TAX</b>  | <b>259,914</b>    | <b>8,130,681</b>  | <b>5,684,062</b>  |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b><br>(Note 24)                      |                   |                   |                   |
| Current  | 551,979           | 1,877,452         | 1,804,632         |
| Deferred   | 2,560             | 453,340           | (65,199)          |
|  | 554,539           | 2,330,792         | 1,739,433         |
| <b>NET INCOME (LOSS)</b>   | <b>(P294,625)</b> | <b>P5,799,889</b> | <b>P3,944,629</b> |
| <b>Net Income (Loss) Attributable to:</b>  |                   |                   |                   |
| Equity holders of the Parent Company   | P224,947          | P5,771,223        | P3,963,201        |
| Non-controlling interests (Note 25)  | (519,572)         | 28,666            | (18,572)          |
|  | (P294,625)        | P5,799,889        | P3,944,629        |
| <b>Basic Earnings Per Share</b> (Note 27)  | <b>P0.046</b>     | <b>P1.171</b>     | <b>P0.806</b>     |
| <b>Diluted Earnings Per Share</b> (Note 27)                                      | <b>P0.046</b>     | <b>P1.170</b>     | <b>P0.805</b>     |

See accompanying Notes to Consolidated Financial Statements.

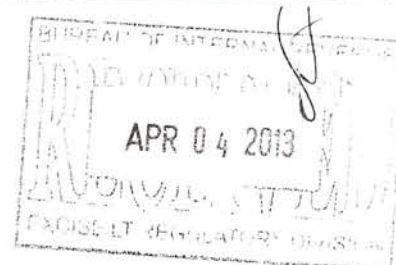




**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)

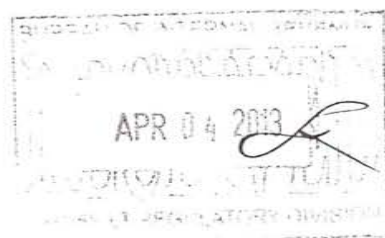
|   | Years Ended December 31 |                   |                   |
|---|-------------------------|-------------------|-------------------|
|   | 2012                    | 2011              | 2010              |
| <b>NET INCOME (LOSS)</b>  | <b>(P294,625)</b>       | <b>P5,799,889</b> | <b>P3,944,629</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |                         |                   |                   |
| Loss on translation of foreign subsidiaries   | (117,795)               | (20,598)          | (186,466)         |
| Realized loss (gain) on fair value of hedging instruments transferred to the consolidated statements of income - net of related deferred income tax (Note 20) | (499,496)               | 574,168           | 263,756           |
| Unrealized gain (loss) on AFS financial assets - net of related deferred income tax (Note 11)   | (1,433,104)             | 1,601,536         | (25,873)          |
|   | (2,050,395)             | 2,155,106         | 51,417            |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>  | <b>(P2,345,020)</b>     | <b>P7,954,995</b> | <b>P3,996,046</b> |
| <b>Total Comprehensive Income (Loss) Attributable to:</b>   |                         |                   |                   |
| Equity holders of the Parent Company  | (P1,731,743)            | P7,933,952        | P4,102,771        |
| Non-controlling interests (Note 25)   | (613,277)               | 21,043            | (106,725)         |
|   | (P2,345,020)            | P7,954,995        | P3,996,046        |

*See accompanying Notes to Consolidated Financial Statements.*



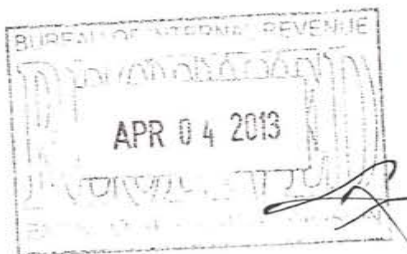
**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
**(Amounts in Thousands)**

|   | Equity Attributable to Equity Holders of the Parent Company |                                  |                                   |   |  |   |   |             |   |             |
|---|---|----------------------------------|-----------------------------------|---|--|---|---|-------------|---|-------------|
|   | Capital<br>Stock<br>(Note 25)                               | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Note 25) | Net<br>Unrealized<br>Gain (Loss)<br>on AFS<br>Financial<br>Assets<br>(Notes 11<br>and 24) | Cumulative<br>Translation<br>Adjustments<br>(Notes 20<br>and 24) | Net<br>Revaluation<br>Surplus<br>(Note 4) | Effect of<br>Transactions<br>with<br>Non-<br>controlling<br>Interests<br>(Note 2) | Subtotal    | Non-<br>controlling<br>Interests<br>(Note 25) | Total       |
| <b>BALANCES AT DECEMBER 31, 2009</b>  | P4,900,605  | P774,494                         | P9,441,593                        | P445,277  | (P231,617)   | P1,611,397                                | P41,536   | P16,983,285 | P700,250                                      | P17,683,535 |
| Net income (loss)   | -   | -                                | 3,963,201                         | -   | -  | -   | -   | 3,963,201   | (18,572)                                      | 3,944,629   |
| Other comprehensive income (loss):  |   |                                  |                                   |   |  |   |   |             |   |             |
| Movement in fair value of hedging instruments - net of<br>related deferred income tax (Note 20) | -   | -                                | -                                 | -   | 263,756  | -   | -   | 263,756     | -   | 263,756     |
| Loss on translation of foreign subsidiaries   | -   | -                                | -                                 | -   | (98,313)   | -   | -   | (98,313)    | (88,153)                                      | (186,466)   |
| Unrealized loss on AFS financial assets - net of related<br>deferred income tax (Note 11)       | -   | -                                | -                                 | (25,873)  | -  | -   | -   | (25,873)    | -   | (25,873)    |
| Total comprehensive income (loss)   | -   | -                                | 3,963,201                         | (25,873)  | 165,443  | -   | -   | 4,102,771   | (106,725)                                     | 3,996,046   |
| Increase in paid-in capital due to exercise of stock option<br>(Note 25)                        | 21,526  | 35,841                           | -                                 | -   | -  | -   | -   | 57,367      | -   | 57,367      |
| Increase in additional paid-in capital due to stock option plan<br>(Note 25)                    | -   | 2,043                            | -                                 | -   | -  | -   | -   | 2,043       | -   | 2,043       |
| Declaration of P0.14 per share cash dividend during the year<br>(Note 25)                       | -   | -                                | (688,072)                         | -   | -  | -   | -   | (688,072)   | -   | (688,072)   |
| Acquisitions of shares of stock of non-controlling interests in<br>subsidiaries (Note 2)        | -   | -                                | -                                 | -   | -  | -   | (256,039)   | (256,039)   | (36,910)                                      | (292,949)   |
| Deemed acquisitions of shares of stock of non-controlling<br>interests in subsidiaries (Note 2) | -   | -                                | -                                 | -   | -  | -   | 320,530   | 320,530     | (320,530)                                     | -           |
| <b>BALANCES AT DECEMBER 31, 2010</b><br>(Carried Forward)                                       | P4,922,131  | P812,378                         | P12,716,722                       | P419,404  | (P66,174)  | P1,611,397                                | P106,027  | P20,521,885 | P236,085                                      | P20,757,970 |



Equity Attributable to Equity Holders of the Parent Company

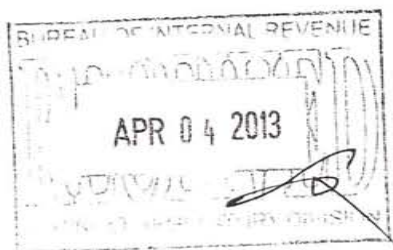
|  | Capital<br>Stock<br>(Note 25) | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Note 25) | Net<br>Unrealized<br>Gain (Loss)<br>on AFS<br>Financial<br>Assets<br>(Notes 11<br>and 24) | Cumulative<br>Translation<br>Adjustments<br>(Notes 20<br>and 24) | Net<br>Revaluation<br>Surplus<br>(Note 4) | Effect of<br>Transactions<br>with<br>Non-<br>controlling<br>Interests<br>(Note 2) | Subtotal    | Non-<br>controlling<br>Interests<br>(Note 25) | Total       |
|--|-------------------------------|----------------------------------|-----------------------------------|---|--|---|---|-------------|---|-------------|
| <b>BALANCES AT DECEMBER 31, 2010</b>   |                               |                                  |                                   |   |  |   |   |             |   |             |
| (Brought Forward)  | P4,922,131                    | P812,378                         | P12,716,722                       | P419,404  | (P66,174)  | P1,611,397                                | P106,027  | P20,521,885 | P236,085                                      | P20,757,970 |
| Net income   | -                             | -                                | 5,771,223                         | -   | -  | -   | -   | 5,771,223   | 28,666  | 5,799,889   |
| Other comprehensive income (loss):   |                               |                                  |                                   |   |  |   |   |             |   |             |
| Movement in fair value of hedging instruments - net of related deferred income tax (Note 20) | -                             | -                                | -                                 | -   | 574,168  | -   | -   | 574,168     | -   | 574,168     |
| Loss on translation of foreign subsidiaries  | -                             | -                                | -                                 | -   | (12,975)   | -   | -   | (12,975)    | (7,623)                                       | (20,598)    |
| Unrealized gain on AFS financial assets - net of related deferred income tax (Note 11)       | -                             | -                                | -                                 | 1,601,536   | -  | -   | -   | 1,601,536   | -   | 1,601,536   |
| Total comprehensive income   | -                             | -                                | 5,771,223                         | 1,601,536   | 561,193  | -   | -   | 7,933,952   | 21,043  | 7,954,995   |
| Increase in paid-in capital due to exercise of stock option (Note 25)                        | 7,620                         | 24,947                           | -                                 | -   | -  | -   | -   | 32,567      | -   | 32,567      |
| Increase in additional paid-in capital due to stock option plan (Note 25)                    | -                             | 49,965                           | -                                 | -   | -  | -   | -   | 49,965      | -   | 49,965      |
| Declaration of cash dividends and property dividends (Note 25)                               | -                             | -                                | (2,401,287)                       | -   | -  | -   | -   | (2,401,287) | 650,856                                       | (1,750,431) |
| Deemed acquisition of shares of stock  | -                             | -                                | 6,401                             | -   | -  | -   | -   | 6,401       | -   | 6,401       |
| <b>BALANCES AT DECEMBER 31, 2011</b>   |                               |                                  |                                   |   |  |   |   |             |   |             |
| (Carried Forward)  | P4,929,751                    | P887,290                         | P16,093,059                       | P2,020,940  | P495,019   | P1,611,397                                | P106,027  | P26,143,483 | P 907,984                                     | P27,051,467 |



Equity Attributable to Equity Holders of the Parent Company

|   | Capital<br>Stock<br>(Note 25) | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Note 25) | Net<br>Unrealized<br>Gain (Loss)<br>on AFS<br>Financial<br>Assets<br>(Notes 11<br>and 24) | Cumulative<br>Translation<br>Adjustments<br>(Notes 20<br>and 24) | Net<br>Revaluation<br>Surplus<br>(Note 4) | Effect of<br>Transactions<br>with<br>Non-<br>controlling<br>Interests<br>(Note 2) | Subtotal           | Non-<br>controlling<br>Interests<br>(Note 25) | Total              |
|---|-------------------------------|----------------------------------|-----------------------------------|---|--|---|---|--------------------|---|--------------------|
| <b>BALANCES AT DECEMBER 31, 2011</b>  |                               |                                  |                                   |   |  |   |   |                    |   |                    |
| (Brought Forward)   | P4,929,751                    | P887,290                         | P16,093,059                       | P2,020,940  | P495,019   | P1,611,397                                | P106,027  | P26,143,483        | P907,984                                      | P27,051,467        |
| Net income (loss)   | -                             | -                                | 224,947                           | -   | -  | -   | -   | 224,947            | (519,572)                                     | (294,625)          |
| Other comprehensive income (loss):  |                               |                                  |                                   |   |  |   |   |                    |   |                    |
| Unrealized loss on AFS financial assets - net of related deferred income tax (Note 11)                  | -                             | -                                | -                                 | (1,419,885)   | -  | -   | -   | (1,419,885)        | (13,219)                                      | (1,433,104)        |
| Movement in fair value of hedging instruments - net of related deferred income tax (Note 20)            | -                             | -                                | -                                 | -   | (499,496)  | -   | -   | (499,496)          | -   | (499,496)          |
| Loss on translation of foreign subsidiaries   | -                             | -                                | -                                 | -   | (37,308)   | -   | -   | (37,308)           | (80,487)                                      | (117,795)          |
| Total comprehensive income  | -                             | -                                | 224,947                           | (1,419,885)   | (536,804)  | -   | -   | (1,731,742)        | (613,278)                                     | (2,345,020)        |
| Increase in paid-in capital due to exercise of stock option and others (Note 25)                        | 3,276                         | 55,297                           | -                                 | -   | -  | -   | -   | 58,573             | -   | 58,573             |
| Increase in additional paid-in capital due to stock option plan (Note 25)                               | -                             | 21,280                           | -                                 | -   | -  | -   | -   | 21,280             | -   | 21,280             |
| Deemed acquisitions / disposals of shares of stock of non-controlling interest in subsidiaries (Note 2) | -                             | -                                | -                                 | -   | -  | -   | (60,928)  | (60,928)           | 105,550                                       | 44,622             |
| Declaration of cash dividends (Note 25)   | -                             | -                                | (2,613,842)                       | -   | -  | -   | -   | (2,613,842)        | -   | (2,613,842)        |
| <b>BALANCES AT DECEMBER 31, 2012</b>  | <b>P4,933,027</b>             | <b>P963,867</b>                  | <b>P13,704,164</b>                | <b>P601,055</b>   | <b>(P41,785)</b>   | <b>P1,611,397</b>                         | <b>P45,099</b>  | <b>P21,816,824</b> | <b>P400,256</b>                               | <b>P22,217,080</b> |

See accompanying Notes to Consolidated Financial Statements.

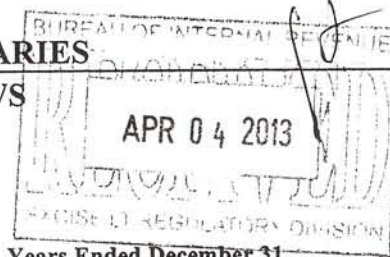




# PHILEX MINING CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)



Years Ended December 31

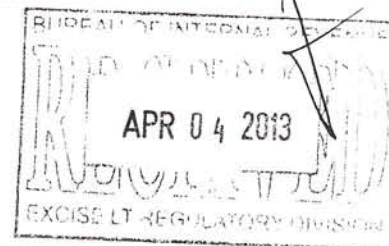
|   | 2012        | 2011        | 2010        |
|---|-------------|-------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |             |             |             |
| Income before income tax  | P259,914    | P8,130,681  | P5,684,062  |
| Adjustments for:  |             |             |             |
| Provision for rehabilitation, clean up and other costs<br>(Notes 1 and 31)          | 1,446,859   | -           | -           |
| Impairment loss on deferred exploration costs and others<br>(Notes 7, 8, 10 and 12) | 1,023,376   | 170,772     | -           |
| Depletion and depreciation (Notes 10 and 15)  | 778,995     | 770,289     | 887,868     |
| Interest expense (Notes 10 and 13)  | 44,355      | 36,161      | 20,898      |
| Stock-based compensation expense (Note 26)  | 21,280      | 49,965      | 2,043       |
| Loss (gain) on dilution of interest in an associate<br>(Note 11)                    | -           | (523,710)   | 119,804     |
| Equity in net losses of associates (Note 11)  | -           | 44,116      | 37,594      |
| Loss (gain) on disposal of property and equipment                                   | -           | (324)       | 2,009       |
| Gain on disposal of AFS financial assets (Note 11)                                  | -           | (77)        | -           |
| Unrealized foreign exchange losses (gains)<br>and others - net                      | (52,474)    | (77,519)    | 487,346     |
| Interest income (Note 6)  | (58,201)    | (86,017)    | (27,133)    |
| Operating income before working capital changes                                     | 3,464,104   | 8,514,337   | 7,214,491   |
| Decrease (increase) in:   |             |             |             |
| Accounts receivable   | 1,342,408   | 576,843     | (1,762,965) |
| Inventories   | (392,891)   | (25,242)    | 50,106      |
| Pension assets  | (82,520)    | (52,219)    | (30,732)    |
| Other current assets  | (235,659)   | (78,688)    | (215,369)   |
| Increase (decrease) in:   |             |             |             |
| Accounts payable and accrued liabilities  | 90,194      | 162,021     | 190,488     |
| Provisions and subscriptions payable  | (195,645)   | (175,578)   | -           |
| Cash generated from operations  | 3,989,991   | 8,921,474   | 5,446,019   |
| Interest received   | 41,515      | 93,664      | 29,142      |
| Interest paid   | (23,645)    | (16,081)    | (18,417)    |
| Income taxes paid   | (1,094,452) | (2,358,400) | (949,921)   |
| Net cash flows from operating activities  | 2,913,409   | 6,640,657   | 4,506,823   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |             |             |             |
| Increase in deferred exploration costs and other<br>noncurrent assets               | (1,896,122) | (2,075,491) | (1,223,377) |
| Additions to:   |             |             |             |
| AFS financial assets  | (20,680)    | (1,716,388) | (24,664)    |
| Property, plant and equipment (Note 10)   | (2,104,626) | (1,347,344) | (1,397,949) |
| Investments in shares of stock (Note 11)  | -           | -           | (775)       |
| Payment of subscriptions payable (Note 11)  | -           | -           | (32,921)    |
| Net proceeds from sale of:  |             |             |             |
| Property, plant and equipment   | 90,288      | 43,461      | 8,195       |
| AFS financial assets  | -           | 280         | -           |
| Acquisition of additional interests in the following<br>subsidiaries:               |             |             |             |
| Philex Gold Inc. (Note 2)   | -           | -           | (256,039)   |
| Forum Energy plc (Note 2)   | -           | -           | (36,910)    |
| Dividends received  | -           | -           | 8,468       |
| Net cash flows used in investing activities   | (3,931,140) | (5,095,482) | (2,955,972) |

(Forward)



|  | Years Ended December 31 |             |             |
|--|-------------------------|-------------|-------------|
|  | 2012                    | 2011        | 2010        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>    |                         |             |             |
| Proceeds from:                                 |                         |             |             |
| Availment of short-term loans (Note 13)        | ₱1,100,000              | ₱2,553,985  | ₱1,527,845  |
| Exercise of stock options and others (Note 25) | 103,195                 | 32,567      | 57,367      |
| Payments of:                                   |                         |             |             |
| Short-term bank loans (Note 13)                | —                       | (2,353,985) | (1,377,845) |
| Dividends (Note 25)                            | (2,455,918)             | (1,632,973) | (649,053)   |
| Net cash flows used in financing activities    | (1,252,723)             | (1,400,406) | (441,686)   |
| <b>EFFECT OF EXCHANGE RATE CHANGES</b>         |                         |             |             |
| ON CASH AND CASH EQUIVALENTS                   | (7,299)                 | 20,278      | (208,032)   |
| <b>NET INCREASE (DECREASE) IN CASH</b>         |                         |             |             |
| AND CASH EQUIVALENTS                           | (2,277,753)             | 165,047     | 901,133     |
| <b>CASH AND CASH EQUIVALENTS</b>               |                         |             |             |
| AT BEGINNING OF YEAR                           | 3,947,295               | 3,782,248   | 2,881,115   |
| <b>CASH AND CASH EQUIVALENTS</b>               |                         |             |             |
| AT END OF YEAR (Note 6)                        | ₱1,669,542              | ₱3,947,295  | ₱3,782,248  |

See accompanying Notes to Consolidated Financial Statements.





**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Amounts in Thousands, Except Amounts Per Unit and Number of Shares)

APR 04 2013

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

Corporate Information

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

Philex Mining Corporation (the Parent Company or PMC) was incorporated on July 19, 1955 in the Philippines and is listed in the Philippine Stock Exchange on November 23, 1956. Having reached the end of its 50 years corporate life, the Parent Company's Philippine Securities and Exchange Commission (SEC) registration was renewed on July 23, 2004. The Parent Company, Philex Gold Philippines, Inc. (PGPI, a wholly-owned subsidiary through a holding company and incorporated in the Philippines), Lascogon Mining Corporation (LMC), (a subsidiary of PGPI and incorporated in the Philippines), and Silangan Mindanao Exploration Co., Inc. (SMECI, a wholly-owned subsidiary directly by the Parent company and through a holding company and PGPI, and incorporated in the Philippines) and its subsidiary, Silangan Mindanao Mining Co. Inc. (SMMCI, a wholly-owned subsidiary directly by the Parent Company and through SMECI, and incorporated in the Philippines) are all primarily engaged in large-scale exploration, development and utilization of mineral resources. The Parent Company operates the Padcal Mine in Benguet. PGPI operated the Bulawan mine in Negros Occidental until the second quarter of 2002. LMC conducts exploration work on Taganaan, Surigao del Norte. SMMCI owns the Silangan Project covering the Boyongan and Bayugo deposits, which are under pre-feasibility study stage as of December 31, 2012.

Philex Petroleum Corporation (PPC, a 64.8% owned subsidiary of the Parent Company and incorporated in the Philippines) and its subsidiaries: Forum Energy plc (FEP, 60.5% owned and registered in England and Wales) and its subsidiaries, and FEC Resources, Inc. (FEC, 51.2% owned and incorporated in Canada) are engaged primarily in oil and gas operation and exploration activities, holding participations in oil and gas production and exploration activities through their investee companies. Brixton Energy & Mining Corporation (BEMC), a wholly-owned subsidiary of PPC and incorporated in the Philippines commenced operation of its coal mine in Diplahan, Zamboanga Sibugay in November 2010 but suspended operation in December 2012, pending results of a detailed review of the coal mine operations and prospects.

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

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

Executive Order (EO) 79

On July 12, 2012, EO 79 was released to lay out the framework for the implementation of mining reforms in the Philippines. The policy highlights several issues that includes area of coverage of mining, small-scale mining, creation of a council, transparency and accountability and reconciling the roles of the national government and local government units. Management believes that EO 79 has no major impact on its current Padcal operations since the mine is covered by an existing



Mineral Production Sharing Agreement (MPSA) with the government. Section 1 of EO 79, provides that mining contracts approved before the effectivity of the EO shall continue to be valid, binding, and enforceable so long as they strictly comply with existing laws, rules and regulations and the terms and conditions of their grant. The EO could, however, delay or adversely affect the conversion of the Group's mineral properties covered by Exploration Permits (EPs) or Exploration Permit Applications (EPAs) or Application for Production Sharing Agreements (APSAs) given the provision of the EO on the moratorium on the granting of new mineral agreements by the government until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect.

#### Status of Business Operations

##### *Padcal Mine Operations*

The Parent Company has the Padcal Mine as its main source of revenue from its metals business segment. The Padcal Mine is on its 55th year of operation producing copper concentrates containing gold, copper and silver.

At around midnight of August 1, 2012, the Parent Company voluntarily suspended its operations of the Padcal Mine after tailings were accidentally discharged from the underground tunnel of Penstock A being used to drain water from Tailings Storage Facility (TSF) No. 3 of the mine. The incident followed the unabated and historically unprecedented heavy rains during the last two weeks of the preceding month from the two typhoons that brought unusual and heavy accumulation of rain water in TSF 3. The suspension of the mine's operations was formalized at around 8 p.m. of the following day, August 2, 2012, when the Mines and Geosciences Bureau (MGB) ordered the Padcal Mine to stop operations until such time as the safety and integrity of its tailings storage facility is assured. The discharge of tailings was fully stopped with the plugging of the sinkhole in one of the two penstocks used in the water management system of TSF 3 and the sealing of the underground tunnel of the affected penstock in November 2012. This has allowed the Padcal Mine to start conducting the necessary remediation and rehabilitation program (which includes the rehabilitation of TSF 3 and the construction of an open spillway in place of the existing penstock system for water management, the construction of a new TSF 4, 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 26, 2013, MGB lifted its suspension order and allowed the Padcal Mine to operate for a period of four months in order to undertake further remediation measures on TSF 3. The remaining constraint on the Parent Company's ability to operate the Padcal Mine is the cease and desist order issued by the Pollution Adjudication Board (PAB) of the Department of Environment and Natural Resources (DENR) which was issued by the PAB on November 28, 2012. The Parent Company has posted the surety bond required by the PAB for the lifting of its cease and desist order and is awaiting the issuance of the lifting order by the PAB in due course.

The MGB imposed the payment of ₱1,034,358 Mine Waste and Tailings Fee as provided for under Department of Environment and Natural Resources Administrative Order (DAO) No. 2010-21 implementing the provisions of the Philippine Mining Act of 1995, which fee the Parent Company has provided for in the accounts as of December 31, 2012 and actually paid on February 18, 2013. The PAB has likewise assessed the Parent Company the amount of ₱92,800 for alleged violations of the Clean Water Act of 2004, which the Parent Company has challenged and is the subject of a motion for reconsideration pending before the PAB. Other provisions for the remediation and rehabilitation of TSF 3 and the areas affected by the tailings spill have also been made in the 2012 accounts.



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

The Group continues to look for sources of funding to finance its activities and working capital requirements pending the resumption of the Parent Company's Padcal Mine operations. On October 30, 2012, the Parent Company obtained a commitment letter from First Pacific Ltd. (FPC) to provide a loan of up to a maximum of US\$200,000 to finance the Silangan Project's exploration activities and the Padcal Mine's capital requirements (see Note 23). On February 12, 2013, the Parent Company received the amount of US\$25,000 as claims settlement relative to the tailings spill from its pollution legal liability insurance (see Note 33).

#### *PGPI*

PGPI previously operated the Bulawan mine in Negros Occidental and developed the Sibutad Project in Zamboanga del Norte. It currently holds 60% of SMMCI through SMECI, and 99% of Lascogon Mining Corporation (LMC).

#### *SMMCI*

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

#### *BEMC*

Developmental work for the mining activities of BEMC over its coal property in Zamboanga Sibugay started in 2009 when BEMC also purchased coal from small-scale miners permitted to operate within its mine site and in turn, sells this coal to generate revenue. Mining operations in the property commenced in November 2010 after completion of the mine development work. Coal mining operations of BEMC has, however, been temporarily suspended on January 9, 2013 due to adverse effects of significant drop in coal prices. A detailed review of the operations and prospects of the coal mining projects is currently being undertaken. Activities would be confined to maintenance and repair of the coal mine and processing and marketing of existing coal inventory.

In 2012, BEMC recognized an impairment loss of P434,288 on its property, plant and equipment reducing its carrying value to nil as at December 31, 2012.

#### *FEP*

FEP's principal asset is a 70% interest in Service Contract (SC) 72, converted on February 15, 2010 from Geophysical Survey Exploration Contract (GSEC) 101, covering an 8,800 square kilometers offshore petroleum license situated west of Palawan Island in the West Philippine Sea where the Sampaguita natural gas deposit is located.

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

The Group's ability to realize its deferred mine and oil exploration costs amounting to P14,535,993, P12,876,803, and P10,789,502 as at December 31, 2012, 2011 and 2010, respectively (see Note 12), depends on the success of exploration and development work in proving the viability of its mining and oil properties to produce minerals and oil in commercial quantities, and the success of converting the Group's EPs or EPAs or APSAs to new mineral



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

#### Authorization for Issue of the Financial Statements

The consolidated financial statements of the Group covering the periods as at and for the three years ended December 31, 2012, 2011 and 2010 were authorized for issuance by the BOD on February 27, 2013.

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## **2. Summary of Significant Accounting Policies and Financial Reporting Practices**

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations [based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations] which became effective on January 1, 2012. Adoption of these changes in PFRS did not have any significant effect to the Group.

#### *Amendments to Standards*

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendment), effective July 1, 2011
- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment), effective January 1, 2012

#### Future Changes in Accounting Policies

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



*Effective in 2013*

- Amendments to PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

The amendment requires an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendment to PFRS 7 is to be retrospectively applied and is effective for annual periods beginning on or after January 1, 2013.

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

- PFRS 10, *Consolidated Financial Statements*

PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 10 will affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 11, *Joint Arrangements*

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.



The adoption of PFRS 11 will affect disclosures only and have no impact on the Group's financial position or performance.

- *PFRS 12, Disclosure of Interests in Other Entities*

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31, *Interest in Joint Ventures* and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.

- *PAS 27, Separate Financial Statements (as revised in 2011)*

As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the Parent Company. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

- *PFRS 13, Fair Value Measurement*

PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- *PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- *PAS 19, Employee Benefits (Revised)*

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on





or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has a significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

|                                   | As at<br>31 December<br>2012 | As at<br>31 December<br>2011 | As at<br>1 January<br>2011 |
|-----------------------------------|------------------------------|------------------------------|----------------------------|
| Increase (decrease) in:           |                              |                              |                            |
| <u>Consolidated statements of</u> |                              |                              |                            |
| <u>financial position</u>         |                              |                              |                            |
| Net retirement plan assets        | (P179,120)                   | (P160,524)                   | (P31,504)                  |
| Other comprehensive income        | 4,284                        | (118,548)                    | —                          |
| Retained earnings                 | (128,382)                    | (29,383)                     | (22,053)                   |
| <u>Consolidated statements of</u> |                              |                              |                            |
| <u>comprehensive income</u>       |                              |                              |                            |
| Net retirement benefit costs      | 22,880                       | 10,473                       |                            |
| Provision for income tax          | (6,864)                      | (3,142)                      |                            |
| Net income for the year           | (16,016)                     | (7,331)                      |                            |

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)  
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*  
This interpretation applies to waste removal costs (“stripping costs”) that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met (“stripping activity asset”). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part.

The Group expects that this interpretation will not have any impact on its financial position or performance. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.



*Effective in 2014*

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendment)*

The amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

*Effective in 2015*

- PFRS 9, *Financial Instruments*

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.



### Improvements to PFRSs

The omnibus amendment to PFRS issued in 2009, 2010 and 2011, contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- **PFRS 1, *First-time Adoption of PFRS - Borrowing Costs***  
The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- **PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information***  
The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- **PAS 16, *Property, Plant and Equipment - Classification of servicing equipment***  
The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.
- **PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments***  
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.
- **PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities***  
The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.



## Summary of Significant Accounting Policies

### Basis of Consolidation

#### *Basis of consolidation starting January 1, 2010*

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

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

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

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

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

#### *Basis of consolidation prior to January 1, 2010*

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



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

| Subsidiaries                                   | Nature of Business  |
|--|---|
| Philex Gold Holdings, Inc. (PGHI)              | Incorporated in the Philippines on August 28, 1996 to serve as an intermediary holding company through which its subsidiaries and the Parent Company conduct large-scale exploration, development and utilization of mineral resources. PGHI owns 100% of the outstanding shares of PGPI effective April 27, 2010.  |
| Philippines Gold Mining Company B.V. (PGMC-BV) | Incorporated in The Netherlands on October 1, 1996, as previously the intermediary holding company of PGI. PGMC-BV is currently in process of liquidation.  |
| Philex Gold Inc. (PGI)                         | Incorporated in Canada on June 14, 1996 and owns 100% of the outstanding shares of PGPI until April 26, 2010.   |
| PGPI   | Incorporated in the Philippines on August 9, 1996 as a wholly-owned subsidiary of PGI and became a wholly-owned subsidiary of PGHI on April 27, 2010. PGPI was primarily engaged in the operation of the Bulawan mine and the development of the Sibutad Project both now on care and maintenance status since 2002. The Company currently owns 60% and 98.9% of the outstanding shares of SMECI and LMC, respectively. |
| LMC  | Incorporated in the Philippines on October 20, 2005 to engage in exploration, development and utilization of mineral resources, particularly the Lascogon Project in Surigao.   |
| SMECI  | Incorporated in the Philippines on October 12, 1999 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources; currently the holding company of SMMCI.   |
| SMMCI  | Incorporated in the Philippines on January 4, 2000 primarily to engage in the business of large-scale exploration, development and utilization of mineral resources, principally the Silangan Project.  |
| PPC  | Incorporated in the Philippines on December 27, 2007 to carry on businesses related to any and all kinds of petroleum and petroleum products, oil, and other sources of energy. PPC's shares are listed in the Philippine Stock Exchange.   |
| FEP  | Incorporated on April 1, 2005 in England and Wales primarily to engage in the business of oil and gas exploration and production, with focus on the Philippines. FEP's shares are listed in the Alternative Investment Market of the London Stock Exchange.   |
| FEC  | Incorporated on February 8, 1982 under the laws of Alberta, Canada primarily to engage in the business of exploration and development of oil and gas and other mineral related opportunities. FEC's shares are listed in the OTC BB of NASDAQ.  |
| BEMC   | Incorporated in the Philippines on July 19, 2005 to engage in exploration, development and utilization of energy-related resources, particularly the Brixton coal operations in Diplahan, Zamboanga Sibugay.  |
| 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.  |



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

The ownership of the Parent Company and subsidiaries over the foregoing companies in 2012, 2011 and 2010 are summarized as follows:

|         | Percentages of Ownership |          |        |          |        |          |
|---------|--------------------------|----------|--------|----------|--------|----------|
|         | 2012                     |          | 2011   |          | 2010   |          |
|         | Direct                   | Indirect | Direct | Indirect | Direct | Indirect |
| PGHI    | 100.0                    | —        | 100.0  | —        | 100.0  | —        |
| PGMC-BV | —                        | 100.0    | —      | 100.0    | —      | 100.0    |
| PGI     | —                        | 100.0    | —      | 100.0    | —      | 100.0    |
| PGPI    | —                        | 100.0    | —      | 100.0    | —      | 100.0    |
| LMC     | —                        | 98.9     | —      | 60.0     | —      | 60.0     |
| SMECI   | —                        | 60.0     | —      | 60.0     | —      | 60.0     |
| SMMCI   | —                        | 83.3     | —      | 83.3     | —      | 83.3     |
| PPC     | 64.8                     | —        | 64.8   | —        | 100.0  | —        |
| BEMC    | —                        | 100.0    | —      | 100.0    | —      | 100.0    |
| FEP     | —                        | 36.4     | —      | 38.8     | —      | 38.8     |
| FEC     | —                        | 51.2     | —      | 51.2     | —      | 51.2     |
| LMC     | —                        | 1.1      | —      | 40.0     | —      | 40.0     |
| FEP     | —                        | 24.1     | —      | 25.6     | —      | 25.6     |
| SMECI   | 40.0                     | —        | 40.0   | —        | 40.0   | —        |
| SMMCI   | 16.7                     | —        | 16.7   | —        | 16.7   | —        |
| FSTI    | 100.0                    | —        | 100.0  | —        | 100.0  | —        |
| PLI     | 100.0                    | —        | 100.0  | —        | 100.0  | —        |
| PIAI    | 100.0                    | —        | 100.0  | —        | 100.0  | —        |

*Infusion of additional capital in LMC*

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

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

*Distribution of PPC shares as property dividend*

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



*Acquisition of additional shares of stock in FEC*

On January 7, 2010, the Parent Company acquired additional 5,000,000 shares of FEC at a purchase price of United States (US) \$2,500 (or ₱116,063). Following the acquisition, the Parent Company has ownership of and control over 225,000,000 shares of FEC, representing 51.2% of the issued shares of FEC as at January 7, 2010.

The difference between the acquisition cost and the book value of the interest acquired amounting to ₱56,200 was recognized as “Effect of transactions with non-controlling interests” in the equity section of the consolidated statement of financial position.

*Acquisition of additional shares of stock in FEP*

On February 24, 2010, PPC acquired additional 786,259 shares of FEP at a purchase price of ₱511 (₱36,910) representing 2.4% equity interest in FEP, which increased the number of shares owned and controlled by PPC to 21, 503,704 shares. The acquisition increased PPC’s holdings to 39.1% of the issued and outstanding shares of FEP. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱4,981 was recognized as “Effect of transactions with non-controlling interests” in the equity section of the consolidated statement of financial position.

*Dilution of interest in FEP*

On May 26, 2010, certain directors and employees exercised their option over ordinary shares granted under FEP’s 2005 Share Option Plan. As a result of the exercise of options, ownership interest of PPC and FEC in FEP decreased to 38.8% and 25.6%, respectively. The difference between the equity in shareholdings before and after the dilution of ownership was recognized in 2010 as “Effect of transactions with non-controlling interests” amounting to ₱3,266 in the equity section of the consolidated statement of financial position as a result of the dilution of interest in FEP. On May 30, 2012, PPC’s and FEC’s interest in FEP were further reduced to 36.4% and 24.1%, respectively, after further option exercises were made over 2,185,000 ordinary shares of FEP. Shares aggregating to 700,000 and 1,000,000 were subsequently sold to Asia Link B.V. (a wholly-owned subsidiary of FPC) and Tidemark Holdings Limited (a wholly-owned subsidiary of Atok-Big Wedge Co., Inc.), respectively. The additional amount of ₱26,376 was recognized as “Effect of transactions with non-controlling interests” in 2012.

*Acquisition of NCI of PGI*

On April 27, 2010, PGHI’s acquisition of the NCI in PGI consisting of 7,726,310 shares representing the remaining 19.0% equity interest of PGI at US\$0.75 per common share (a total of US\$5,795 or ₱256,039) was completed.

As at the date of purchase, the NCI of PGI is carried at zero net book value in the consolidated statement of financial position. The difference between the acquisition cost and the book value of the interest acquired amounting to ₱256,039 was recognized as “Effect of transactions with NCI” in the equity section of the consolidated statement of financial position.

As a result of the acquisition of the NCI of PGI, SMECI and SMMCI became wholly-owned subsidiaries of the Parent Company directly and indirectly through holding companies. The carrying values of the NCI deemed acquired amounting to ₱368,483 were recognized as “Effect of transactions with NCI.”



*Sale of PGPI to PGHI*

On April 27, 2010, PGI sold all of its investment in the shares of stock of PGPI to PGHI, which consisted of 500,000,000 shares at a price of Canadian (Cdn) \$20,460 (or ₱893,054). PGI also transferred to PGHI its deposit for future stock subscription in PGPI at a price of Cdn\$61,940 (or ₱2,703,632).

*Sale of FEC and BEMC to PPC*

On September 24, 2010, pursuant to an internal reorganization whereby all of the energy assets of the Parent Company are to be held by PPC, the Parent Company transferred all of its investment in shares of stock representing 51.2% of FEC at a purchase price of ₱342,338.

The Parent Company also transferred to PPC all of its investments in shares of stock representing 100% of BEMC at a purchase price of ₱45,000.

*NCI*

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

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

Investments in Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's share of its associates' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition changes in OCI is recognized in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. On the loss of significant influence, the Group measures at fair value any investment that the Group retains in the former associate. The Group recognizes in the consolidated statement of income any difference between:

- a. the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
- b. the carrying amount of the investment at the date when significant influence is lost.





When an investment ceases to be an associate and is accounted for in accordance with PAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with PAS 39.

#### Investments in Joint Venture Entities

Joint venture entities are all entities subject to a joint control under a contractual arrangement with other parties. Investments in joint venture entities are accounted for under the equity method. Under the equity method, the investments are carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture entity, less any impairment in value. Dividends are considered return on capital and deducted from the investment account. Unrealized gains arising from transactions with the joint ventures are eliminated to the extent of the Group's interests in the joint ventures, against the investments in those joint ventures. Unrealized losses are similarly eliminated but only to the extent that there is no evidence of the asset transferred.

The Group has investment in the shares of stock of a joint venture entity, Minphil Exploration Co., Inc. (MECI). MECI's wholly-owned subsidiary, Northern Luzon Exploration & Mining Co., Inc. (NLEMCI), has not started productive operations as at December 31, 2012 (see Notes 11 and 29).

The Group also enters into an agreement with third parties for the joint exploration, development and production activities under contractual arrangement. It clarifies these arrangements as jointly controlled operations for the purpose of PAS 31. Accordingly, the Group only accounts for its share of assets, liabilities, revenues and expenses, classified in the appropriate consolidated statement of financial position, and consolidated statement of income and other comprehensive income headings.

The Galoc, Nido and Matinloc fields are accounted for by the Group using proportionate consolidation which brings into account the Group's share of assets, liabilities, revenue and operating costs related to their fields.

#### Business Combination and Goodwill

##### *Business combinations starting January 1, 2010*

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in the consolidated statement of income, or in the consolidated statement of comprehensive income. If



the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

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

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

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

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

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

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

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



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

#### Foreign Currency Translation of Foreign Operations

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

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

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of recognition*

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

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

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

On initial recognition, the Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments are acquired and



whether they are quoted in an active market. Financial liabilities, on the other hand, are classified into the following categories: financial liabilities at FVPL and other financial liabilities, as appropriate. Management determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

As at December 31, 2012, 2011 and 2010, the Group's financial assets and financial liabilities consist of derivative instruments designated as cash flow hedges, loans and receivables, AFS financial assets and other financial liabilities.

#### *Determination of fair value*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.

#### *Day 1 difference*

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

#### *Derivatives and Hedging*

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



Derivatives are accounted for as at fair value through profit or loss (FVPL), where any gains or losses arising from changes in fair value on derivatives are taken directly to consolidated statements 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 statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within 12 months from the statement of financial position date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2012, 2011 and 2010, included under loans and receivables are the Group's accounts receivable (see Note 7).

#### AFS Financial Assets

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

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



Note 11 discuss the details of the Group's AFS financial assets as of December 31, 2012, 2011 and 2010.

#### 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, 2012, 2011 and 2010, included in other financial liabilities are the Group's short-term loans, accounts payable and accrued liabilities, dividends payable and subscriptions payable (see Notes 11, 13, 14 and 25).

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

#### Impairment of Financial Assets

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

#### *Financial assets carried at cost*

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

#### *Loans and receivables*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial



asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in the consolidated statement of income.

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

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

#### *AFS financial assets*

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

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

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial assets*

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the





asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

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

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

#### Inventories

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

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

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

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

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

#### Input Tax Recoverable

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



### Property, Plant and Equipment

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

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

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

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

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

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

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

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

Level and block development (included as part of mine and mining and oil and gas properties) and construction in progress are stated at cost, which includes the cost of construction, plant and equipment, other direct costs and borrowing costs, if any. Block development and construction in



progress are not depleted nor amortized until such time as these are completed and become available for use.

#### Deferred Exploration Costs

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

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

#### Borrowing Costs

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

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

#### Impairment of Noncurrent Non-financial Assets

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



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

#### Provision for Mine Rehabilitation Costs

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

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

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

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

#### Capital Stock

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

#### Dividends on Common Shares

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

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



### Retained Earnings

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

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

### Revenue Recognition

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

#### *Revenue from sale of mine products*

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

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

#### *Revenue from sale of oil products*

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

#### *Revenue from sale of coal*

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

#### *Interest income*

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



#### Cost and Expense Recognition

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

##### *Mining and milling costs*

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

##### *Mine products taxes and royalties*

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

##### *Petroleum production costs*

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

##### *Cost of coal sales*

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

##### *General and administrative expenses*

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

##### *Handling, hauling and storage*

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

#### Retirement Benefits Costs

Retirement benefits costs are actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the Group's retirement plan at the end of the previous reporting year exceed 10% of the higher of the defined benefits obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight-line basis over the average period that the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately.

The net retirement benefits liability is either the aggregate of the present value of the defined benefits obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized, and the fair value of plan assets from which the obligations are to be settled, or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan. If such aggregate is negative, the net retirement plan assets are



measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. If there is no change or there is an increase in the present value of economic benefits, the entire net actuarial losses of the current period and the past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of these economic benefits. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the asset is measured with the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or there is a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

#### Share-based Payments

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

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

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

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

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



### Foreign Currency-Denominated Transactions and Translations

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

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

### Related Party Relationships and Transactions

Related party relationships exist when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

### Income Taxes

#### *Current income tax*

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

#### *Deferred income tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward 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.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced 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. Unrecognized deferred income tax assets are reassessed 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 amount to be utilized.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that has been enacted or substantively enacted at the statement of financial position date.

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

#### Provisions and Contingencies

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

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

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

#### Basic Earnings Per Share

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

#### Diluted Earnings Per Share

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

#### Other Comprehensive Income

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



#### Events After the Statement of Financial Position Date

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

#### Operating Segment

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

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

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

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

#### Judgments

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

##### *Determination of the functional currency*

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

##### *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, 2012, 2011



and 2010, deferred income tax assets recognized in the consolidated statements of financial position amounted to ₱714,565, ₱438,859, and ₱371,146, respectively (see Note 24). As at December 31, 2012, 2011 and 2010, no deferred income tax assets were recognized on the following deductible temporary differences amounting to about ₱2,637,023, ₱2,097,383 and ₱2,704,272, respectively (see Note 24), because management believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

#### *Classification of Financial Instruments*

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

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

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

#### *Loss of Significant Influence over Certain Associates*

The Group assesses whether lack of significant influence over an associate is evident. Aside from the presumption that holding of less than 20.0% of the voting power does not give rise to significant influence, the management also considers other circumstances that may lead them to believe that the Group cannot exercise significant influence over its associates. Such circumstances include failure to obtain representations on the investee's BOD, inability to obtain timely financial information or cannot obtain more information than investors without significant influence, the Group's views and economic decisions are not considered in the operations of the investee, and the other investors are opposing the Group's attempt to exercise significant influence. In 2010, the ownership interest of the Group over its investment in PetroEnergy Resources Corporation (PERC) has decreased from 20.6% to 10.3% (see Note 11) and management assessed that the Group has lost its significant influence over its investment in PERC. In 2011, the ownership interest of the Group over its investment in Pitkin Petroleum Limited (Pitkin) was reduced from 21.0% to 18.5% (see Note 11) which, together with other factors, caused the management to conclude that the Group has lost its significant influence over its investment in Pitkin. The Group therefore reclassified its investment in Pitkin and PERC as AFS financial assets in 2011 and 2010, respectively.

#### Accounting Estimates and Assumptions

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

#### *Measurement of Mine Products Revenue*

Mine products revenue is provisionally priced until or unless these are settled at pre-agreed future or past dates referred to as "quotational period," the prevailing average prices at which time become the basis of the final price. Revenue on mine products is initially recognized based on



shipment values calculated using the provisional metals prices, shipment weights and assays for metal content less deduction for insurance and smelting charges as marketing. The final shipment values are subsequently determined based on final weights and assays for metal content and prices during the applicable quotational period. Total mine products revenue, gross of marketing charges, amounted to ₱8,891,316, ₱15,573,717, and ₱13,064,458 in 2012, 2011 and 2010, respectively (see Note 30).

#### *Impairment of Loans and Receivables*

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

The Group did not assess its loans and receivables for collective impairment due to few counterparties that can be specifically identified. Outstanding trade receivables are mainly from the Parent Company's main customer. Other receivables of the Group are not material. The amount of loss is recognized in the consolidated statement of 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 ₱207,749, ₱1,595,629, and ₱2,180,432 as at December 31, 2012, 2011 and 2010, respectively (see Note 7). Allowance for impairment on these financial assets as at December 31, 2012, 2011 and 2010 amounted to ₱2,397, ₱2,300, and ₱2,303, respectively (see Note 7).

#### *Valuation of AFS financial assets*

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

Any change in fair value of its AFS financial assets is recognized in the consolidated statement of comprehensive income. As at December 31, 2012, 2011 and 2010, the Group has net cumulative unrealized gain on its AFS financial assets amounting to ₱601,055, ₱2,020,940, and ₱419,404, respectively (see Note 11). As at December 31, 2012, 2011 and 2010, the carrying value of the Group's AFS financial assets amounted to ₱3,990,761, ₱5,428,069, and ₱886,737, respectively (see Note 11).

#### *Impairment of AFS financial assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as 30% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted securities. There were no impairment losses on AFS financial assets in 2012, 2011 and 2010 (see Note 11). As at December 31, 2012, 2011 and 2010, the carrying value of the Group's AFS financial assets amounted to ₱3,990,761, ₱5,428,069, and ₱886,737, respectively (see Note 11).



#### *Impairment of Goodwill*

The Group reviews the carrying values of goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. No impairment losses were recognized in 2012, 2011 and 2010, whereas the carrying value of goodwill as at December 31, 2012, 2011 and 2010 amounted to P258,593 (see Note 4).

#### *Measurement of NRV of Mine Products Inventory*

The NRV of mine products inventory is the estimated sales value less costs to sell, which can be derived from such inventory based on its weight and assay for metal content, and the London Metal Exchange (LME) and London Bullion Metal Association for prices, which also represents an active market for the product. Changes in weight and assay for metal content as well as the applicable prices as the mine products inventory are eventually shipped and sold are accounted for and accordingly adjusted in revenue. The NRV of mine products inventory as at December 31, 2012, 2011 and 2010 amounted to nil, P41,527, and P169,104, 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. Materials and inventory write-down amounted to P53,160, nil and P59,730 in 2012, 2011 and 2010, respectively. Related allowance for inventory obsolescence amounted to P248,261 as at December 31, 2012 and P195,101 as at December 31, 2011 and 2010. The carrying value of materials and supplies inventories amounted to P1,225,127, P947,758, and P909,906 as at December 31, 2012, 2011 and 2010, respectively (see Note 8).

Coal inventory write-down amounted to P143,547, P8,394 and nil in 2012, 2011 and 2010, respectively. Related allowance for decline in coal inventory amounted to P151,941, P8,394 and nil as at December 31, 2012, 2011 and 2010, respectively. The carrying amount of coal inventory amounted to P86,856, P129,382 and P14,626 as at December 31, 2012, 2011 and 2010, respectively (see Note 8).

#### *Estimation of Fair Value of Identifiable Net Assets of an Acquiree in a Business Combination*

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

#### *Estimation of Useful Lives of Property, Plant and Equipment*

The Group estimates the useful lives of depreciable property, plant and equipment, except for mine and mining and oil and gas properties, based on internal technical evaluation and experience. These estimated useful lives are reviewed periodically and updated if expectations differ from



previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. For mine and mining properties which were depreciated based on units-of production, the Group estimates and periodically reviews the remaining recoverable reserves to ensure that remaining reserves are reflective of the current condition of the mine and mining and oil and gas properties. The estimated useful lives of the Group's property, plant and equipment are disclosed in Note 2 to the consolidated financial statements.

As at December 31, 2012, 2011 and 2010, net book value of property, plant and equipment amounted to ₱6,035,174, ₱5,399,716 and ₱5,095,029, respectively (see Note 10).

#### *Estimation of Recoverable Reserves*

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

#### *Estimation of Provision for Mine Rehabilitation Costs*

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

Those uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision at each end of the reporting period represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in the consolidated statements of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets, net of rehabilitation provisions exceeds, the carrying value, that portion of the increase is charged directly to the consolidated statements of income. For closed sites, changes to estimated costs are recognized immediately in the consolidated statements of income. Provision for mine rehabilitation costs amounted to ₱18,892, ₱17,775 and ₱31,709 as at December 31, 2012, 2011 and 2010, respectively (see Note 10).

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

The Group's non-financial assets include input tax recoverable, property, plant and equipment, investments in shares of stock, deferred mine and oil exploration costs and other current and noncurrent assets. The Group assesses whether there are indications of impairment on its current and noncurrent non-financial assets, at least on an annual basis. If there is objective evidence, an impairment testing is performed. This requires an estimation of the value in use of the CGUs to which the assets belong. Assessments require the use of estimates and assumptions such as VAT disallowance rate, long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. In assessing value in use, the estimated future cash flows are discounted to their present value using a suitable discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses amounting to ₱827,172, ₱170,772 and nil were recognized in 2012, 2011 and 2010,



respectively. As at December 31, 2012, 2011 and 2010, the carrying value of non-financial assets amounted to ₱21,701,520, ₱19,147,445 and ₱17,416,541, respectively (see Notes 10, 11 and 12).

#### *Valuation of Financial Instruments*

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

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

#### *Provisions for Losses*

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at each end of the reporting period, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. In 2012, 2011 and 2010, payments were made for a total of ₱451,550, ₱210,342, and ₱27,380, respectively, through the Parent Company and PGPI. As at December 31, 2012, 2011 and 2010, FEP made payments to Basic Energy Corporation amounting to ₱451,550, ₱210,342 and nil, respectively. Provisions in 2012, 2011 and 2010 amounted to ₱1,700, ₱117,000 and ₱75,000, respectively. Total provision for losses amounted to ₱1,739,214, ₱468,847 and ₱644,481 as at December 31, 2012, 2011 and 2010, respectively (see Note 31).

#### *Estimation of Net Retirement Benefits Liability (Plan Assets) and Costs*

The Group's net retirement benefits costs are actuarially computed using certain assumptions with respect to future annual salary increases and discount rates per annum, among others. The Group's net retirement plan asset, which is recorded as part of "Deferred exploration costs and other noncurrent assets" amounted to ₱135,147, ₱52,627 and ₱408 as at December 31, 2012, 2011 and 2010, respectively (see Notes 12 and 18). The related net retirement benefits costs amounted to ₱51,988, ₱43,781, and ₱65,268 for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 18).

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## **4. Business Combinations**

#### *Acquisition of SMECI and SMMCI*

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



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

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

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

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

#### *Acquisition of FEP*

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

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

|                           | Fair Values | Carrying Values |
|---------------------------|-------------|-----------------|
| <b>Assets</b>             |             |                 |
| Cash and cash equivalents | ₱43,158     | ₱43,158         |
| Receivables               | 29,927      | 29,927          |
| Advances to subsidiaries  | 186,311     | 186,311         |
| Inventories               | 3,212       | 3,212           |
| Property and equipment    | 179,735     | 180,661         |

(Forward)





|  | Fair<br>Values  | Carrying<br>Values |
|--|-----------------|--------------------|
| Investments                              | P282            | P282               |
| Deferred oil and gas exploration costs   | 948,811         | 1,897,621          |
| Other assets                             | 43,633          | 43,633             |
|  | 1,435,069       | 2,384,805          |
| <b>Liabilities</b>                       |                 |                    |
| Accounts payable and accrued liabilities | 12,427          | 12,427             |
| Contingent liability                     | 387,374         | –                  |
| Other payables                           | 183,817         | 183,817            |
|  | 583,618         | 196,244            |
| <b>Net Assets</b>                        | <b>P851,451</b> | <b>P2,188,561</b>  |

The acquisition of FEP by PPC in 2008 qualified as a step acquisition and resulted in the Parent Company's step-by-step comparison of the cost of the individual investments with the Group's interest in the fair value of FEP's identifiable assets, liabilities and contingent liabilities at each transaction dates. A revaluation surplus amounting to P39,012 was recognized which pertains to the adjustment to the fair values of the net assets of FEP relating to the previously held interest of the Parent Company in FEP through FEC. The related NCI in the net assets of FEP and its subsidiaries amounted to P315,188.

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

## 5. Segment Information

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

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

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

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, 2012                                       |                    |                        |                                |                     |                    |
|---|--------------------|------------------------|--------------------------------|---------------------|--------------------|
|   | Metals             | Energy and Hydrocarbon | Unallocated Corporate Balances | Eliminations        | Total              |
| <b>Revenue</b>  |                    |                        |                                |                     |                    |
| External customers                                      | P8,451,545         | P239,033               | P7,011                         | P-                  | P8,697,589         |
| Inter-segment   | -                  | -                      | -                              | -                   | -                  |
| <b>Consolidated revenue</b>                             | <b>P8,451,545</b>  | <b>P239,033</b>        | <b>P7,011</b>                  | <b>P-</b>           | <b>P8,697,589</b>  |
| <b>Results</b>  |                    |                        |                                |                     |                    |
| EBITDA  | P1,901,993         | (P877,313)             | P383                           | P-                  | P1,025,063         |
| Interest income (expense) - net                         | 50,577             | (36,955)               | 224                            | -                   | 13,846             |
| Income tax benefit (expense)                            | (452,687)          | (101,831)              | (21)                           | -                   | (554,539)          |
| Depreciation and depletion                              | (708,360)          | (70,259)               | (376)                          | -                   | (778,995)          |
| <b>Consolidated net income (loss)</b>                   | <b>P791,523</b>    | <b>(P1,086,358)</b>    | <b>P210</b>                    | <b>P-</b>           | <b>(P294,625)</b>  |
| <b>Core net income (loss)</b>                           | <b>P1,926,775</b>  | <b>(P221,542)</b>      | <b>P262</b>                    | <b>P-</b>           | <b>P1,705,495</b>  |
| <b>Consolidated total assets</b>                        | <b>P23,716,130</b> | <b>P3,097,230</b>      | <b>P17,890</b>                 | <b>P2,575,901</b>   | <b>P29,407,151</b> |
| <b>Consolidated total liabilities</b>                   | <b>P4,819,117</b>  | <b>P1,363,888</b>      | <b>P883</b>                    | <b>P1,006,183</b>   | <b>P7,190,071</b>  |
| <b>Other Segment Information</b>                        |                    |                        |                                |                     |                    |
| Capital expenditures                                    | P3,783,569         | P396,843               | P15                            | P-                  | P4,180,427         |
| Non-cash expenses other than depletion and depreciation | (22,807)           | (767,748)              | -                              | -                   | (790,555)          |
| December 31, 2011                                       |                    |                        |                                |                     |                    |
|   | Metals             | Energy and Hydrocarbon | Unallocated Corporate Balances | Eliminations        | Total              |
| <b>Revenue</b>  |                    |                        |                                |                     |                    |
| External customers                                      | P14,763,250        | P552,856               | P7,843                         | P-                  | P15,323,949        |
| Inter-segment   | -                  | -                      | -                              | -                   | -                  |
| <b>Consolidated revenue</b>                             | <b>P14,763,250</b> | <b>P552,856</b>        | <b>P7,843</b>                  | <b>P-</b>           | <b>P15,323,949</b> |
| <b>Results</b>  |                    |                        |                                |                     |                    |
| EBITDA  | P8,167,230         | P539,403               | P2,406                         | P142,075            | P8,851,114         |
| Interest income (expense) - net                         | 76,453             | (26,830)               | 233                            | -                   | 49,856             |
| Income tax expense                                      | (2,290,410)        | (39,697)               | (685)                          | -                   | (2,330,792)        |
| Depreciation and depletion                              | (767,421)          | (2,505)                | (363)                          | -                   | (770,289)          |
| <b>Consolidated net income</b>                          | <b>P5,185,852</b>  | <b>P470,371</b>        | <b>P1,591</b>                  | <b>P142,075</b>     | <b>P5,799,889</b>  |
| <b>Core net income</b>                                  | <b>P5,376,225</b>  | <b>P178,103</b>        | <b>P1,588</b>                  | <b>P12,494</b>      | <b>P5,568,410</b>  |
| <b>Consolidated total assets</b>                        | <b>P32,310,162</b> | <b>P5,538,045</b>      | <b>P18,209</b>                 | <b>(P5,412,188)</b> | <b>P32,454,228</b> |
| <b>Consolidated total liabilities</b>                   | <b>P9,930,771</b>  | <b>P1,879,446</b>      | <b>P1,430</b>                  | <b>(P6,408,886)</b> | <b>P5,402,761</b>  |
| <b>Other Segment Information</b>                        |                    |                        |                                |                     |                    |
| Capital expenditures                                    | P2,756,660         | P451,941               | P-                             | P-                  | P3,208,601         |
| Investments in shares of stocks                         | 2,926,048          | 1,104,775              | -                              | (4,030,823)         | -                  |
| Equity in net losses of associates                      | -                  | (44,116)               | -                              | -                   | (44,116)           |
| Non-cash expenses other than depletion and depreciation | (150)              | -                      | -                              | -                   | (150)              |



| December 31, 2010                                       |                    |                        |                                |                     |                    |
|---|--------------------|------------------------|--------------------------------|---------------------|--------------------|
|   | Metals             | Energy and Hydrocarbon | Unallocated Corporate Balances | Eliminations        | Total              |
| <b>Revenue</b>  |                    |                        |                                |                     |                    |
| External customers                                      | P12,350,440        | P329,511               | P-                             | P-                  | P12,679,951        |
| Inter-segment   | -                  | -                      | -                              | -                   | -                  |
| <b>Consolidated revenue</b>                             | <b>P12,350,440</b> | <b>P329,511</b>        | <b>P-</b>                      | <b>P-</b>           | <b>P12,679,951</b> |
| <b>Results</b>  |                    |                        |                                |                     |                    |
| EBITDA  | P6,797,743         | (P186,280)             | (P24)                          | (P45,744)           | P6,565,695         |
| Interest income (expense) - net                         | 8,905              | (2,821)                | 151                            | -                   | 6,235              |
| Income tax expense                                      | (1,734,459)        | (4,974)                | -                              | -                   | (1,739,433)        |
| Depreciation and depletion                              | (885,612)          | (2,256)                | -                              | -                   | (887,868)          |
| <b>Consolidated net income (loss)</b>                   | <b>P4,186,577</b>  | <b>(P196,331)</b>      | <b>P127</b>                    | <b>(P45,744)</b>    | <b>P3,944,629</b>  |
| <b>Core net income (loss)</b>                           | <b>P4,229,586</b>  | <b>(P54,106)</b>       | <b>P127</b>                    | <b>(P25,063)</b>    | <b>P4,150,544</b>  |
| <b>Consolidated total assets</b>                        | <b>P25,811,615</b> | <b>P4,803,679</b>      | <b>P6,035</b>                  | <b>(P4,968,609)</b> | <b>P25,652,720</b> |
| <b>Consolidated total liabilities</b>                   | <b>P8,573,620</b>  | <b>P1,577,946</b>      | <b>P47</b>                     | <b>(P5,256,863)</b> | <b>P4,894,750</b>  |
| <b>Other Segment Information</b>                        |                    |                        |                                |                     |                    |
| Capital expenditures                                    | P2,506,548         | P114,778               | P-                             | P-                  | P2,621,326         |
| Investments in shares of stocks                         | 4,275,755          | 1,950,006              | -                              | (5,392,406)         | 833,355            |
| Equity in net losses of associates                      | -                  | (37,594)               | -                              | -                   | (37,594)           |
| Non-cash expenses other than depletion and depreciation | 420,845            | 119,804                | -                              | -                   | 540,649            |

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2012, 2011 and 2010.

|   | 2012               | 2011              | 2010              |
|---|--------------------|-------------------|-------------------|
| Core net income   | <b>P1,705,495</b>  | P5,568,410        | P4,150,544        |
| Non-recurring gains (losses):                                   |                    |                   |                   |
| Marked to market gain on derivative instruments                 | <b>307,928</b>     | -                 | -                 |
| Gain (loss) on dilution of interest in an associate             | -                  | 523,710           | (119,804)         |
| Gain on disposal of assets                                      | -                  | 401               | -                 |
| Provision for losses  | -                  | (66,854)          | -                 |
| Clean up costs  | <b>(21,657)</b>    | -                 | -                 |
| Foreign exchange losses   | <b>(167,761)</b>   | (14,681)          | (96,485)          |
| Provision for write down of asset                               | <b>(497,154)</b>   | (137,489)         | -                 |
| Provision for rehabilitation, clean up costs and others         | <b>(1,446,859)</b> | -                 | -                 |
| Net tax effect of aforementioned adjustments                    | <b>344,955</b>     | (102,274)         | 28,946            |
| Net income attributable to equity holders of the Parent Company | <b>224,947</b>     | 5,771,223         | 3,963,201         |
| Net income attributable to NCI                                  | <b>(519,572)</b>   | 28,666            | (18,572)          |
| <b>Consolidated net income (loss)</b>                           | <b>(P294,625)</b>  | <b>P5,799,889</b> | <b>P3,944,629</b> |



Core net income per share is computed as follows:

|   | 2012                 | 2011          | 2010          |
|---|----------------------|---------------|---------------|
| Core net income   | <b>₱1,705,495</b>    | ₱5,568,410    | ₱4,150,544    |
| Divided by weighted average<br>number of common shares<br>outstanding during year | <b>4,932,216,253</b> | 4,926,583,729 | 4,914,719,911 |
| Core net income per share   | <b>₱0.346</b>        | ₱1.130        | ₱0.845        |

Pan Pacific Copper Co., Ltd. (Pan Pacific) is the main customer in the metals segment of the Group. Gross revenue from Pan Pacific amounted to ₱4,428,747, ₱10,219,215, and ₱10,394,702 in 2012, 2011 and 2010, respectively.

## 6. Cash and Cash Equivalents

Cash and cash equivalents consist of:

|                             | 2012              | 2011       | 2010       |
|-----------------------------|-------------------|------------|------------|
| Cash on hand and with banks | <b>₱556,061</b>   | ₱457,574   | ₱270,568   |
| Short-term deposits         | <b>1,113,481</b>  | 3,489,721  | 3,511,680  |
|                             | <b>₱1,669,542</b> | ₱3,947,295 | ₱3,782,248 |

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 ₱58,201, ₱86,017, and ₱27,133 in 2012, 2011 and 2010, respectively.

## 7. Accounts Receivable

Accounts receivable consist of:

|   | 2012            | 2011       | 2010       |
|---|-----------------|------------|------------|
| Trade - net of allowance for<br>impairment losses of ₱689,<br>₱592 and ₱628 as at<br>December 31, 2012, 2011 and<br>2010, respectively    | <b>₱132,876</b> | ₱1,525,848 | ₱2,095,625 |
| Accrued interest  | <b>19,287</b>   | 2,601      | 10,248     |
| Others - net of allowance for<br>impairment losses of ₱1,708<br>as at December 31, 2012 and<br>2011 and ₱1,675 as at<br>December 31, 2010 | <b>55,586</b>   | 67,180     | 74,559     |
|   | <b>₱207,749</b> | ₱1,595,629 | ₱2,180,432 |

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



Accrued interest receivables arise from the Group's short-term deposits.

Other receivables include advances to officers and employees, and other non-trade receivables.

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

|                            | 2012          | 2011   | 2010   |
|----------------------------|---------------|--------|--------|
| January 1                  |               |        |        |
| Trade                      | <b>₱592</b>   | ₱628   | ₱771   |
| Others                     | <b>1,708</b>  | 1,675  | 1,675  |
| Provisions during the year |               |        |        |
| Trade                      | <b>97</b>     | —      | —      |
| Others                     | —             | 33     | —      |
| Reversals during the year  |               |        |        |
| Trade                      | —             | (36)   | (143)  |
| December 31                | <b>₱2,397</b> | ₱2,300 | ₱2,303 |

The impaired receivables were specifically identified as at December 31, 2012, 2011 and 2010.

## 8. Inventories

Inventories consist of:

|                         | 2012              | 2011       | 2010       |
|-------------------------|-------------------|------------|------------|
| Mine products - at NRV  | <b>₱—</b>         | ₱41,527    | ₱169,104   |
| Coal - at NRV*          | <b>86,856</b>     | 129,382    | 14,626     |
| Petroleum - at NRV      | <b>2,868</b>      | —          | —          |
| Materials and supplies: |                   |            |            |
| On hand:                |                   |            |            |
| At cost                 | <b>1,098,947</b>  | 822,862    | 827,557    |
| At NRV                  | <b>29,347</b>     | 28,892     | 29,839     |
| In transit - at cost    | <b>96,833</b>     | 96,004     | 52,510     |
|                         | <b>₱1,314,851</b> | ₱1,118,667 | ₱1,093,636 |

\*Coal inventory in 2010 is at cost

As at December 31, 2012, 2011 and 2010, the cost of materials and supplies inventories on hand that are carried at NRV amounted to ₱277,608, ₱223,993, and ₱224,940, respectively. The Group recorded additional allowance for materials and supplies inventory losses amounting to ₱53,160, nil and ₱59,730 in 2012, 2011 and 2010, respectively. Related allowance for materials and supplies inventory obsolescence amounted to ₱248,261 as at December 31, 2012 and ₱195,101 as at December 31, 2011 and 2010. Materials and supplies recognized as expense amounted to ₱1,148,044, ₱1,629,511, and ₱1,679,576, for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 15).

The Group's coal inventory in 2010 comes from its coal mine production and purchases from small-scale coal miners who are operating within its coal mine property. As at December 31, 2012, 2011 and 2010, the Group's coal inventory at cost amounted to ₱238,797, ₱137,776, and ₱14,626, respectively. In 2012, 2011 and 2010, the Group recognized additional allowance for decline in coal inventory value amounting to ₱143,547, ₱8,394, and nil,



respectively. This is included in the “Impairment loss on deferred exploration cost and others” account in the consolidated statements of income. Related allowance for decline in coal inventory amounted to ₱151,941, ₱8,394 and nil as at December 31, 2012, 2011 and 2010, respectively. Total allowance for inventory obsolescence amounted to ₱400,202, ₱203,495 and ₱195,101 as at December 31, 2012, 2011 and 2010, respectively.

## 9. Other Current Assets

Other current assets consist of:

|   | 2012            | 2011     | 2010     |
|---|-----------------|----------|----------|
| Input tax recoverable - net of allowance for impairment losses of ₱90,388, ₱162,030 and ₱154,842 as at December 31, 2012, 2011 and 2010 | <b>₱899,672</b> | ₱724,225 | ₱660,092 |
| Prepaid expenses and others   | <b>97,668</b>   | 41,109   | 34,533   |
|   | <b>₱997,340</b> | ₱765,334 | ₱694,625 |

In 2012, the Group has written off unrecoverable input tax and the related allowance amounting to ₱75,295. Also, additional provision for probable losses amounting to ₱3,653 was recorded.

## 10. Property, Plant and Equipment

Property, plant and equipment consist of:

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

\*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, 2011   |   |                                       |                               |                       |                             |   |             |
|---|---|---------------------------------------|-------------------------------|-----------------------|-----------------------------|---|-------------|
|   | Mine, Mining<br>Oil and Gas<br>Properties | Land<br>Building and<br>Improvements* | Machinery<br>and<br>Equipment | Surface<br>Structures | Construction<br>in Progress | Non-operating<br>Property and<br>Equipment at<br>Bulawan Mine | Total       |
| Cost  |   |                                       |                               |                       |                             |   |             |
| January 1   | P7,838,185                                | P289,295                              | P6,379,760                    | P111,622              | P44,989                     | P2,197,683  | P16,861,534 |
| Additions   | 547,768                                   | 7,332                                 | 663,799                       | 40,519                | 87,926                      | –   | 1,347,344   |
| Disposals   | (38,254)                                  | –                                     | (69,633)                      | –                     | –                           | –   | (107,887)   |
| Reclassifications   | 63,630                                    | (56,682)                              | (28,814)                      | 11,231                | (46,047)                    | –   | (56,682)    |
| December 31   | 8,411,329                                 | 239,945                               | 6,945,112                     | 163,372               | 86,868                      | 2,197,683   | 18,044,309  |
| Accumulated Depletion and<br>Depreciation                       |   |                                       |                               |                       |                             |   |             |
| January 1   | 5,520,473                                 | 215,210                               | 3,740,309                     | 92,830                | –                           | 2,197,683   | 11,766,505  |
| Depletion and depreciation<br>for the year<br>(Notes 15 and 32) | 377,079                                   | 11,297                                | 551,051                       | 3,411                 | –                           | –   | 942,838     |
| Disposals   | –   | –                                     | (64,750)                      | –                     | –                           | –   | (64,750)    |
| December 31   | 5,897,552                                 | 226,507                               | 4,226,610                     | 96,241                | –                           | 2,197,683   | 12,644,593  |
| Net Book Values   | P2,513,777                                | P13,438                               | P2,718,502                    | P67,131               | P86,868                     | P–  | P5,399,716  |

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

| December 31, 2010   |   |                                       |                               |                       |                             |   |             |
|---|---|---------------------------------------|-------------------------------|-----------------------|-----------------------------|---|-------------|
|   | Mine, Mining<br>Oil and Gas<br>Properties | Land<br>Building and<br>Improvements* | Machinery<br>and<br>Equipment | Surface<br>Structures | Construction<br>in Progress | Non-operating<br>Property and<br>Equipment at<br>Bulawan Mine | Total       |
| Cost  |   |                                       |                               |                       |                             |   |             |
| January 1   | P7,163,560                                | P258,212                              | P5,585,163                    | P99,779               | P261,505                    | P2,197,683  | P15,565,902 |
| Additions   | 635,091                                   | 31,083                                | 674,519                       | 11,429                | 113,576                     | –   | 1,465,698   |
| Disposals   | –   | –                                     | (170,066)                     | –                     | –                           | –   | (170,066)   |
| Reclassifications   | 39,534                                    | –                                     | 290,144                       | 414                   | (330,092)                   | –   | –           |
| December 31   | 7,838,185                                 | 289,295                               | 6,379,760                     | 111,622               | 44,989                      | 2,197,683   | 16,861,534  |
| Accumulated Depletion and<br>Depreciation                       |   |                                       |                               |                       |                             |   |             |
| January 1   | 4,933,946                                 | 212,128                               | 3,463,126                     | 90,127                | –                           | 2,197,683   | 10,897,010  |
| Depletion and depreciation<br>for the year<br>(Notes 15 and 32) | 586,527                                   | 3,082                                 | 437,045                       | 2,703                 | –                           | –   | 1,029,357   |
| Disposals   | –   | –                                     | (159,862)                     | –                     | –                           | –   | (159,862)   |
| December 31   | 5,520,473                                 | 215,210                               | 3,740,309                     | 92,830                | –                           | 2,197,683   | 11,766,505  |
| Net Book Values   | P2,317,712                                | P74,085                               | P2,639,451                    | P18,792               | P44,989                     | P–  | P5,095,029  |

\* Cost of land amounts to P58,735. This also includes capitalized costs of mine rehabilitation of P18,687 and related accumulated amortization of P9,232. In 2010, the Mine Rehabilitation and Decommissioning Plan costs of BEMC was updated for the change in discount rate, which resulted to a decrease of P4,373.

Mine and mining properties as at December 31, 2012, 2011 and 2010 include mine development cost of the 782 Meter Level project amounting to P1,329,676, P1,109,929 and P846,229 respectively. In 2011, the estimated mine life of the Parent Company's Padcal Mine was extended until 2020, or an additional three years from the original estimated mine life of until 2017. Correspondingly, the extension in mine life was considered as a change in estimate and the effect on the amortization of the depletion costs was taken up prospectively.

Total depreciation cost of machineries and equipment used in exploration projects amounting to P166,984, P172,549 and P141,489 in 2012, 2011 and 2010, respectively, are capitalized under deferred exploration costs, which relate to projects that are currently ongoing for SMMCI and PGPI.

Land, buildings and improvements include the estimated costs of rehabilitating the Parent Company's Padcal Mine. These costs, net of accumulated amortization, amounted to nil as of December 31, 2012 and 2011 and P8,900 as at December 31, 2010. These were based on technical estimates of probable costs, which may be incurred by the Parent Company in rehabilitating the said mine from 2021 up to 2030, discounted using the Parent Company's historical average borrowing rate of 10% per annum. The provision for mine rehabilitation costs amounted to P18,059, P16,417 and P31,072 as at December 31, 2012, 2011 and 2010, respectively.



In January 2013, BEMC decided to undertake a detailed review of the operations and prospects of the coal mining project. BEMC anticipates that the detailed review could take six months to complete. The management determined that it would be prudent to suspend underground mining operations. Activities would be confined to maintenance and repair of the coal mine and processing and marketing of existing coal inventory. As a result, in 2012, BEMC recognized an impairment loss on its mining properties, machinery and equipment, surface structures, and construction in progress related to the coal property in Zamboanga Sibugay amounting to P434,288 reducing the carrying value of BEMC's property and equipment to nil as at December 31, 2012.

In 2010, BEMC transferred the deferred mine exploration and development costs amounting to P72,122 to mine, mining and oil and gas properties under the "Property, plant and equipment" account. Included in the mine and mining properties is the present value of the BEMC's mine rehabilitation costs amounting to nil, P637 and P555 as at December 31, 2012, 2011 and 2010, respectively. Discount rate of 14% was used to compute the present value of mine rehabilitation costs as at December 31, 2010. Accretion of interest totaled P105 in 2012, P91 in 2011 and P80 in 2010. Accordingly, the provision for mine rehabilitation costs amounted to P833, P728 and P637 as at December 31, 2012, 2011 and 2010, respectively.

The provision for mine rehabilitation cost pertaining to FEP amounted to nil, P630 and nil as at December 31, 2012, 2011 and 2010, respectively.

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

## 11. Investments

### AFS Financial Assets

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

|   | 2012              | 2011       | 2010    |
|---|-------------------|------------|---------|
| Investments in quoted shares of stock of:       |                   |            |         |
| Lepanto Consolidated Mining Company             | <b>P2,169,704</b> | P3,358,412 | P2,985  |
| Indophil Resources NL (Indophil)                | <b>307,317</b>    | 514,247    | 644,001 |
| PERC  | <b>168,230</b>    | 148,189    | 170,771 |
| Philippine Realty & Holdings Corporation (PRHC) | <b>30,315</b>     | 34,974     | 50,060  |
| Other quoted equity investments                 | <b>10,861</b>     | 6,099      | 4,360   |
|   | <b>2,686,427</b>  | 4,061,921  | 872,177 |

(Forward)





|   | 2012              | 2011       | 2010     |
|---|-------------------|------------|----------|
| Investments in unquoted shares of stock of:             |                   |            |          |
| Pitkin  | <b>₱1,231,440</b> | ₱1,313,700 | ₱—       |
| Pacific Global One Aviation                             | <b>37,500</b>     | 37,500     | —        |
| Philippine Associated Smelting and Refining Corporation | <b>14,055</b>     | 14,055     | 14,055   |
| Other unquoted equity investments                       | <b>21,339</b>     | 893        | 505      |
|   | <b>1,304,334</b>  | 1,366,148  | 14,560   |
|   | <b>₱3,990,761</b> | ₱5,428,069 | ₱886,737 |

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

As at December 31, 2012, 2011 and 2010, the cumulative increase in value of AFS financial assets amounted to ₱601,055, ₱2,020,940 and ₱419,404, respectively, net of deferred income tax liability of ₱43,416, ₱68,094 and ₱158,181 as at December 31, 2012, 2011 and 2010, respectively. These changes in fair values in the same amounts have been recognized and shown as “Net unrealized gain on AFS financial assets” account in the equity section of the consolidated statements of financial position and are also shown in the consolidated statements of comprehensive income.

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

|   | 2012               | 2011       | 2010     |
|---|--------------------|------------|----------|
| January 1   | <b>₱2,020,940</b>  | ₱419,404   | ₱445,277 |
| Net increase (decrease) in fair value of AFS financial assets | <b>(1,375,522)</b> | 1,601,536  | (25,873) |
| Loss due to foreign exchange rate changes                     | <b>(57,582)</b>    | —          | —        |
| December 31   | <b>₱587,836</b>    | ₱2,020,940 | ₱419,404 |

*Dilution of interest in PERC.* The Group’s investment in shares of stock of PERC is carried at fair value with cumulative changes in fair value presented as part of “Net unrealized gain on AFS financial asset” in the equity section of the consolidated statements of financial position.

Previously, the investment in shares of stock of PERC was recognized as investment in associate and was accounted for under the equity method. On June 2, 2010, PERC issued a 1:1 stock rights offer to its stockholders at an offer price of ₱5.00 per share. The offer period commenced on June 28, 2010 and ended on July 2, 2010. PPC did not avail of the stock rights offering of PERC, thus reducing its ownership interest from 20.62% to 10.31% on July 2, 2010. The management assessed that PPC ceased to have significant influence over PERC. The fair value of the investment in shares of PERC as at the date of loss of significant influence amounting to ₱141,132 was reclassified as AFS financial assets.



The difference between the fair value and the carrying value of the investment in shares of stock of PERC as at the date of loss of significant influence amounting to P119,804 was recognized as “Loss on dilution of interest in an associate” in the consolidated statement of income.

#### Investments in Shares of Stock

Investments in shares of stocks pertain to investments in joint venture entities and associates. The details of investments in shares of stocks carried at equity are as follows:

|  | 2012 | 2011       | 2010       |
|--|------|------------|------------|
| Acquisition costs:                         |      |            |            |
| January 1                                  | P–   | P958,980   | P1,213,378 |
| Reclassification - Pitkin                  | –    | (955,103)  | –          |
| Deemed disposal of investment in associate | –    | (3,877)    | (255,173)  |
| Additional acquisition during the year     | –    | –          | 775        |
| December 31                                | –    | –          | 958,980    |
| Accumulated equity in net losses:          |      |            |            |
| January 1                                  | P–   | (P125,625) | (P76,623)  |
| Reclassification - Pitkin                  | –    | 169,741    | –          |
| Equity in net losses for the year          | –    | (44,116)   | (37,594)   |
| Deemed disposal of investment in associate | –    | –          | (5,763)    |
| Dividends received                         | –    | –          | (5,645)    |
| December 31                                | –    | –          | (125,625)  |
|  | P–   | P–         | P833,355   |

#### *Investments in Joint Ventures*

As at December 31, 2012, investments in joint ventures include investments in shares of stock of MECI (see Note 29) that are accounted for at equity.

The Group’s proportionate ownership interests in MECI and its subsidiary as at December 31, 2012, 2011 and 2010 follow:

|           | Percentage of Ownership |          |
|-----------|-------------------------|----------|
|           | Direct                  | Indirect |
| MECI      | 60                      | –        |
| NLEMC I * | –                       | 60       |

\* Incorporated on October 12, 1999 and has not started commercial operations (see Note 29).

The following are the summarized consolidated financial information of MECI and its subsidiary as at December 31:

|                     | 2011   | 2010   |
|---------------------|--------|--------|
| Current assets      | P52    | P52    |
| Noncurrent assets   | 90,268 | 89,035 |
| Current liabilities | 90,657 | 89,021 |
| Equity              | (337)  | 66     |
| Net loss (profit)   | (403)  | 691    |



The financial information for MECI and its subsidiary as at December 31, 2012 is unavailable as of date. The joint venture has no contingent liabilities or capital commitments as at December 31, 2012, 2011 and 2010.

*Investment in Shares of Stock of Pitkin*

On March 17, 2009, the Parent Company subscribed to additional 14,000,000 shares of Pitkin for an aggregate amount of US \$14,000 (or ₱679,601). Pitkin is a UK-based oil and gas exploration and production company registered in England and Wales. The subscription brings the total holdings of the Parent Company to 18,000,000 shares representing 14.7% equity in Pitkin.

On September 24, 2010, the Parent Company sold to PPC all of its investment in shares of stock of Pitkin, which consists of 18,000,000 shares at a selling price equal to the Parent Company's carrying amount of ₱766,346.

As at December 31, 2010, the Group held 21.0% ownership interest in Pitkin and was treated as investment in associate. The following is the summarized financial information as at and for the year ended December 31, 2010 of Pitkin whose financial statements are stated in US dollar and translated to Peso at the closing exchange rate of US\$1 to ₱43.84 for statements of financial position accounts and at the average exchange rate of US\$1 to ₱43.31 for statement of income accounts:

|                   |          |
|-------------------|----------|
| Total assets      | ₱813,986 |
| Total liabilities | 34,643   |
| Equity            | 779,343  |
| Revenue           | 35,607   |
| Net loss          | 88,121   |

On February 24, 2011, Pitkin issued 15,700,000 new ordinary shares to the public particularly to an international investor and stockholder. The issuance caused the increase in its capitalization from 114,300,000 shares to 130,000,000 shares. PPC did not avail of the share issuance, thus reducing its ownership interest from 21.0% to 18.5%. PPC's management assessed that PPC ceased to have significant influence over Pitkin. The difference amounting to ₱523,710 between the fair value and the carrying value of the investment in shares of stock of Pitkin as at date of loss of significant influence was recognized as "gain on dilution of interest in an associate" in the consolidated statement of income. The investment in shares of stock of Pitkin was reclassified as investment in AFS financial asset.

Subscriptions Payable

Subscriptions payable which is included as part of "Provisions and subscription payable" in the consolidated statements of financial position is related to the investments in shares of stock of PRHC amounting to ₱21,995 as at December 31, 2012, 2011 and 2010.



## 12. Deferred Exploration Costs and Other Noncurrent Assets

Deferred exploration costs and other noncurrent assets consist of:

|                                      | 2012               | 2011        | 2010        |
|--------------------------------------|--------------------|-------------|-------------|
| Deferred mine exploration costs      | <b>₱14,726,242</b> | ₱12,650,459 | ₱10,757,136 |
| Less allowance for impairment losses | <b>1,048,811</b>   | 1,048,829   | 888,060     |
|                                      | <b>13,677,431</b>  | 11,601,630  | 9,869,076   |
| Deferred oil exploration costs       | <b>1,301,536</b>   | 1,329,516   | 1,006,993   |
| Less allowance for impairment losses | <b>442,974</b>     | 54,343      | 86,567      |
|                                      | <b>858,562</b>     | 1,275,173   | 920,426     |
| Others                               | <b>278,116</b>     | 194,136     | 85,998      |
| Less allowance for impairment losses | <b>47,435</b>      | 47,435      | 47,435      |
|                                      | <b>230,681</b>     | 146,701     | 38,563      |
|                                      | <b>₱14,766,674</b> | ₱13,023,504 | ₱10,828,065 |

### Deferred Mine and Oil Exploration Costs

- a. Deferred mine and oil exploration costs relate to projects that are ongoing. The recovery of these costs depends upon the success of exploration activities and future development of the corresponding mining properties or the discovery of oil and gas that can be produced in commercial quantities. Allowances have been provided for those deferred costs that are specifically identified to be unrecoverable. Allowances recognized for the year are included under "Impairment loss on deferred exploration costs and others" in the consolidated statements of income.
- b. FEP, through its subsidiaries, has various participating interests in petroleum service contracts as follows:

| Service Contract                 | Participating Interest |
|----------------------------------|------------------------|
| SC 6A (Octon Block)              | 1.67%                  |
| SC 6B (Bonita Block)             | 2.11%                  |
| 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-1 (Galoc)          | 2.28%                  |
| SC 14 Block C-2 (West Linapacan) | 2.28%                  |
| SC 14 Block D (Retention Block)  | 8.17%                  |
| SC 40 (North Cebu Block)         | 66.67%                 |
| SC 72 (Recto Bank)               | 70.00%                 |

### SC 72 (Recto Bank)

The SC72 license was awarded on February 15, 2010. It covers an area of 8,800 Km<sup>2</sup> and contains the Sampaguita Gas Discovery which has the potential to contain In-Place Contingent Resources of 2.6 trillion cubic feet (TCF).



In the early part of 2012, FEP received encouraging results from the analysis of the 2011 seismic work following the acquisition of 2,002 line-km of 2D and 565 km<sup>2</sup> of 3D seismic data over the SC72 license area between January 15 and March 12, 2011. The resource assessment study was conducted by Weatherford Petroleum Consultants (Weatherford), an independent consulting group, in the first half of 2012 and supported the case to proceed with the drilling programme. Based on the study, In-Place Prospective Resources totalling 5.4 TCF is expected to be drilled in the area. The results of the study were used to define the location of two wells, to be named Sampaguita-4 and Sampaguita-5, which if successfully drilled, would be expected to increase the amount of potentially recoverable resources. The drilling of two wells is part of the work programme of FEP for the second-sub-phase of SC72.

FEP was unable to commence the drilling programme because of territorial disputes between the Philippine and Chinese governments. However, the DOE has granted FEP an extension up to August 2015 to allow the completion of obligations under the service contract.

In the meantime, FEP recognizes its ongoing commitment to the project by planning a seismic reprocessing program in 2013 to further assess the prospectivity of other areas outside the Sampaguita field within SC72. The programme will concentrate on mapping other prospects and leads outside the Sampaguita discovery.

#### SC 40 (North Cebu)

In 2012, FEP commissioned a resource assessment study to be undertaken by PGS Reservoir Consultants, an independent competent person. The results of the study, which was received in 2013, downgraded previously identified leads and prospects within SC 40. An important factor in this assessment was that third parties had experienced a dry hole in drilling efforts within the Central Tañon Straits which significantly reduced the likelihood of the existence of a commercially viable hydrocarbon deposit in this region. In light of this report and applying appropriate caution, the carrying value of the investment in SC40 has been impaired by P388,631 which is included in "Impairment loss on deferred exploration costs and others" in the consolidated statements of income. Carrying value as at December 31, 2012 reflects the potential of a number of smaller onshore locations within SC 40.

#### Award of Service Contract for Area 4

On February 14, 2013, the PPC received a letter from the DOE stating the joint bid of PPC (Operator), PNOC Exploration Corporation and PERC has won the bidding for Area 4 Northwest Palawan Basin that was offered in the Fourth Philippine Energy Contracting Round for Petroleum.

#### Updates on the Sub phase 2 (SP-2) Drilling Preparation

There are international boundary issues over areas of the Western Philippine Sea covered by Service Contract 72. In January 2013, the DOE approved the extension of the SP-2 of SC 72 from August 2013 to August 2015. Based on the DOE letter, the extension of SP-2 shall not affect the term of the Service Contract and will not form part of the ten year exploration period.

#### Others

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



- b. Included in “Others” are accounts that the Parent Company and PGPI maintain with Land Bank of the Philippines to establish their respective Mine Rehabilitation Funds (MRF), pursuant to the requirements of Republic Act (RA) No. 7942, otherwise known as “The Philippine Mining Act of 1995.” The MRF shall be used for the physical and social rehabilitation of areas and communities affected by the Padcal, Bulawan and Sibutad Mines, and for research in the social, technical and preventive aspects of their rehabilitation. As at December 31, 2012, 2011 and 2010, the Parent Company’s MRF amounted to ₱5,790 in 2012 and ₱5,769 in both 2011 and 2010, while PGPI’s MRF amounted to ₱6,642, ₱6,541 and ₱6,449, respectively.
- c. Included also in “Others” is the Group’s net retirement plan asset amounting to ₱135,147, ₱52,627 and ₱408 as at December 31, 2012, 2011 and 2010, respectively, which is the aggregate of the fair value of plan assets and unrecognized past service cost, reduced by the present value of the defined benefits obligation and unrecognized actuarial gains and losses (see Note 18).

### 13. Short-term Loans

Short-term loans consist of:

|                      | 2012              | 2011            | 2010            |
|----------------------|-------------------|-----------------|-----------------|
| Kirtman Limited Loan | <b>₱1,100,000</b> | <b>₱–</b>       | <b>₱–</b>       |
| Bank Loans           | <b>350,000</b>    | 350,000         | 150,000         |
|                      | <b>₱1,450,000</b> | <b>₱350,000</b> | <b>₱150,000</b> |

#### Kirtman Limited Loan

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

Interest expense on the Agreement with Kirtman loan charged to the consolidated statements of income amounted to ₱28,247 in 2012 and nil in 2011 and 2010.

On January 14, 2013, the Parent Company availed of the ₱1,000,000 balance of the facility. The loan contains a pre-termination clause which allows the Parent Company to pay all outstanding drawdown before maturity date.

#### Bank loans

On June 29, 2010, BEMC obtained from the Bank of the Philippine Islands (BPI) a six-month, interest-bearing short-term loan amounting to ₱150,000, the proceeds of which loan were used to partially repay the advances from the Parent Company to BEMC. The interest rate of the note was initially at 5% 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. The loan’s original maturity date was on December 26, 2010 but was renewed for a series of periods which extended its maturity date to January 14, 2013. On January 19, 2012, a continuing suretyship agreement was entered into by PMC with BPI to guarantee the payment of BEMC’s loan with the BPI.



On March 7, 2011, BEMC obtained an additional six-month, interest-bearing short-term loan of ₱100,000 from BPI for working capital purposes and to partially repay the advances of the Parent Company to BEMC. The loan had an initial interest rate of 4.75% per annum, subject to repricing every 30 days based on the prevailing interest rate at the date of repricing. The loan's original maturity date was on September 9, 2011 but was subsequently renewed for six month periods subject to the same terms up to February 18, 2013.

On April 12, 2011, BEMC obtained a six-month, interest-bearing short-term loan of ₱100,000 from the Philippine National Bank (PNB) for working capital purposes and to partially repay the advances of the Parent Company to BEMC. The loan's original maturity was on October 10, 2011 and bears an interest rate initially at 4.60% per annum but subject to repricing every 30 days, based on the prevailing interest rate at the date of repricing. The loan with PNB was settled fully on October 10, 2011.

BEMC obtained a new short-term loan from Banco de Oro amounting to ₱100,000 on October 7, 2011. In October 2011, PMC entered into a continuing suretyship agreement with BDO to guarantee the payment of the BEMC loan. The loan had an initial interest rate of 4.25% per annum subject to repricing and a maturity date of April 4, 2012. BEMC renewed the loan for another 180 days at the interest rate of 4.00% subject to repricing, which matured on August 3, 2012 and thereafter renewed for another 59 days subject to the same terms. After a series of renewals during the year, the maturity date of the loan has been extended to March 25, 2013.

The BEMC loans are unsecured and BEMC is not required to meet any loan covenants. They are, however, covered by a continuing surety by PMC to guarantee the repayment of the loans. Upon their maturity on January 14, 2013 and February 18, 2013, respectively, PMC assumed the liability for the settlement of the ₱150,000 and ₱100,000 loans with BPI. Interest expense on these short-term loans charged to the consolidated statements of income amounted to ₱14,361, ₱13,918 and ₱1,845 in 2012, 2011 and 2010, respectively.

The Parent Company also obtained unsecured US dollar-denominated short-term bank loans from various local banks in 2011 and 2010. These bank loans were repriced every 30 to 120 days at the interest rates from 2.00% to 2.50% in 2011 and 2.50% to 2.85% in 2010. As at December 31, 2011, all of the Parent Company's bank loans had been fully paid. Interest expense arising from these short-term loans amounted to nil, ₱22,152 and ₱18,973 in 2012, 2011 and 2010, respectively.

#### 14. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

|                                       | 2012              | 2011       | 2010     |
|---------------------------------------|-------------------|------------|----------|
| Trade                                 | <b>₱431,260</b>   | ₱479,465   | ₱386,072 |
| Accrued expenses                      | <b>372,205</b>    | 295,423    | 161,007  |
| Accrued royalties and<br>excise taxes | <b>71,713</b>     | 233,483    | 254,413  |
| Withholding taxes                     | <b>28,269</b>     | 14,897     | 41,739   |
| Refundable retention fee              | <b>35,468</b>     | 12,265     | 11,906   |
| Accrued interest                      | <b>24,765</b>     | 5,802      | 99       |
| Other nontrade liabilities            | <b>131,870</b>    | 118,870    | 113,270  |
|                                       | <b>₱1,095,550</b> | ₱1,160,205 | ₱968,506 |



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

## 15. Costs and Expenses

Costs and expenses include the following:

|  | 2012              | 2011       | 2010       |
|--|-------------------|------------|------------|
| Mining and milling costs:                    |                   |            |            |
| Materials and supplies                       | <b>P978,683</b>   | P1,612,583 | P1,668,675 |
| Communications, light and water              | <b>907,070</b>    | 1,276,766  | 1,036,347  |
| Personnel (Note 16)                          | <b>650,593</b>    | 1,017,590  | 815,590    |
| Depletion and depreciation (Notes 10 and 17) | <b>552,783</b>    | 749,423    | 871,340    |
| Contracted services                          | <b>286,561</b>    | 446,534    | 473,919    |
| Others                                       | <b>82,147</b>     | 146,014    | 100,833    |
|  | <b>P3,457,837</b> | P5,248,910 | P4,966,704 |
| General and administrative expenses:         |                   |            |            |
| Personnel (Note 16)                          | <b>P433,634</b>   | P333,145   | P176,472   |
| Contracted services                          | <b>201,143</b>    | 172,019    | 187,677    |
| Taxes and licenses                           | <b>66,735</b>     | 151,567    | 117,250    |
| Travel and transportation                    | <b>59,246</b>     | 58,799     | 38,008     |
| Donations                                    | <b>29,450</b>     | 21,551     | 10,168     |
| Depreciation (Notes 10 and 17)               | <b>26,330</b>     | 20,866     | 16,528     |
| Repairs and maintenance                      | <b>20,956</b>     | 20,974     | 6,377      |
| Communications, light and water              | <b>17,165</b>     | 14,489     | 12,669     |
| Exploration supplies                         | <b>8,947</b>      | 5,639      | 4,486      |
| Entertainment, amusement and recreation      | <b>6,519</b>      | 9,379      | 5,586      |
| Office supplies                              | <b>5,209</b>      | 11,289     | 6,415      |
| Others                                       | <b>269,469</b>    | 216,820    | 83,062     |
|  | <b>P1,144,803</b> | P1,036,537 | P664,698   |
| Mine products taxes and royalties:           |                   |            |            |
| Royalties                                    | <b>P295,590</b>   | P544,841   | P459,282   |
| Excise taxes                                 | <b>159,268</b>    | 309,388    | 253,254    |
|  | <b>P454,858</b>   | P854,229   | P712,536   |

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





Starting August 1, 2012, the Parent Company suspended its operations at the Padcal Mine after tailings were accidentally discharged from the underground tunnel of Penstock A being used to drain water from TSF 3 of the mine. Maintenance costs incurred during the suspension of operations of the Padcal Mine are as follows:

|                                 |                 |
|---------------------------------|-----------------|
| Padcal maintenance costs:       |                 |
| Depreciation (Notes 10 and 17)  | P199,882        |
| Personnel (Note 16)             | 183,589         |
| Materials and supplies          | 155,205         |
| Communications, light and water | 151,362         |
| Contracted services             | 117,755         |
| Others                          | 99,984          |
|                                 | <b>P907,777</b> |

## 16. Personnel Cost

Details of personnel costs are as follows:

|                                      | 2012              | 2011       | 2010     |
|--------------------------------------|-------------------|------------|----------|
| Mining and milling costs:            |                   |            |          |
| Salaries and wages                   | <b>P404,962</b>   | P601,884   | P501,376 |
| Employee benefits                    | <b>210,761</b>    | 378,054    | 258,084  |
| Pension costs (Note 18)              | <b>34,870</b>     | 37,652     | 56,130   |
|                                      | <b>650,593</b>    | 1,017,590  | 815,590  |
| General and administrative expenses: |                   |            |          |
| Salaries and wages                   | <b>246,679</b>    | 182,617    | 117,071  |
| Employee benefits                    | <b>179,677</b>    | 144,399    | 50,263   |
| Pension costs (Note 18)              | <b>7,278</b>      | 6,129      | 9,138    |
|                                      | <b>433,634</b>    | 333,145    | 176,472  |
| Padcal maintenance costs:            |                   |            |          |
| Salaries and wages                   | <b>114,275</b>    | —          | —        |
| Employee benefits                    | <b>59,474</b>     | —          | —        |
| Pension costs (Note 18)              | <b>9,840</b>      | —          | —        |
|                                      | <b>183,589</b>    | —          | —        |
|                                      | <b>P1,267,816</b> | P1,301,809 | P973,971 |

## 17. Depreciation

Details of depreciation expense are as follows:

|                            | 2012            | 2011     | 2010     |
|----------------------------|-----------------|----------|----------|
| Mining and milling costs   | <b>P552,783</b> | P749,423 | P871,340 |
| General and administrative | <b>26,330</b>   | 20,866   | 16,528   |
| Padcal maintenance costs   | <b>199,882</b>  | —        | —        |
|                            | <b>P778,995</b> | P770,289 | P887,868 |



## 18. Retirement Benefits

The Parent Company has a funded, non-contributory, defined benefit group retirement plan administered by a board of trustees, covering all regular employees. The following tables summarize the components of the net retirement benefits costs recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position:

Net retirement benefits costs:

|   | 2012            | 2011     | 2010     |
|---|-----------------|----------|----------|
| Current service cost                          | <b>P76,396</b>  | P59,003  | P51,352  |
| Interest cost on defined benefits obligation  | <b>56,512</b>   | 52,650   | 70,776   |
| Expected return on plan assets                | <b>(84,643)</b> | (73,814) | (62,802) |
| Amortization of past service cost             | –               | 5,942    | 5,942    |
| Net actuarial loss recognized during the year | <b>3,723</b>    | –        | –        |
|   | <b>P51,988</b>  | P43,781  | P65,268  |
| Portions recognized in:                       |                 |          |          |
| Mining and milling costs (Note 15)            | <b>P34,870</b>  | P37,652  | P56,130  |
| General and administrative expenses (Note 15) | <b>7,278</b>    | 6,129    | 9,138    |
| Padcal maintenance costs (Note 15)            | <b>9,840</b>    | –        | –        |
|   | <b>P51,988</b>  | P43,781  | P65,268  |
| Actual return on plan assets                  | <b>P167,364</b> | P98,484  | P126,974 |

Net retirement benefits liability (plan assets):

|   | 2012               | 2011        | 2010        |
|---|--------------------|-------------|-------------|
| Defined benefits obligation   | <b>P1,418,115</b>  | P1,307,421  | P1,085,575  |
| Fair value of plan assets   | <b>(1,374,142)</b> | (1,199,523) | (1,054,479) |
| Excess of fair value of plan assets over defined benefit obligation | <b>43,973</b>      | 107,898     | 31,096      |
| Unrecognized net actuarial losses                                   | <b>(179,120)</b>   | (160,525)   | (25,562)    |
| Unrecognized past service cost                                      | –                  | –           | (5,942)     |
|   | <b>(P135,147)</b>  | (P52,627)   | (P408)      |

Actuarial gains and losses, and past service cost relate to amendments on plan benefits and changes in actuarial assumptions subsequent to transition date.



The changes in present value of defined benefits obligation are as follows:

|  | 2012              | 2011       | 2010       |
|--|-------------------|------------|------------|
| January 1                                    | <b>₱1,307,421</b> | ₱1,085,575 | ₱943,686   |
| Current service cost                         | <b>76,396</b>     | 59,003     | 51,352     |
| Interest cost on defined benefits obligation | <b>56,512</b>     | 52,650     | 70,776     |
| Benefits paid                                | <b>(127,253)</b>  | (49,440)   | (65,667)   |
| Actuarial losses on obligation               | <b>105,039</b>    | 159,633    | 85,428     |
| December 31                                  | <b>₱1,418,115</b> | ₱1,307,421 | ₱1,085,575 |

The changes in fair value of plan assets are as follows:

|                                  | 2012              | 2011       | 2010       |
|----------------------------------|-------------------|------------|------------|
| January 1                        | <b>₱1,199,523</b> | ₱1,054,479 | ₱897,172   |
| Expected return on plan assets   | <b>84,643</b>     | 73,814     | 62,802     |
| Actuarial gains on plan assets   | <b>82,720</b>     | 24,670     | 64,172     |
| Actual contributions to the plan | <b>96,000</b>     | 96,000     | 96,000     |
| Benefits paid from the plan      | <b>(88,744)</b>   | (49,440)   | (65,667)   |
| December 31                      | <b>₱1,374,142</b> | ₱1,199,523 | ₱1,054,479 |

The categories of plan assets as a percentage of the fair value of total plan assets are as follows:

|                                  | 2012        | 2011 | 2010 |
|----------------------------------|-------------|------|------|
| Cash and cash equivalents        | <b>6%</b>   | 8%   | 3%   |
| Investments in debt securities   | <b>70%</b>  | 75%  | 80%  |
| Investments in equity securities | <b>22%</b>  | 15%  | 15%  |
| Receivables                      | <b>2%</b>   | 2%   | 2%   |
|                                  | <b>100%</b> | 100% | 100% |

The overall expected return on plan assets is based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled.

The Parent Company's actuarial funding requirement in 2013 is nil, however, the intention is to continue regular contributions to the fund.

The principal assumptions used in determining retirement benefit costs for the Parent Company's plan are as follows:

|   |              | January 1 |       |
|---|--------------|-----------|-------|
|   | 2012         | 2011      | 2010  |
| Number of employees                           | <b>2,399</b> | 2,235     | 2,251 |
| Discount rate per annum                       | <b>4.32%</b> | 4.85%     | 7.50% |
| Expected annual rate of return on plan assets | <b>7%</b>    | 7%        | 7%    |
| Future annual increase in salary              | <b>10%</b>   | 10%       | 10%   |

The latest actuarial valuation is as at December 31, 2012.



Related amounts for the current and previous years are as follows:

|  | 2012         | 2011         | 2010         | 2009       | 2008       |
|--|--------------|--------------|--------------|------------|------------|
| Defined benefits obligation  | (P1,418,115) | (P1,307,421) | (P1,085,575) | (P943,686) | (P939,377) |
| Fair value of plan assets  | 1,374,142    | 1,199,523    | 1,054,479    | 897,172    | 695,148    |
| Excess of defined benefits obligation over fair value of plan assets | (43,973)     | (107,898)    | (31,096)     | (46,514)   | (244,229)  |
| Experience adjustment on plan liabilities                            | 25,765       | 64,378       | (57,887)     | 101,120    | 53,531     |

## 19. Financial Instruments

### Fair Values of Financial Instruments

The following table shows the carrying values and fair values of the Group's financial assets and financial liabilities:

|   | December 31, 2012 |                   | December 31, 2011  |                    | December 31, 2010 |                   |
|---|-------------------|-------------------|--------------------|--------------------|-------------------|-------------------|
|   | Fair Values       | Carrying Values   | Fair Values        | Carrying Values    | Fair Values       | Carrying Values   |
| <b>Assets</b>                             |                   |                   |                    |                    |                   |                   |
| Cash and cash equivalents:                |                   |                   |                    |                    |                   |                   |
| Cash on hand and with banks               | P556,061          | P556,061          | P457,574           | P457,574           | P270,568          | P270,568          |
| Short-term deposits                       | 1,113,481         | 1,113,481         | 3,489,721          | 3,489,721          | 3,511,680         | 3,511,680         |
| Accounts receivable:                      |                   |                   |                    |                    |                   |                   |
| Trade                                     | 132,876           | 132,876           | 1,525,848          | 1,525,848          | 2,095,625         | 2,095,625         |
| Accrued interest                          | 19,287            | 19,287            | 2,601              | 2,601              | 10,248            | 10,248            |
| Others                                    | 55,586            | 55,586            | 67,180             | 67,180             | 74,559            | 74,559            |
| Derivative assets                         | —                 | —                 | 904,701            | 904,701            | —                 | —                 |
| AFS financial assets:                     |                   |                   |                    |                    |                   |                   |
| Quoted equity investments                 | 2,686,427         | 2,686,427         | 4,061,921          | 4,061,921          | 872,177           | 872,177           |
| Unquoted equity investments               | 1,304,334         | 1,304,334         | 1,366,148          | 1,366,148          | 14,560            | 14,560            |
| <b>Total</b>                              | <b>P5,868,052</b> | <b>P5,868,052</b> | <b>P11,875,694</b> | <b>P11,875,694</b> | <b>P6,849,417</b> | <b>P6,849,417</b> |
| <b>Liabilities</b>                        |                   |                   |                    |                    |                   |                   |
| Short-term loan                           | P1,450,000        | P1,450,000        | P350,000           | P350,000           | P150,000          | P150,000          |
| Accounts payable and accrued liabilities: |                   |                   |                    |                    |                   |                   |
| Trade                                     | 431,260           | 431,260           | 479,465            | 479,465            | 386,072           | 386,072           |
| Accrued expenses                          | 606,205           | 606,205           | 295,423            | 295,423            | 161,007           | 161,007           |
| Accrued interest                          | 24,765            | 24,765            | 5,802              | 5,802              | 99                | 99                |
| Other nontrade liabilities                | 131,870           | 131,870           | 118,170            | 118,170            | 106,729           | 106,729           |
| Derivative liabilities                    | —                 | —                 | 47,270             | 47,270             | —                 | —                 |
| Dividends payable                         | 483,257           | 483,257           | 325,333            | 325,333            | 207,875           | 207,875           |
| Subscriptions payable                     | 21,995            | 21,995            | 40,745             | 40,745             | 21,995            | 21,995            |
| <b>Total</b>                              | <b>P3,149,352</b> | <b>P3,149,352</b> | <b>P1,662,208</b>  | <b>P1,662,208</b>  | <b>P1,033,777</b> | <b>P1,033,777</b> |

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



The fair value hierarchy of the financial assets and financial liabilities as at December 31, 2012, 2011 and 2010 are presented below:

| December 31, 2012             |                   |           |                  |                   |
|-------------------------------|-------------------|-----------|------------------|-------------------|
|                               | Level 1           | Level 2   | Level 3          | Total             |
| <b>Financial assets</b>       |                   |           |                  |                   |
| AFS quoted financial assets   | <b>P2,686,427</b> | <b>P–</b> | <b>P–</b>        | <b>P2,686,427</b> |
| AFS unquoted financial assets | –                 | –         | <b>1,304,334</b> | <b>1,304,334</b>  |
| December 31, 2011             |                   |           |                  |                   |
|                               | Level 1           | Level 2   | Level 3          | Total             |
| <b>Financial assets</b>       |                   |           |                  |                   |
| AFS quoted financial assets   | P4,061,921        | P–        | P–               | P4,061,921        |
| AFS unquoted financial assets | –                 | –         | 1,366,148        | 1,366,148         |
| Derivative assets             | –                 | 904,701   | –                | 904,701           |
| <b>Financial liabilities</b>  |                   |           |                  |                   |
| Derivative liabilities        | –                 | 47,270    | –                | 47,270            |
| December 31, 2010             |                   |           |                  |                   |
|                               | Level 1           | Level 2   | Level 3          | Total             |
| <b>Financial assets</b>       |                   |           |                  |                   |
| AFS quoted financial assets   | P872,177          | P–        | P–               | P872,177          |
| AFS unquoted financial assets | –                 | –         | 14,560           | 14,560            |

During the years ended December 31, 2012, 2011 and 2010, there were no transfers between Level 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

Categories of Financial Assets:

|  | 2012              | 2011        | 2010       |
|--|-------------------|-------------|------------|
| Cash and cash equivalents:                                     |                   |             |            |
| Cash on hand   | <b>P4,031</b>     | P3,853      | P3,061     |
| Cash with banks  | <b>552,030</b>    | 453,721     | 267,507    |
| Short-term deposits  | <b>1,113,481</b>  | 3,489,721   | 3,511,680  |
|  | <b>1,669,542</b>  | 3,947,295   | 3,782,248  |
| Loans and receivables:   |                   |             |            |
| Accounts receivable:   |                   |             |            |
| Trade  | <b>132,876</b>    | 1,525,848   | 2,095,625  |
| Accrued interest   | <b>19,287</b>     | 2,601       | 10,248     |
| Others   | <b>55,586</b>     | 67,180      | 74,559     |
|  | <b>207,749</b>    | 1,595,629   | 2,180,432  |
| AFS financial assets:  |                   |             |            |
| Quoted equity investments                                      | <b>2,686,427</b>  | 4,061,921   | 872,177    |
| Unquoted equity investments                                    | <b>1,304,334</b>  | 1,366,148   | 14,560     |
|  | <b>3,990,761</b>  | 5,428,069   | 886,737    |
| Derivatives designated as cash flow hedges - derivative assets | –                 | 904,701     | –          |
|  | <b>P5,868,052</b> | P11,875,694 | P6,849,417 |

For 2011, the Group has outstanding derivative liabilities designated as cash flow hedges amounting to P47,270. All other financial liabilities of the Group as of December 31, 2012, 2011 and 2010 are categorized as “Other financial liabilities.”



## 20. Financial Risk Management Objectives and Policies and Hedging Activities

### Financial Risk Management Objectives and Policies

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

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

### Financial Risks

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

*Credit and Concentration Risks.* Credit risk is the risk where the Group could incur a loss if its counterparties fail to discharge their contractual obligations. To avoid such losses, the Group's primary credit risk management strategy is to trade only with recognized, creditworthy third parties. At present, 60% of the Parent Company's annual mineral products sales are committed to Pan Pacific with whom the Parent Company has a long-term sales agreement. This agreement is effective until the end of the Padcal Mine life currently declared at 2020. The balance of the Parent Company's annual mineral products sales is with Louis Dreyfuss Commodities Metals Suisse SA (LD Metals) which is covered by a long-term sales agreement up to April 1, 2012.

Credit risk may also arise from the Group's other financial assets, which comprise of cash and cash equivalents, AFS financial assets and derivative assets. 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, 2012, 2011 and 2010:

|                                    | 2012              | 2011        | 2010       |
|------------------------------------|-------------------|-------------|------------|
| Cash and cash equivalents*:        |                   |             |            |
| Cash with banks                    | <b>P552,030</b>   | P453,721    | P267,507   |
| Short-term deposits                | <b>1,113,481</b>  | 3,489,721   | 3,511,680  |
| Accounts receivable:               |                   |             |            |
| Trade                              | <b>132,876</b>    | 1,525,848   | 2,095,625  |
| Accrued interest                   | <b>19,287</b>     | 2,601       | 10,248     |
| Others                             | <b>55,586</b>     | 67,180      | 74,559     |
| AFS financial assets:              |                   |             |            |
| Quoted equity investments          | <b>2,686,427</b>  | 4,061,921   | 872,177    |
| Unquoted equity investments        | <b>1,304,334</b>  | 1,366,148   | 14,560     |
| Derivative assets                  | –                 | 904,701     | –          |
| Gross maximum credit risk exposure | <b>P5,864,021</b> | P11,871,841 | P6,846,356 |

\*Excluding cash on hand amounting to P4,031, P3,853 and P3,061 in 2012, 2011 and 2010, respectively.



The following tables show the credit quality of the Group's financial assets by class as at December 31, 2012, 2011 and 2010 based on the Group's credit evaluation process:

| December 31, 2012           |                               |                   |                                    |                   |
|-----------------------------|-------------------------------|-------------------|------------------------------------|-------------------|
|                             | Neither Past Due nor Impaired |                   | Past Due and Individually Impaired | Total             |
|                             | High-Grade                    | Standard          |                                    |                   |
| Cash and cash equivalents*: |                               |                   |                                    |                   |
| Cash with banks             | P552,030                      | P-                | P-                                 | P552,030          |
| Short-term deposits         | 1,113,481                     | -                 | -                                  | 1,113,481         |
| Accounts receivable:        |                               |                   |                                    |                   |
| Trade                       | 132,876                       | -                 | 689                                | 133,565           |
| Accrued interest            | 19,287                        | -                 | -                                  | 19,287            |
| Others                      | 55,586                        | -                 | 1,708                              | 57,294            |
| AFS financial assets:       |                               |                   |                                    |                   |
| Quoted equity investments   | -                             | 2,686,427         | -                                  | 2,686,427         |
| Unquoted equity investments | -                             | 1,304,334         | -                                  | 1,304,334         |
| <b>Total</b>                | <b>P1,873,260</b>             | <b>P3,990,761</b> | <b>P2,397</b>                      | <b>P5,866,418</b> |

\*Excluding cash on hand amounting to P4,031.

| December 31, 2011           |                               |                   |                                    |                    |
|-----------------------------|-------------------------------|-------------------|------------------------------------|--------------------|
|                             | Neither Past Due nor Impaired |                   | Past Due and Individually Impaired | Total              |
|                             | High-Grade                    | Standard          |                                    |                    |
| Cash and cash equivalents*: |                               |                   |                                    |                    |
| Cash with banks             | P453,721                      | P-                | P-                                 | P453,721           |
| Short-term deposits         | 3,489,721                     | -                 | -                                  | 3,489,721          |
| Accounts receivable:        |                               |                   |                                    |                    |
| Trade                       | 1,525,848                     | -                 | 592                                | 1,526,440          |
| Accrued interest            | 2,601                         | -                 | -                                  | 2,601              |
| Others                      | 67,180                        | -                 | 1,708                              | 68,888             |
| AFS financial assets:       |                               |                   |                                    |                    |
| Quoted equity investments   | -                             | 4,061,921         | -                                  | 4,061,921          |
| Unquoted equity investments | -                             | 1,366,148         | -                                  | 1,366,148          |
| Derivative assets           | 904,701                       | -                 | -                                  | 904,701            |
| <b>Total</b>                | <b>P6,443,772</b>             | <b>P5,428,069</b> | <b>P2,300</b>                      | <b>P11,874,141</b> |

\*Excluding cash on hand amounting to P3,853.

| December 31, 2010           |                               |                 |                                    |                   |
|-----------------------------|-------------------------------|-----------------|------------------------------------|-------------------|
|                             | Neither Past Due nor Impaired |                 | Past Due and Individually Impaired | Total             |
|                             | High-Grade                    | Standard        |                                    |                   |
| Cash and cash equivalents*: |                               |                 |                                    |                   |
| Cash with banks             | P267,507                      | P-              | P-                                 | P267,507          |
| Short-term deposits         | 3,511,680                     | -               | -                                  | 3,511,680         |
| Accounts receivable:        |                               |                 |                                    |                   |
| Trade                       | 2,095,625                     | -               | 628                                | 2,096,253         |
| Accrued interest            | 10,248                        | -               | -                                  | 10,248            |
| Others                      | 74,559                        | -               | 1,675                              | 76,234            |
| AFS financial assets:       |                               |                 |                                    |                   |
| Quoted equity investments   | -                             | 872,177         | -                                  | 872,177           |
| Unquoted equity investments | -                             | 14,560          | -                                  | 14,560            |
| <b>Total</b>                | <b>P5,959,619</b>             | <b>P886,737</b> | <b>P2,303</b>                      | <b>P6,848,659</b> |

\*Excluding cash on hand amounting to P3,061.



Credit quality of cash and cash equivalents, and AFS financial assets 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. Standard-grade credit quality financial assets include quoted and unquoted equity investments that can be readily sold to a third party.

The Group has no past due but not impaired financial assets as at December 31, 2012, 2011 and 2010.

#### 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, 2012, 2011 and 2010, respectively:

|   | December 31, 2012 |                   |                     |                   |
|---|-------------------|-------------------|---------------------|-------------------|
|   | On Demand         | Within<br>1 Year  | More than<br>1 Year | Total             |
| Cash and cash equivalents                       | <b>P1,669,542</b> | <b>P-</b>         | <b>P-</b>           | <b>P1,669,542</b> |
| Accounts receivable:                            |                   |                   |                     |                   |
| Trade   | -                 | <b>132,876</b>    | -                   | <b>132,876</b>    |
| Accrued interest                                | -                 | <b>19,287</b>     | -                   | <b>19,287</b>     |
| Others  | -                 | <b>55,586</b>     | -                   | <b>55,586</b>     |
| AFS financial assets:                           |                   |                   |                     |                   |
| Quoted equity investments                       | <b>2,686,427</b>  | -                 | -                   | <b>2,686,427</b>  |
| Unquoted equity investments                     | <b>1,304,334</b>  | -                 | -                   | <b>1,304,334</b>  |
| Derivative assets                               | -                 | -                 | -                   | -                 |
| <b>Total undiscounted financial assets</b>      | <b>P5,660,303</b> | <b>P207,749</b>   | <b>P-</b>           | <b>P5,868,052</b> |
| Short-term loans                                |                   |                   |                     |                   |
| Principal                                       | <b>P-</b>         | <b>P1,450,000</b> | <b>P-</b>           | <b>P1,450,000</b> |
| Interest  | -                 | <b>71,742</b>     | -                   | <b>71,742</b>     |
| Accounts payable and accrued liabilities        | -                 | <b>2,542,409</b>  | -                   | <b>2,542,409</b>  |
| Dividends payable                               | <b>483,257</b>    | -                 | -                   | <b>483,257</b>    |
| Subscriptions payable                           | <b>21,995</b>     | -                 | -                   | <b>21,995</b>     |
| <b>Total undiscounted financial liabilities</b> | <b>P505,252</b>   | <b>P4,064,151</b> | <b>P-</b>           | <b>P4,569,403</b> |





| December 31, 2011                        |            |                  |                     |             |
|--|------------|------------------|---------------------|-------------|
|  | On Demand  | Within<br>1 Year | More than<br>1 Year | Total       |
| Cash and cash equivalents                | ₱3,947,295 | ₱–               | ₱–                  | ₱3,947,295  |
| Accounts receivable:                     |            |                  |                     |             |
| Trade                                    | –          | 1,525,848        | –                   | 1,525,848   |
| Accrued interest                         | –          | 2,601            | –                   | 2,601       |
| Others                                   | –          | 67,180           | –                   | 67,180      |
| AFS financial assets:                    |            |                  |                     |             |
| Quoted equity investments                | 4,061,921  | –                | –                   | 4,061,921   |
| Unquoted equity investments              | 1,366,148  | –                | –                   | 1,366,148   |
| Derivative assets                        | –          | 904,701          | –                   | 904,701     |
| Total undiscounted financial assets      | ₱9,375,364 | ₱2,500,330       | ₱–                  | ₱11,875,694 |
|  |            |                  |                     |             |
| Short-term loans                         |            |                  |                     |             |
| Principal                                | ₱–         | ₱350,000         | ₱–                  | ₱350,000    |
| Interest                                 | –          | 16,742           | –                   | 16,742      |
| Accounts payable and accrued liabilities | –          | 911,825          | –                   | 911,825     |
| Dividends payable                        | 325,333    | –                | –                   | 325,333     |
| Subscriptions payable                    | 21,995     | –                | –                   | 21,995      |
| Derivative liability                     | –          | 47,270           | –                   | 47,270      |
| Total undiscounted financial liabilities | ₱347,328   | ₱1,325,837       | ₱–                  | ₱1,673,615  |
|  |            |                  |                     |             |
| December 31, 2010                        |            |                  |                     |             |
|  | On Demand  | Within<br>1 Year | More than<br>1 Year | Total       |
| Cash and cash equivalents                | ₱3,782,248 | ₱–               | ₱–                  | ₱3,782,248  |
| Accounts receivable:                     |            |                  |                     |             |
| Trade                                    | –          | 2,095,625        | –                   | 2,095,625   |
| Accrued interest                         | –          | 10,248           | –                   | 10,248      |
| Others                                   | –          | 74,559           | –                   | 74,559      |
| AFS financial assets:                    |            |                  |                     |             |
| Quoted equity investments                | 872,177    | –                | –                   | 872,177     |
| Unquoted equity investments              | 14,560     | –                | –                   | 14,560      |
| Total undiscounted financial assets      | ₱4,668,985 | ₱2,180,432       | ₱–                  | ₱6,849,417  |
|  |            |                  |                     |             |
| Short-term loans                         |            |                  |                     |             |
| Principal                                | ₱–         | ₱150,000         | ₱–                  | ₱150,000    |
| Interest                                 | –          | 7,175            | –                   | 7,175       |
| Accounts payable and accrued liabilities | –          | 653,808          | –                   | 653,808     |
| Dividends payable                        | 207,875    | –                | –                   | 207,875     |
| Subscriptions payable                    | 21,995     | –                | –                   | 21,995      |
| Total undiscounted financial liabilities | ₱229,870   | ₱810,983         | ₱–                  | ₱1,040,853  |

### Market Risks

**Foreign Currency Risk.** Foreign currency risk is the risk where the value of the Group's financial instruments diminishes due to unfavorable changes in foreign exchange rates. The Parent Company's transactional currency exposures arise from sales in currencies other than its functional currency. All of the Parent Company's sales are denominated in US dollar. Also, the



Parent Company is exposed to foreign exchange risk arising from its US dollar-denominated cash and cash equivalents, and trade receivables. For the years ended December 31, 2012, 2011 and 2010, the Group recognized net foreign exchange losses of ₱164,716, ₱14,681 and ₱96,485, 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, 2012 |                                    |
|------------------------------|------------------------------------|
| US\$ Appreciate (Depreciate) | Effect on Income before Income Tax |
| 6%                           | ₱56,888                            |
| (6%)                         | (56,888)                           |
| Year Ended December 31, 2011 |                                    |
| US\$ Appreciate (Depreciate) | Effect on Income before Income Tax |
| 6%                           | ₱242,702                           |
| (6%)                         | (242,702)                          |
| Year Ended December 31, 2010 |                                    |
| US\$ Appreciate (Depreciate) | Effect on Income before Income Tax |
| 7%                           | ₱364,187                           |
| (7%)                         | (364,187)                          |

There were no outstanding dollar derivatives as of December 31, 2012 and 2010.

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

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

*Interest Rate Risk.* Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. The Group's exposure to the risk in changes in market interest rates relates primarily to BEMC's short-term loans in 2012, 2011 and 2010.

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



The following table illustrates the sensitivity to reasonably possible change in interest rates, with all other variables held constant, of the Group's 2012, 2011 and 2010 income before income tax. The change in market interest rates is based on the annualized volatility of the 6-month benchmark rate:

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

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

| <b>Year Ended December 31, 2010</b>      |   |
|--|---|
| <b>Change in Market Rate of Interest</b> | <b>Effect on Income before Income Tax</b> |
| <b>Decrease by 1.0%</b>                  | <b>₱1,500</b>                             |
| <b>Decrease by 0.5%</b>                  | <b>750</b>                                |
| <b>Increase by 1.0%</b>                  | <b>(1,500)</b>                            |
| <b>Increase by 0.5%</b>                  | <b>(750)</b>                              |

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

*Equity Price Risk.* Equity price risk is the risk where the fair values of investments in quoted equity securities could increase or decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Management monitors the movement of the share prices pertaining to the Group's investments. The Group is exposed to equity securities price risk because of investments held by the Parent Company and PPC, which are classified in the consolidated statements of financial position as AFS financial assets (see Note 11). As of December 31, 2012, 2011 and 2010, investments in quoted shares totaling ₱2,686,427, ₱4,061,921 and ₱872,177 represent 9.14%, 12.52% and 3.40% of the total assets of the Group, respectively. Reasonable possible changes were based on an evaluation of data statistics using 1-year historical stock price data.



The effect on equity, as a result of a possible change in the fair value of the Group's quoted equity instruments held as AFS financial assets as at December 31, 2012, 2011 and 2010 that could be brought by changes in equity indices with all other variables held constant are as follows:

| <b>December 31, 2012</b>        |   |                         |
|---------------------------------|---|-------------------------|
| <b>Currency</b>                 | <b>Change in Quoted Prices of Investments Carried at Fair Value</b> | <b>Effect on Equity</b> |
| <b>Australian dollar (AU\$)</b> | <b>Increase by 25%</b>  | <b>₱1,828</b>           |
|                                 | <b>Decrease by 49%</b>  | <b>(3,582)</b>          |
| <b>Peso</b>                     | <b>Increase by 22%</b>  | <b>523,404</b>          |
|                                 | <b>Increase by 44%</b>  | <b>1,046,808</b>        |
|                                 | <b>Decrease by 22%</b>  | <b>(523,404)</b>        |
|                                 | <b>Decrease by 44%</b>  | <b>(1,046,808)</b>      |
| <b>December 31, 2011</b>        |   |                         |
| <b>Currency</b>                 | <b>Change in Quoted Prices of Investments Carried at Fair Value</b> | <b>Effect on Equity</b> |
| <b>Australian dollar (AU\$)</b> | <b>Increase by 20%</b>  | <b>₱2,407</b>           |
|                                 | <b>Decrease by 40%</b>  | <b>(4,814)</b>          |
| <b>Peso</b>                     | <b>Increase by 20%</b>  | <b>297,260</b>          |
|                                 | <b>Increase by 40%</b>  | <b>594,520</b>          |
|                                 | <b>Decrease by 20%</b>  | <b>(297,260)</b>        |
|                                 | <b>Decrease by 40%</b>  | <b>(594,520)</b>        |
| <b>December 31, 2010</b>        |   |                         |
| <b>Currency</b>                 | <b>Change in Quoted Prices of Investments Carried at Fair Value</b> | <b>Effect on Equity</b> |
| <b>Australian dollar (AU\$)</b> | <b>Increase by 20%</b>  | <b>₱90,160</b>          |
|                                 | <b>Decrease by 40%</b>  | <b>(180,320)</b>        |
| <b>Peso</b>                     | <b>Increase by 20%</b>  | <b>45,635</b>           |
|                                 | <b>Increase by 10%</b>  | <b>22,818</b>           |
|                                 | <b>Decrease by 20%</b>  | <b>(45,635)</b>         |
|                                 | <b>Decrease by 10%</b>  | <b>(22,818)</b>         |

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

There were no outstanding inventory of copper and gold as at December 31, 2012.



The following table shows the effect on income before income tax should the change in the prices of copper and gold occur based on the inventory of the Parent Company as at December 31, 2011 and 2010. The change in metal prices is based on 1-year historical price movements.

| Year Ended December 31, 2011 |                                    |
|------------------------------|------------------------------------|
| Change in Metal Prices       | Effect on Income before Income Tax |
| Gold:                        |                                    |
| Increase by 21%              | ₱7,253                             |
| Decrease by 21%              | (7,253)                            |
| Copper:                      |                                    |
| Increase by 30%              | 2,042                              |
| Decrease by 30%              | (2,042)                            |

| Year Ended December 31, 2010 |                                      |
|------------------------------|--------------------------------------|
| Change in Metal Prices       | Effect on income before income taxes |
| Gold:                        |                                      |
| Increase by 17%              | ₱17,408                              |
| Decrease by 17%              | (17,408)                             |
| Copper:                      |                                      |
| Increase by 28%              | 18,184                               |
| Decrease by 28%              | (18,184)                             |

There were no outstanding gold and copper derivatives as at December 31, 2012 and 2010.

As at December 31, 2011, there were outstanding gold and copper derivatives designated as cash flow hedges wherein fair value changes are reported under equity. The following table summarizes the impact on equity of reasonably possible changes in the prices of gold and copper.

| Year Ended December 31, 2011 |                  |
|------------------------------|------------------|
| Change in Metal Prices       | Effect on Equity |
| Gold:                        |                  |
| Increase by 21%              | (₱336,647)       |
| Decrease by 21%              | 665,184          |
| Copper:                      |                  |
| Increase by 30%              | (743,396)        |
| Decrease by 30%              | 889,374          |

#### Derivative Financial Instruments

There were no outstanding derivative financial instruments as at December 31, 2012 and 2010.

The table below provides information about the Parent Company's derivative financial instruments outstanding as at December 31, 2011, and the related fair values:

| Derivative Asset / (Derivative Liability) | 2011     |
|---|----------|
| Gold put options                          | ₱37,355  |
| Gold collars                              | 165,217  |
| Copper put options                        | 94,687   |
| Copper collars                            | 238,542  |
| Copper forwards                           | 368,900  |
| Dollar collars                            | (47,270) |



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

*Gold Collar Pre-Termination.* On October 7, 2009, the Parent Company pre-terminated its gold collars with 1,000 ounces monthly notional amount covering October 2009 to March 2011 deliveries and 1,500 ounces monthly notional amount covering October 2009 to April 2011 deliveries and paid a total unwinding fee of US\$12,334 (or ₱573,013), US\$11,845 (or ₱551,144) of which is attributed to fair value of the gold collars and taken to equity, and the remaining amount treated as transaction cost taken to consolidated statements of income. These transactions have matured in early part of 2011. The pre-termination of the gold collars discontinued the hedge relationship of such derivatives. The unwinding cost has been amortized monthly until April 2011 based on contractual monthly notional amount of the collars. The effective portion of the unwinding cost of the hedge remained in equity prior to maturity and has been transferred to consolidated statements of income upon occurrence of the forecasted transaction. Total amortization in 2012, 2011 and 2010 amounted to nil, ₱106,673 and ₱355,577, respectively.

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

There were no outstanding gold derivatives as at December 31, 2012 and 2010.

During 2011, the Parent Company entered into gold put option contracts. The contracts required premium payments which amounted to ₱97,212. The put options have a total notional amount of 9,000 ounces monthly from January to December 2011. These long put options were designated as cash flow hedges.

As at December 31, 2011, the Parent Company has outstanding gold derivatives with the following terms:

| Deal date    | Contract | Total quantity<br>(in ozs) | Monthly maturity<br>(in ozs) | Average Strike price in US\$ per oz |          | Period covered |          |
|--------------|----------|----------------------------|------------------------------|-------------------------------------|----------|----------------|----------|
|              |          |                            |                              | Put                                 | Call     | From           | To       |
| Jul 27, 2011 | Put      | 48,000                     | 8,000                        | 1,400.00                            |          | Jan 2012       | Jun 2012 |
| Dec 8, 2011  | Collar   | 5,400                      | 900                          | 1,600.00                            | 1,905.00 | Jan 2012       | Jun 2012 |
| Dec 8, 2011  | Collar   | 13,350                     | 2,225                        | 1,600.00                            | 1,935.00 | Jul 2012       | Sep 2012 |
| Dec 8, 2011  | Collar   | 6,675                      | 4,450                        | 1,600.00                            | 1,935.00 | Jul 2012       | Sep 2012 |
| Dec 8, 2011  | Collar   | 6,675                      | 2,225                        | 1,600.00                            | 1,935.00 | Jul 2012       | Sep 2012 |

As at December 31, 2011, these gold derivatives have a total mark-to-market value of ₱202,572.

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

There were no outstanding copper derivatives as of December 31, 2012 and 2010.

During 2011, the Parent Company has entered into copper forward and put option contracts. The long put option contract required premium payment amounting to ₱163,507. These were designated as cash flow hedges and have monthly notional amounts of 1,125 DMT from January to December 2011.



As at December 31, 2011, the Parent Company has outstanding copper derivatives with the following terms:

| Deal date   | Contract | Total quantity<br>(in dmt) | Monthly<br>maturity (in<br>dmt) | Average Strike price in US\$ per lb |      |         | Period covered |          |
|-------------|----------|----------------------------|---------------------------------|-------------------------------------|------|---------|----------------|----------|
|             |          |                            |                                 | Put                                 | Call | Forward | From           | To       |
| 27 Jul 2011 | Collar   | 3,900                      | 650                             | 4.00                                | 4.81 |         | Jan 2012       | Jun 2012 |
| 27 Jul 2011 | Forward  | 3,900                      | 650                             |                                     |      | 4.43    | Jan 2012       | Jun 2012 |
| 03 Nov 2011 | Put      | 945                        | 315                             | 3.00                                |      |         | Jul 2012       | Sep 2012 |
| 03 Nov 2011 | Put      | 945                        | 315                             | 3.00                                |      |         | Jul 2012       | Sep 2012 |
| 03 Nov 2011 | Put      | 945                        | 315                             | 3.00                                |      |         | Jul 2012       | Sep 2012 |
| 03 Nov 2011 | Put      | 945                        | 315                             | 3.00                                |      |         | Jul 2012       | Sep 2012 |

As at December 31, 2011, these copper derivatives have a total mark-to-market value of ₱702,129.

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

There were no outstanding dollar forwards and collars as at December 31, 2012 and 2010.

During 2011, the Parent Company entered into dollar collar contracts at a put strike of ₱43.00 and call strike of ₱45.00. The collars have a total monthly notional amount of US\$13 million from March to September 2011, and US\$11 million from October to December 2011. Dollar forward contracts were also entered into at an average agreed forward rate of ₱44.10 with monthly settlements of US\$2 million each in October, November and December 2011. For 2011, total gain from these dollar forwards and collars amounted to ₱24,674.

As of December 31, 2011, the Parent Company has outstanding dollar collars with the following terms:

| Deal date    | Contract | Total dollar<br>(in million \$) | Monthly maturity<br>(in million \$) | Average Strike price in Php per \$1 |       | Period covered |          |
|--------------|----------|---------------------------------|-------------------------------------|-------------------------------------|-------|----------------|----------|
|              |          |                                 |                                     | Put                                 | Call  | From           | To       |
| Aug 5, 2011  | Collar   | 48                              | 8                                   | 42.25                               | 44.60 | Jan 2012       | Jun 2012 |
| Aug 8, 2011  | Collar   | 48                              | 8                                   | 42.25                               | 44.60 | Jan 2012       | Jun 2012 |
| Dec 20, 2011 | Collar   | 24                              | 8                                   | 43.50                               | 45.50 | Jul 2012       | Sep 2012 |

As at December 31, 2011, these dollar derivatives have a total mark-to-market value of ₱47,270.

*Embedded Derivatives.* As at December 31, 2012, 2011 and 2010, the Parent Company had embedded derivatives, which is represented by price exposure relative to its provisionally priced commodity sales contracts (see Note 30). Mark-to-market gains and losses from open or provisionally priced sales are recognized through adjustments to revenue in the consolidated statements of income and to trade receivables in the consolidated statements of financial position. The Parent Company determines mark-to-market prices using the forward price for quotational periods after statements of financial position date stipulated in the contract. The effect of these fair value adjustments arising from embedded derivatives amounted to a loss of ₱469 as of December 31, 2012 and a gain of ₱138,198 and ₱269,532 as of December 31, 2011 and 2010, respectively, which were included under revenue and adjusted against receivables.

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



The details of the net changes in the fair values of all derivative instruments as at December 31, 2012, 2011 and 2010 are as follows:

|  | 2012             | 2011            | 2010           |
|--|------------------|-----------------|----------------|
| January 1                                  | <b>P857,431</b>  | <b>P–</b>       | <b>P19,975</b> |
| Premiums paid                              | –                | 404,585         | 259,650        |
| Net changes in fair values of derivatives: |                  |                 |                |
| Designated as accounting hedges            | <b>(280,584)</b> | 655,173         | (272,709)      |
| Not designated as accounting hedges        | <b>115,826</b>   | –               | 12,448         |
|  | <b>692,673</b>   | 1,059,758       | 19,364         |
| Fair value of settled instruments          | <b>(692,673)</b> | (202,327)       | (19,364)       |
| December 31                                | <b>P–</b>        | <b>P857,431</b> | <b>P–</b>      |

In 2012, fair value of settled instruments includes fair value gains from derivatives designated as accounting hedges, copper derivatives not designated as accounting hedge, and unwound deals amounting to P384,745, P20,740, and P287,188, respectively.

*Hedge Effectiveness of Cash Flow Hedges.* Below is a rollforward of the Parent Company's cumulative translation adjustments (CTA) on cash flow hedges for the years ended December 31, 2012, 2011 and 2010:

|   | 2012             | 2011            | 2010             |
|---|------------------|-----------------|------------------|
| January 1   | <b>P499,496</b>  | (P74,671)       | (P338,427)       |
| Changes in fair value of cash flow hedges                         | <b>(280,584)</b> | 655,173         | (272,709)        |
| Transferred to consolidated statements of income                  | <b>(432,982)</b> | 165,066         | 649,548          |
| Tax effects of items taken directly to or transferred from equity | <b>214,070</b>   | (246,072)       | (113,083)        |
| December 31   | <b>P–</b>        | <b>P499,496</b> | <b>(P74,671)</b> |

As at December 31, 2012, 2011 and 2010, the ineffective portion of the fair value change of outstanding hedges is not material.

## 21. Capital Management

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





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

|                            | 2012               | 2011        | 2010        |
|----------------------------|--------------------|-------------|-------------|
| Capital stock              | <b>P4,933,027</b>  | P4,929,751  | P4,922,131  |
| Additional paid-in capital | <b>963,867</b>     | 887,290     | 812,378     |
| Retained earnings          | <b>13,704,164</b>  | 16,093,059  | 12,716,722  |
|                            | <b>P19,601,058</b> | P21,910,100 | P18,451,231 |

## 22. Foreign Currency-Denominated Monetary Assets and Liability

The Group's foreign currency-denominated monetary assets and liability as at December 31, 2012, 2011 and 2010 follow:

|                           | 2012            |                 | 2011     |                 | 2010      |                 |
|---------------------------|-----------------|-----------------|----------|-----------------|-----------|-----------------|
|                           | US\$            | Peso Equivalent | US\$     | Peso Equivalent | US\$      | Peso Equivalent |
| <b>Assets</b>             |                 |                 |          |                 |           |                 |
| Cash and cash equivalents | <b>\$20,450</b> | <b>P839,473</b> | \$78,974 | P3,462,220      | \$72,136  | P3,162,442      |
| Trade receivables         | <b>2,647</b>    | <b>108,659</b>  | 13,294   | 582,809         | 46,538    | 2,040,226       |
|                           | <b>\$23,097</b> | <b>P948,132</b> | \$92,268 | P4,045,029      | \$118,674 | P5,202,668      |
| <b>Liability</b>          |                 |                 |          |                 |           |                 |
| Dollar collars            | <b>\$-</b>      | <b>P-</b>       | \$1,078  | P47,270         | \$-       | P-              |

The exchange rates of the Peso to US dollar were P41.05 to US\$1 as at December 31, 2012 and P43.84 to US\$1 as at December 31, 2011 and 2010.

## 23. Related Party Transactions

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

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

|                                      | Year        | Amount / Volume  | Outstanding Balance | Terms                | Conditions                    |
|--------------------------------------|-------------|------------------|---------------------|----------------------|-------------------------------|
| <b>Advances:</b> increase (decrease) |             |                  |                     |                      |                               |
| <b>Subsidiaries</b>                  |             |                  |                     |                      |                               |
| SMECI                                | <b>2012</b> | <b>P1,861</b>    | <b>P4,014,716</b>   | On demand;           | Unsecured, no impairment      |
|                                      | 2011        | 677,717          | 4,012,855           | non-interest bearing |                               |
|                                      | 2010        | 1,313,190        | 3,335,138           |                      |                               |
| PGPI                                 | <b>2012</b> | <b>508,356</b>   | <b>1,596,119</b>    | On demand;           | Partly secured, no impairment |
|                                      | 2011        | 155,026          | 1,087,763           | non-interest bearing |                               |
|                                      | 2010        | 53,752           | 932,737             |                      |                               |
| SMMCI                                | <b>2012</b> | <b>1,183,604</b> | <b>1,183,604</b>    | On demand;           | Unsecured, no impairment      |
|                                      | 2011        | -                | -                   | non-interest bearing |                               |
|                                      | 2010        | -                | -                   |                      |                               |

(Forward)



|      | Year        | Amount /<br>Volume | Outstanding<br>Balance | Terms                                 | Conditions                  |
|------|-------------|--------------------|------------------------|---------------------------------------|-----------------------------|
| PPC  | <b>2012</b> | <b>(P25,451)</b>   | <b>P620,977</b>        | On demand;<br>non-interest<br>bearing | Unsecured, no<br>impairment |
|      | 2011        | 10,500             | 646,428                |                                       |                             |
|      | 2010        | 62,647             | 635,928                |                                       |                             |
| BEMC | <b>2012</b> | <b>214,781</b>     | <b>399,971</b>         | On demand;<br>non-interest<br>bearing | Unsecured, no<br>impairment |
|      | 2011        | 45,948             | 185,190                |                                       |                             |
|      | 2010        | 19,455             | 139,242                |                                       |                             |

**Loans to:** increase (decrease)

**Subsidiary**

Forum Philippine  
Holdings, Ltd.  
(FPHL)

|             |                  |                   |  |                             |
|-------------|------------------|-------------------|--|-----------------------------|
| <b>2012</b> | <b>US\$9,000</b> | <b>US\$15,000</b> | Payable in 3 years<br>at interest rate of<br>prevailing US | Unsecured, no<br>impairment |
| 2011        | 6,000            | 6,000             | LIBOR on the interest                                      |                             |
| 2010        | —                | —                 | date plus 4.5% spread                                      |                             |

**Loans from:** increase (decrease)

**Stockholder**

Kirtman Limited

|             |                   |                   |                      |                             |
|-------------|-------------------|-------------------|----------------------|-----------------------------|
| <b>2012</b> | <b>P1,100,000</b> | <b>P1,100,000</b> | Payable in           | Unsecured, no<br>impairment |
| 2011        | —                 | —                 | 364 days at interest |                             |
| 2010        | —                 | —                 | rate of 5%           |                             |

**Currency sale:** increase (decrease)

**Subsidiary**

FEP

|             |                 |                   |                              |   |
|-------------|-----------------|-------------------|------------------------------|---|
| <b>2012</b> | <b>P391,200</b> | <b>P1,291,800</b> | One-off sales<br>transaction | — |
| 2011        | —               | 900,600           |                              |   |
| 2010        | —               | —                 |                              |   |

- a. On October 30, 2012, the Parent Company obtained a commitment letter from FPC to provide a loan amounting to a maximum of US\$200,000 to finance the Silangan Project's exploration activities and the Padcal Mine's capital requirements. On November 9, 2012, the Parent Company entered into an unsecured Loan Agreement (the Agreement) with Kirtman Limited (a subsidiary of FPC) amounting to a maximum of P2,100,000. Initial drawdown of P1,100,000 was made November 13, 2012 (see Note 13).
- b. On November 24, 2010, the Parent Company, as lender, entered into a US\$10,000 facility agreement with FPHL, a wholly owned subsidiary of FEP. The facility agreement will be available for a three-year period and funds can be borrowed at an interest rate of US LIBOR + 4.5%. The facility agreement will enable FPHL to fund its 70% share of a first sub-phase work programme over SC 72. Obligations arising from funds drawn under this facility agreement are not convertible into FEP's or FPHL's ordinary shares but are guaranteed by FEP for repayment to the Parent Company. On May 28, 2012, the facility agreement was amended to increase the maximum facility to US\$15,000. Total loan availed as at December 31, 2012, 2011 and 2010 amounted to US\$15,000 or P615,750, US\$6,000 or P264,040 and nil, respectively. Interest earned by the Parent Company amounted to P14,451, P10,604 and nil in 2012, 2011 and 2010, respectively.



- c. In April 2011, the Parent Company sold US\$30,000 to FPC, a stockholder, at the forward rate of ₱43.06 per US dollar in converting part of the Parent Company's dollar fund for routine working capital requirement. In April 2010, the Parent Company sold US\$20,000 to FPC at the forward rate of ₱45.03 per US dollar in converting part of the Parent Company's dollar fund for routine working capital requirement. The Parent Company did not enter into similar transaction with FPC in 2012.

#### Compensations of Key Management Personnel

Compensations of the members of key management personnel follow:

|                              | 2012            | 2011     | 2010    |
|------------------------------|-----------------|----------|---------|
| Short-term employee benefits | <b>₱151,299</b> | ₱108,119 | ₱64,413 |
| Retirement benefits          | <b>4,316</b>    | 3,383    | 3,032   |
| Share-based payments         | –               | 396      | 1,619   |
|                              | <b>₱155,615</b> | ₱111,898 | ₱69,064 |

## 24. Income Taxes

- a. The table below shows the details of the Group's current provision for income tax:

|                       | 2012            | 2011       | 2010       |
|-----------------------|-----------------|------------|------------|
| Parent Company - RCIT | <b>₱528,009</b> | ₱1,876,748 | ₱1,804,393 |
| FEP - RCIT*           | <b>23,633</b>   | 17         | –          |
| BEMC - MCIT           | <b>292</b>      | 2          | 239        |
| PGHI - MCIT           | <b>24</b>       | –          | –          |
| FSTI - RCIT           | <b>21</b>       | 685        | –          |
|                       | <b>₱551,979</b> | ₱1,877,452 | ₱1,804,632 |

\* FEP's provision for current income tax represents MCIT for the years ended December 31, 2011

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

|   | 2012            | 2011    | 2010    |
|---|-----------------|---------|---------|
| Deferred income tax assets on:                              |                 |         |         |
| Provision for losses and others                             | <b>₱421,176</b> | ₱79,004 | ₱49,459 |
| Impairment loss on AFS<br>financial assets                  | <b>68,094</b>   | 68,094  | 68,094  |
| Unrealized foreign exchange<br>losses - net                 | <b>59,300</b>   | 24,188  | 35,082  |
| Unamortized past service costs                              | <b>54,348</b>   | 84,249  | 86,256  |
| NOLCO   | –               | 62,400  | –       |
| Allowances for:   |                 |         |         |
| Materials and supplies<br>obsolescence                      | <b>42,301</b>   | 26,353  | 26,353  |
| Losses on input VAT   | <b>24,095</b>   | 45,884  | 43,739  |
| Probable losses on other<br>noncurrent assets               | <b>14,231</b>   | 14,231  | 14,231  |
| Unrecoverable deferred<br>mine and oil<br>exploration costs | <b>25,171</b>   | 28,713  | 8,868   |

(Forward)



|  | 2012                | 2011         | 2010         |
|--|---------------------|--------------|--------------|
| Doubtful accounts  | <b>P410</b>         | <b>P410</b>  | <b>P410</b>  |
| Accumulated accretion of interest on provision for mine rehabilitation costs         | <b>5,439</b>        | 5,333        | 3,883        |
| Accumulated amortization of mine rehabilitation cost                                 | –                   | –            | 2,769        |
| CTA on hedging instruments   | –                   | –            | 32,002       |
| <b>Total deferred income tax assets</b>  | <b>714,565</b>      | 438,859      | 371,146      |
| Deferred income tax liabilities on:  |                     |              |              |
| Difference in fair value and carrying value of the net assets of subsidiary acquired | <b>(1,665,513)</b>  | (1,665,513)  | (1,665,513)  |
| Accelerated depreciation   | <b>(1,241,010)</b>  | (958,603)    | (489,013)    |
| Gain on dilution of interest in associate  | <b>(126,615)</b>    | (126,615)    | –            |
| Unrealized gain on AFS financial assets  | <b>(43,416)</b>     | (68,094)     | (158,181)    |
| Unrealized foreign exchange gain   | <b>(14,566)</b>     | (1,875)      | (6,542)      |
| Net retirement plan assets   | <b>(4,587)</b>      | (15,788)     | (122)        |
| Accumulated amortization of mine rehabilitation cost                                 | <b>(21)</b>         | (514)        | –            |
| CTA on hedging instruments   | –                   | (214,070)    | –            |
| Measurement of mine products inventory at NRV  | –                   | (10,397)     | (33,003)     |
| Loss on termination of gold hedging contracts  | –                   | –            | (32,002)     |
| <b>Total deferred income tax liabilities</b>   | <b>(3,095,728)</b>  | (3,061,469)  | (2,384,376)  |
| <b>Net deferred income tax liabilities</b>   | <b>(P2,381,163)</b> | (P2,622,610) | (P2,013,230) |

The table below shows the details of the Group's net deferred income taxes per company:

|                | December 31, 2012              |                                     | December 31, 2011              |                                     | December 31, 2010              |                                     |
|----------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
|                | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities |
| SMMCI          | P–                             | <b>P1,665,513</b>                   | P–                             | P1,665,513                          | P–                             | P1,665,513                          |
| Parent Company | –                              | <b>615,450</b>                      | –                              | 910,852                             | –                              | 341,175                             |
| PPC            | –                              | <b>97,599</b>                       | –                              | 57,090                              | –                              | 4,692                               |
| LMC            | –                              | <b>2,601</b>                        | –                              | 1,875                               | –                              | 1,850                               |
| BEMC           | –                              | –                                   | 12,720                         | –                                   | –                              | –                                   |
|                | <b>P–</b>                      | <b>P2,381,163</b>                   | <b>P12,720</b>                 | <b>P2,635,330</b>                   | <b>P–</b>                      | <b>P2,013,230</b>                   |

- c. As at December 31, 2012, PPC Group's NOLCO that can be claimed as deduction from future taxable income are as follows:

|               |                 | NOLCO           |                |
|---------------|-----------------|-----------------|----------------|
| Year Incurred | Available Until | Amount          | Tax Effect     |
| 2010          | 2013            | <b>P82,760</b>  | <b>P24,828</b> |
| 2011          | 2014            | 105,222         | 31,567         |
| 2012          | 2015            | 89,327          | 26,798         |
|               |                 | <b>P277,309</b> | <b>P83,193</b> |



The following are the movements of PPC Group's NOLCO for the years ended December 31, 2012, 2011 and 2010:

|                | 2012            | 2011     | 2010     |
|----------------|-----------------|----------|----------|
| At January 1   | <b>₱207,999</b> | ₱155,090 | ₱72,330  |
| Additions      | <b>89,327</b>   | 105,222  | 82,760   |
| Expirations    | <b>(20,017)</b> | (52,313) | —        |
| At December 31 | <b>₱277,309</b> | ₱207,999 | ₱155,090 |

- d. 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:

|   | 2012            | 2011       | 2010       |
|---|-----------------|------------|------------|
| Provision for income tax computed at the statutory income tax rates | <b>₱77,974</b>  | ₱2,439,204 | ₱1,705,219 |
| Additions to (reductions in) income tax resulting from:             |                 |            |            |
| Nondeductible expenses and non-taxable income - net                 | <b>309,993</b>  | 6,943      | 57,253     |
| Unrecognized DTA, NOLCO and excess MCIT                             | <b>161,647</b>  | (181,753)  | 30,952     |
| Stock-based compensation expense                                    | <b>6,384</b>    | 14,990     | 613        |
| Dividend income   | <b>(1,777)</b>  | (1,769)    | (888)      |
| Interest income already subjected to final tax                      | <b>(17,460)</b> | (25,805)   | (7,931)    |
| Effect of difference in tax rates and others - net                  | <b>17,778</b>   | 78,982     | (45,785)   |
| Provision for income tax  | <b>₱554,539</b> | ₱2,330,792 | ₱1,739,433 |

- e. No deferred income tax assets were recognized on the following deductible temporary differences because the Group believes that it is not probable that future taxable income will be available to allow all or part of the benefit of the deferred income tax assets to be utilized.

|                                 | 2012              | 2011       | 2010       |
|---------------------------------|-------------------|------------|------------|
| Provision for impairment losses | <b>₱1,919,443</b> | ₱1,328,232 | ₱1,257,408 |
| NOLCO                           | <b>351,550</b>    | 536,133    | 936,910    |
| Provision for losses            | <b>335,294</b>    | 205,854    | 479,618    |
| Unrealized forex losses         | <b>29,637</b>     | 26,477     | 24,467     |
| Asset retirement obligation     | <b>762</b>        | —          | 5,630      |
| MCIT                            | <b>337</b>        | 687        | 239        |
|                                 | <b>₱2,637,023</b> | ₱2,097,383 | ₱2,704,272 |

- f. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. The Group did not avail of the OSD in 2012, 2011 and 2010.



## 25. Equity

### Capital Stock

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

| Common stock - ₪1 par value         | Number of Shares     |               |               |
|-------------------------------------|----------------------|---------------|---------------|
|                                     | 2012                 | 2011          | 2010          |
| Authorized                          | <b>8,000,000,000</b> | 8,000,000,000 | 8,000,000,000 |
| Issued, outstanding and fully paid: |                      |               |               |
| January 1                           | <b>4,929,750,743</b> | 4,922,130,960 | 4,900,604,961 |
| Issuance during the year            | <b>3,276,075</b>     | 7,619,783     | 21,525,999    |
| December 31                         | <b>4,933,026,818</b> | 4,929,750,743 | 4,922,130,960 |

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                     |

(Forward)



| Year | Date of Approval | Change in Number of<br>Authorized Capital<br>Stock | New Subscriptions/<br>Issuances*** |
|------|------------------|--|------------------------------------|
| 1999 | May 23, 1997     | 3,000,000,000                                      | —                                  |
| 2007 |                  |  | 10,781,250                         |
| 2008 |                  |  | 912,279,662                        |
| 2009 | May 22, 2009     | 3,000,000,000                                      | 1,019,753,789                      |
| 2010 |                  |  | 21,525,999                         |
| 2011 |                  |  | 7,619,783                          |
| 2012 |                  |  | 3,276,075                          |
|      |                  | <b>8,000,000,000</b>                               | <b>4,933,026,818</b>               |

\*This is the result of the change of par value from ₱0.10 to ₱0.05.

\*\*This is the result of the change in par value from ₱0.05 to ₱1.00.

\*\*\*Information on issue/offer price on public offering not available or information not applicable since the shares were not issued in relation to a public offering.

\*\*\*\*Information on date of approval not available.

As at December 31, 2012, 2011 and 2010, the Parent Company's total stockholders is 44,742, 45,085 and 45,607, respectively.

#### Retained Earnings

On April 27 and August 4, 2010, the Parent Company's BOD authorized the declaration of cash dividends amounting to ₱442,241 and ₱245,831 (or ₱0.09 and ₱0.05 per share, respectively, or a total of ₱0.14 per share for the whole year), in favor of stockholders of record as at May 12 and September 13, 2010, respectively.

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

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

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

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

The Parent Company's retained earnings available for dividend distribution amounted to ₱13,324,246, ₱15,372,637 and ₱12,161,656 as at December 31, 2012, 2011 and 2010, respectively.



## NCI

NCI consist of the following:

|                          | Percentage of Ownership |       |       | Amount    |          |          |
|--------------------------|-------------------------|-------|-------|-----------|----------|----------|
|                          | 2012                    | 2011  | 2010  | 2012      | 2011     | 2010     |
| NCI on net assets of:    |                         |       |       |           |          |          |
| PPC                      | 35.2%                   | 35.2% | —     | P587,771  | P633,229 | P—       |
| BEMC                     | 35.2%                   | 35.2% | —     | (207,652) | (2,999)  | —        |
| FEC                      | 66.8%                   | 66.8% | 48.8% | 198,500   | 214,619  | 142,606  |
| FEP and its subsidiaries | 51.2%                   | 66.4% | 48.1% | (178,204) | 97,382   | 93,963   |
| LMC                      | 0.7%                    | 26.7% | 19.5% | (159)     | (34,247) | (484)    |
|                          |                         |       |       | P400,256  | P907,984 | P236,085 |

Transactions with NCI are disclosed in Note 2.

## 26. Share-based Payments

### Parent Company Stock Option Plan

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:

- Participants: directors, officers, managers and key consultants of the Parent Company and its significantly-owned subsidiaries;
- Number of shares: up to 3% of the Parent Company's issued and outstanding shares;
- Term: Five years from adoption date;
- 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
- 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 total share-based compensation expense for 2012, 2011 and 2010 amounted to P21,280, P49,965 and P2,043, respectively. The corresponding share-based option reserve included under Additional Paid-in Capital for 2012, 2011 and 2010 amounted to P216,875, P195,595 and P145,630.





The following table shows the movements in 2012, 2011 and 2010 on stock option plan of the Parent Company:

|             | Number of Options  |             |              | Weighted Average Exercise Price |       |       |
|-------------|--------------------|-------------|--------------|---------------------------------|-------|-------|
|             | 2012               | 2011        | 2010         | 2012                            | 2011  | 2010  |
| January 1   | <b>19,251,075</b>  | 21,075,358  | 36,652,232   | <b>P6.32</b>                    | P6.32 | P5.57 |
| Granted     | –                  | 6,000,000   | 9,950,000    | –                               | 12.20 | 10.49 |
| Exercised   | <b>(3,276,075)</b> | (7,823,783) | (21,718,999) | <b>6.71</b>                     | 4.34  | 5.20  |
| Forfeited   | <b>(3,004,350)</b> | (500)       | (3,807,875)  | <b>11.26</b>                    | 1.90  | 2.61  |
| December 31 | <b>12,970,650</b>  | 19,251,075  | 21,075,358   | <b>P8.99</b>                    | P8.96 | P6.32 |

The number of unexercised vested stock options as at December 31, 2012, 2011 and 2010 are 8,287,400, 5,703,668 and 9,414,983, respectively.

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

|                                       | 2011<br>January 5, 2011 |
|---------------------------------------|-------------------------|
| Spot price per share                  | P15.40                  |
| 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                  | P11.00  | P14.88       | P14.00      |
| 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.

On April 27, 2011, the BOD approved the 2011 Stock Option Plan (the 2011 SOP). The 2011 SOP was also approved by the shareholders on June 29, 2011. Among the salient terms and features of the stock option plan are as follows:

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

Following the tailings pond incident in Padcal Mine, the PMC withdrew the application for the 2011 SOP on August 9, 2012.

Since the 2011 SOP was withdrawn before it was approved by SEC, management decided not to record any expense in relation to the options granted under the 2011 SOP. In January 2013, PMC reapplied for the SEC approval for the 2011 SOP.

#### FEP Stock Option Plan

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

The following share options outstanding in respect of FEP's ordinary shares with their corresponding weighted average exercise prices for the year ended December 31, 2012, 2011 and 2010 are as follows:

|           | Number of Options |           |           | Weighted Average Exercise Price |                |                |
|-----------|-------------------|-----------|-----------|---------------------------------|----------------|----------------|
|           | 2012              | 2011      | 2010      | 2012                            | 2011           | 2010           |
| Beginning | <b>2,195,000</b>  | 2,195,000 | 2,467,000 | <b>£0.31 (\$0.50)</b>           | £0.31 (\$0.50) | £0.31 (\$0.48) |
| Exercised | <b>2,185,000</b>  | —         | (272,000) | —                               | —              | £0.31 (\$0.48) |
| Cancelled | <b>(10,000)</b>   | —         | —         | —                               | —              | —              |
| Ending    | —                 | 2,195,000 | 2,195,000 | <b>£0.31 (\$0.50)</b>           | £0.31 (\$0.50) | £0.31 (\$0.48) |

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

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

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

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



## 27. Basic/Diluted Earnings Per Share

Basic earnings per share are computed as follows:

|   | 2012                 | 2011          | 2010          |
|---|----------------------|---------------|---------------|
| Net income attributable to equity holders of the Parent Company             | <b>P224,947</b>      | P5,771,223    | P3,963,201    |
| Divided by weighted average number of common shares outstanding during year | <b>4,932,216,253</b> | 4,926,583,729 | 4,914,719,911 |
| Basic earnings per share  | <b>P0.046</b>        | P1.171        | P0.806        |

Diluted earnings per share amounts are calculated as follows:

|  | 2012                 | 2011          | 2010          |
|--|----------------------|---------------|---------------|
| Net income attributable to equity holders of the Parent Company  | <b>P224,947</b>      | P5,771,223    | P3,963,201    |
| Divided by weighted average number of common shares adjusted for the effect of exercise of stock options | <b>4,938,632,314</b> | 4,932,287,397 | 4,920,204,652 |
| Diluted earnings per share   | <b>P0.046</b>        | P1.170        | P0.805        |
| Weighted average number of common shares for basic earnings per share                                    | <b>4,932,216,253</b> | 4,926,583,729 | 4,914,719,911 |
| Effect of exercise of stock options  | <b>6,416,061</b>     | 5,703,668     | 5,484,741     |
| Weighted average number of common shares adjusted for the effect of exercise of stock options            | <b>4,938,632,314</b> | 4,932,287,397 | 4,920,204,652 |

The Parent Company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2012, 2011 and 2010 (see Note 26). The assumed exercise of these stock options would have resulted in additional 6,416,061, 5,703,668 and 5,484,741 common shares in 2012, 2011 and 2010, respectively.

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

On May 11, 2011, the Parent Company entered into a farm-in agreement with MMC and to acquire up to 60% of the outstanding capital stock of Kalayaan Copper Gold Resources, Inc. (Kalayaan), a wholly owned subsidiary of MMC. The Parent Company purchased from MMC 125,000 shares of Kalayaan representing 5% of the outstanding capital stock for US\$25,000 or P1,071,521. Further, the Parent Company will subscribe to additional 3,437,500 shares of Kalayaan, representing 55% of outstanding capital stock, subject to the condition that the Parent Company will fulfill the subscription services within the earlier of 3 years following the execution of the agreement or expiry of the term of the exploration permit.



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

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

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

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## 29. Joint Ventures with Anglo

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

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

On April 10, 2000 and December 29, 1999, final government approval of the Parent Company and PGPI's respective mining tenements in the form of MPSA were granted. To implement the terms of the Baguio District joint venture, two companies, namely MECI (60% owned by the Parent Company and 40% owned by Anglo) and NLEMCI, were organized in 1999. For the Surigao del Norte joint venture, SMECI (60% owned by PGPI and 40% owned by Anglo) and SMMCI (then wholly-owned by SMECI) were organized in 1999 and 2000, respectively. In 2000, the Parent Company and PGPI transferred their respective rights and interest in the MPSAs to NLEMCI and SMMCI. All costs incurred by the Parent Company and PGPI arising from their acquisition of ownership interests in MECI and SMECI, respectively, were reimbursed by Anglo. The Parent Company's and PGPI's respective investments in MECI and SMECI are included in the "Investments in shares of stock" account in the consolidated statements of financial position. SMECI started to be consolidated in 2009.

In December 2001, Anglo purchased from PGPI an effective 10% equity interest in SMMCI for US\$20,000, plus additional payments of up to US\$5,000 should there be an increase in metal content of the deposit or from any subsequent discovery within the surrounding tenements on the



basis of feasibility studies. Benefits from subsequent discovery of minerals by SMMCI that will increase the value of its shares will inure to Anglo. Conversely, the risk of decrease in the value of SMMCI shares will be suffered by Anglo.

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

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

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

On December 7, 2011, the Parent Company entered into an agreement with Anglo and Anglo American Exploration (Philippines), Inc. (AAEPI) where the Parent Company agreed to buy and Anglo agreed to sell all Anglo's rights, interests and obligations in MECI for US\$25. In addition, AAEPI agreed with the Parent Company that all of its rights interests and title in and to its receivable to MECI will be assigned to the Parent Company for a consideration amounting to US\$175. The purchase of share and assignment of receivable will become effective and legally enforceable only upon fulfillment of the closing obligations. As at December 31, 2012, the closing obligations are not yet fulfilled.

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

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

- a. Contract Year 2010 (starting on April 1, 2010 and ending on March 31, 2011), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2010.



- b. Contract Year 2011 (starting on April 1, 2011 and ending on March 31, 2012), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2011.
- c. Contract Year 2012 (starting April 1, 2012 and ending on March 31, 2013), approximately 40,000 DMT or 60% of the total Concentrates production during each Contract Year, for which the exact proportion shall be negotiated by the parties in good faith during the Contract Year 2012.

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

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### 31. Other Matters

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

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

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

- a. In 2012, 2011 and 2010, total depreciation expense that was capitalized as part of deferred mine exploration costs by SMMCI and PGPI amounted to ₱166,984, ₱172,549 and ₱141,489, respectively.
- b. In 2012, FEP transferred the balance of deferred oil exploration costs relating to Libertad block amounting to ₱50,212 to property, plant and equipment upon start of commercial production of Libertad gas fields.
- c. In 2010, BEMC transferred the balance of deferred mine exploration and development costs amounting to ₱72,122 to property, plant and equipment upon start of the debugging stage of BEMC's coal mine.



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### 33. Events After the End of Reporting Period

#### *BEMC suspension of operations*

On January 9, 2013, BEMC decided to undertake a detailed review of the operations and prospects of the coal mining project. BEMC anticipates that the detailed review could take six months to complete. The management meantime determined that it would be prudent to suspend underground mining operations. Activities would be confined to maintenance and repair of the coal mine and processing and marketing of existing coal inventory.

#### *Extension of sub-phase 2 of SC 72*

On January 9, 2013, the DOE approved the extension of the sub-phase 2 of SC 72 from August 2013 to August 2015. Based on the DOE letter, the extension of sub-phase 2 shall not affect the term of the Service Contract and will not form part of the ten year exploration period.

#### *Drawdown of the remaining ₱1,000,000 loan from Kirtman Limited*

The remaining balance of the loan agreement was drawn on January 14, 2013. The term of the loan is coterminous with the loan facility. Interest rate shall bear the same interest rate at 5% per annum in concurrence with the first drawdown in 2012.

#### *Compromise Settlement from Chartis Philippines Insurance, Inc. (Chartis)*

On February 8, 2013, the Parent Company entered into a Settlement, Release and Policy Buy Back Agreement with Chartis for the compromise settlement of the Parent Company's insurance claim under its Pollution Legal Liability Select Policy covering the Padcal Mine. The claims pertain to the discharge of tailings from TSF 3 of the mine in 2012. Under the terms of the agreement, Chartis shall pay the Parent Company within 15 days the amount of US\$25,000 in full settlement of the claims. The Parent Company received the full settlement from Chartis on February 12, 2013.

#### *Payment of the ₱1,034,358 tailings fee payable*

On February 18, 2013, the Parent Company paid the ₱1,034,358 tailings fee payable assessed to the Parent Company in connection to the discharge of tailings from TSF3 to the MGB.

#### *Issuance of permit for temporary resumption of operations*

On February 26, 2013, the MGB issued an authorization letter to the Parent Company allowing temporary resumption of mining operations of Padcal Mine. The Parent Company is also required to commission a third party to assume monitoring and audit of the remediation measures to be undertaken (see Note 1).





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BOA/PRC Reg. No. 0001,

December 28, 2012, valid until December 31, 2015

SEC Accreditation No. 0012-FR-3 (Group A),

November 15, 2012, valid until November 16, 2015

## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philex Mining Corporation and its Subsidiaries as at December 31, 2012, 2011 and 2010 and for each of the three years in the period ended December 31, 2012 included in their form 17-A and have issued our report thereon dated February 27, 2013. Our audits were made for the purpose of forming an opinion on the 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 consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the 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 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-2 (Group A),

March 1, 2012, valid until March 1, 2015

Tax Identification No. 102-100-830

BIR Accreditation No. 08-001998-60-2012,

April 11, 2012, valid until April 10, 2015

PTR No. 3670041, January 2, 2013, Makati City

February 27, 2013



A member firm of Ernst & Young Global Limited



# **PHILEX MINING CORPORATION AND SUBSIDIARIES**

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## **SUPPLEMENTARY SCHEDULES**

**FOR THE YEAR ENDED DECEMBER 31, 2012**

|  | <b><u>Schedule</u></b> |
|--|------------------------|
| Reconciliation of Retained Earnings Available for Dividend Declaration   | I                      |
| Schedule of Financial Soundness Indicators   | II                     |
| Chart Showing Ownership and Relationship between the Parent Company and its Subsidiaries   | III                    |
| Schedule of All Effective Standards and Interpretations  | IV                     |
| Schedules as Required by SRC Rule 68, As Amended   | V                      |
| A. Financial Assets  |                        |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than related Parties) |                        |
| C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements                   |                        |
| D. Intangible Assets - Other Assets  |                        |
| E. Long Term Debt  |                        |
| F. Indebtedness to Related Parties (Long-term Loans from Related Companies)  |                        |
| G. Guarantees of Securities of Other Issuers   |                        |
| H. Capital Stock   |                        |



**SCHEDULE I**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**As of December 31, 2012**

**PHILEX MINING CORPORATION**  
**Philex Building, 27 Brixton corner Fairlane Streets, Pasig City**  
**(Amounts in Thousands)**

|   |                          |                                  |
|---|--------------------------|----------------------------------|
| <b>Unappropriated retained earnings, as adjusted to available for dividend distribution, as at December 31, 2010</b>          |                          | <b><u>₱12,161,656</u></b>        |
| <b>Net income during the year closed to retained earnings</b>   | <b><u>₱5,454,035</u></b> |                                  |
| Less: Non-actual/unrealized income net of tax   |                          |                                  |
| Equity in net income of associate/joint venture   | -                        |                                  |
| Unrealized foreign exchange gains - net (except those attributable to cash and cash equivalents)                              | 3,834                    |                                  |
| Recognized deferred tax asset that increased the net income   | -                        |                                  |
| Subtotal  | <u>3,834</u>             |                                  |
| Add: Non-actual loss  | -                        |                                  |
| Unrealized actuarial losses   | -                        |                                  |
| Other realized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | 85,891                   |                                  |
| <b>Net income actually earned during the year</b>   | <b><u>85,891</u></b>     | <b><u>5,536,092</u></b>          |
| Add (less):   |                          |                                  |
| Dividend declarations during the year   |                          | (2,325,111)                      |
| <b>Unappropriated retained earnings as at December 31, 2011, as adjusted</b>  |                          | <b><u>15,372,637</u></b>         |
| <b>Add: Net income actually earned/realized during the year</b>   |                          |                                  |
| <b>Net income during the year closed to retained earnings</b>   | <b><u>872,763</u></b>    |                                  |
| Less: Non-actual/unrealized income net of tax   |                          |                                  |
| Equity in net income of associate/joint venture   | -                        |                                  |
| Unrealized foreign exchange gains - net (except those attributable to cash and cash equivalents)                              | -                        |                                  |
| Unrealized actuarial gain   | -                        |                                  |
| Fair value adjustment (mark-to-market gains)  | -                        |                                  |
| Fair value adjustment of investment property resulting to gain  | -                        |                                  |
| Recognized deferred tax asset that increased the net income   | 341,648                  |                                  |
| Adjustment due to deviation from PFRS/GAAP – gain   | -                        |                                  |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS   | -                        |                                  |
| Subtotal  | <u>341,648</u>           |                                  |
| Add: Non-actual losses  |                          |                                  |
| Depreciation on revaluation increment (after tax)   | -                        |                                  |
| Adjustment due to deviation from PFRS/GAAP – loss   | -                        |                                  |
| Loss on fair value adjustment of investment property (after tax)  | -                        |                                  |
| Other realized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | 34,336                   |                                  |
| Subtotal  | <u>34,337</u>            |                                  |
| <b>Net income actually earned during the year</b>   |                          | <b><u>565,451</u></b>            |
| Add (less):   |                          |                                  |
| Dividend declarations during the year   | (2,613,842)              |                                  |
| Appropriations of retained earnings during the year   | -                        |                                  |
| Reversals of appropriations   | -                        |                                  |
| Effects of prior period adjustments   | -                        |                                  |
| Treasury shares   | -                        |                                  |
| <b>Subtotal</b>   |                          | <b><u>(2,613,842)</u></b>        |
| <b>Unappropriated retained earnings as at December 31, 2012 , as adjusted</b>   |                          | <b><u><u>₱13,324,246</u></u></b> |

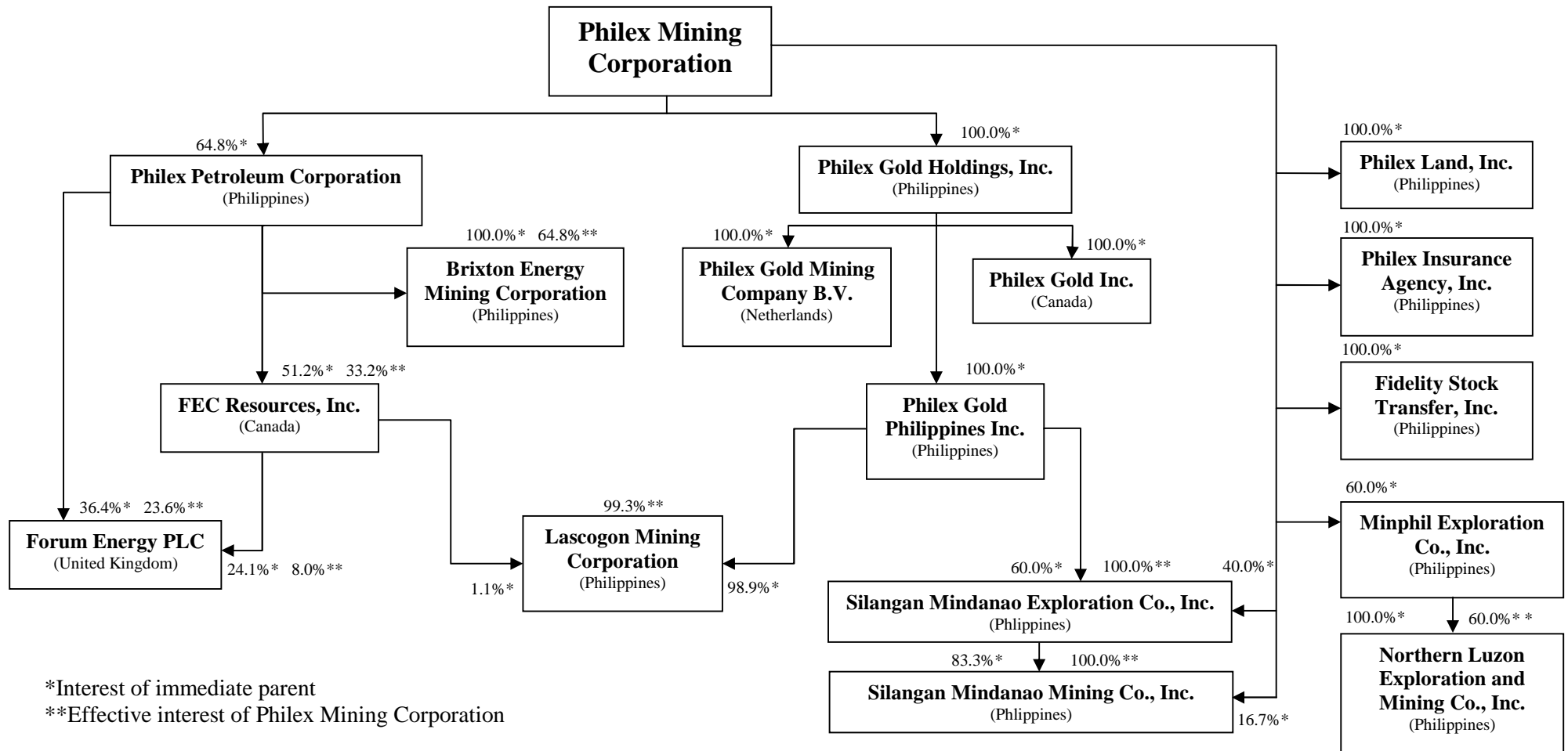


**SCHEDULE II**  
**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE SHOWING FINANCIAL SOUNDESS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2012**

|  | <b>2012</b>   | 2011   | 2010   |
|--|---------------|--------|--------|
| Current/Liquidity ratios                 |               |        |        |
| Current ratio                            | <b>0.94</b>   | 3.23   | 3.35   |
| Quick ratio                              | <b>0.41</b>   | 2.15   | 2.58   |
| Solvency ratios and debt to equity ratio |               |        |        |
| Debt-to-equity ratio                     | <b>0.32</b>   | 0.20   | 0.19   |
| Solvency ratio                           | <b>0.07</b>   | 1.22   | 0.99   |
| Financial leverage ratios                |               |        |        |
| Asset-to-equity ratio                    | <b>1.32</b>   | 1.20   | 1.24   |
| Interest rate coverage ratio             | <b>6.86</b>   | 225.85 | 272.99 |
| Profitability ratios                     |               |        |        |
| Return on assets                         | <b>-0.95%</b> | 19.96% | 16.77% |
| Return on equity                         | <b>-1.20%</b> | 24.26% | 20.52% |
| Net profit margin                        | <b>-3.39%</b> | 37.85% | 31.11% |



**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, 2012**



**SCHEDULE IV**  
**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**TABULAR SCHEDULE OF ALL EFFECTIVE STANDARDS AND**  
**INTERPRETATIONS PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2012**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2012  |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|--|----------------|--------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |  |                |                    |                       |
| <b>PFRSs Practice Statement Management Commentary</b>   |  |                |                    |                       |
| <b>Philippine Financial Reporting Standards</b>   |  |                |                    |                       |
| <b>PFRS 1 (Revised)</b>   | 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   |                |                    | ✓                     |
| <b>PFRS 2</b>   | Share-based Payment  | ✓              |                    |                       |
|   | Amendments to PFRS 2: Vesting Conditions and Cancellations   | ✓              |                    |                       |
|   | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |                |                    | ✓                     |
| <b>PFRS 3 (Revised)</b>   | Business Combinations  | ✓              |                    |                       |
| <b>PFRS 4</b>   | Insurance Contracts  |                |                    | ✓                     |
|   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts   |                |                    | ✓                     |
| <b>PFRS 5</b>   | Non-current Assets Held for Sale and Discontinued Operations   |                |                    | ✓                     |
| <b>PFRS 6</b>   | Exploration for and Evaluation of Mineral Resources  | ✓              |                    |                       |



| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as of December 31, 2012</b> |   | <b>Adopted</b>    | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|---|-------------------|--------------------|-----------------------|
| <b>PFRS 7</b>   | Financial Instruments: Disclosures  | ✓                 |                    |                       |
|   | 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             | Not early adopted |                    |                       |
|   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   | Not early adopted |                    |                       |
| <b>PFRS 8</b>   | Operating Segments  | ✓                 |                    |                       |
| <b>PFRS 9*</b>  | Financial Instruments   | Not early adopted |                    |                       |
|   | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   | Not early adopted |                    |                       |
| <b>PFRS 10*</b>   | Consolidated Financial Statements   | Not early adopted |                    |                       |
| <b>PFRS 11*</b>   | Joint Arrangements  | Not early adopted |                    |                       |
| <b>PFRS 12*</b>   | Disclosure of Interests in Other Entities   | Not early adopted |                    |                       |
| <b>PFRS 13*</b>   | Fair Value Measurement  | Not early adopted |                    |                       |
| <b>Philippine Accounting Standards</b>  |   |                   |                    |                       |
| <b>PAS 1 (Revised)</b>  | 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                              | ✓                 |                    |                       |
| <b>PAS 2</b>  | Inventories   | ✓                 |                    |                       |
| <b>PAS 7</b>  | Statement of Cash Flows   | ✓                 |                    |                       |
| <b>PAS 8</b>  | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓                 |                    |                       |
| <b>PAS 10</b>   | Events after the Reporting Period   | ✓                 |                    |                       |
| <b>PAS 11</b>   | Construction Contracts  |                   |                    | ✓                     |
| <b>PAS 12</b>   | Income Taxes  | ✓                 |                    |                       |
|   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                     | ✓                 |                    |                       |



| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as of December 31, 2012</b> |   | <b>Adopted</b>    | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|---|-------------------|--------------------|-----------------------|
| <b>PAS 16</b>   | Property, Plant and Equipment   | ✓                 |                    |                       |
| <b>PAS 17</b>   | Leases  | ✓                 |                    |                       |
| <b>PAS 18</b>   | Revenue   | ✓                 |                    |                       |
| <b>PAS 19</b>   | Employee Benefits   | ✓                 |                    |                       |
|   | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                         | Not early adopted |                    |                       |
| <b>PAS 19 (Amended)*</b>  | Employee Benefits   | Not early adopted |                    |                       |
| <b>PAS 20</b>   | Accounting for Government Grants and Disclosure of Government Assistance                              |                   |                    | ✓                     |
| <b>PAS 21</b>   | The Effects of Changes in Foreign Exchange Rates  | ✓                 |                    |                       |
|   | Amendment: Net Investment in a Foreign Operation  | ✓                 |                    |                       |
| <b>PAS 23 (Revised)</b>   | Borrowing Costs   | ✓                 |                    |                       |
| <b>PAS 24 (Revised)</b>   | Related Party Disclosures   | ✓                 |                    |                       |
| <b>PAS 26</b>   | Accounting and Reporting by Retirement Benefit Plans  |                   |                    | ✓                     |
| <b>PAS 27</b>   | Consolidated and Separate Financial Statements  | ✓                 |                    |                       |
| <b>PAS 27 (Amended)*</b>  | Separate Financial Statements   | Not early adopted |                    |                       |
| <b>PAS 28</b>   | Investments in Associates   |                   |                    | ✓                     |
| <b>PAS 28 (Amended)*</b>  | Investments in Associates and Joint Ventures  | Not early adopted |                    |                       |
| <b>PAS 29</b>   | Financial Reporting in Hyperinflationary Economies  |                   |                    | ✓                     |
| <b>PAS 31</b>   | Interests in Joint Ventures   | ✓                 |                    |                       |
| <b>PAS 32</b>   | 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                           | Not early adopted |                    |                       |
| <b>PAS 33</b>   | Earnings per Share  | ✓                 |                    |                       |
| <b>PAS 34</b>   | Interim Financial Reporting   |                   |                    | ✓                     |
| <b>PAS 36</b>   | Impairment of Assets  | ✓                 |                    |                       |



| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as of December 31, 2012</b> |  | <b>Adopted</b> | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|--|----------------|--------------------|-----------------------|
| <b>PAS 37</b>   | Provisions, Contingent Liabilities and Contingent Assets   | ✓              |                    |                       |
| <b>PAS 38</b>   | Intangible Assets  | ✓              |                    |                       |
| <b>PAS 39</b>   | 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   | ✓              |                    |                       |
| <b>PAS 40</b>   | Investment Property  |                |                    | ✓                     |
| <b>PAS 41</b>   | Agriculture  |                |                    | ✓                     |
| <b>Philippine Interpretations</b>   |  |                |                    |                       |
| <b>IFRIC 1</b>  | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                       | ✓              |                    |                       |
| <b>IFRIC 2</b>  | Members' Share in Co-operative Entities and Similar Instruments  |                |                    | ✓                     |
| <b>IFRIC 4</b>  | <i>Determining Whether an Arrangement Contains a Lease</i>   | ✓              |                    |                       |
| <b>IFRIC 5</b>  | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds           | ✓              |                    |                       |
| <b>IFRIC 6</b>  | <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i> |                |                    | ✓                     |
| <b>IFRIC 7</b>  | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>       |                |                    | ✓                     |
| <b>IFRIC 8</b>  | <i>Scope of PFRS 2</i>   |                |                    | ✓                     |





| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br><b>Effective as of December 31, 2012</b> |  | <b>Adopted</b>    | <b>Not Adopted</b> | <b>Not Applicable</b> |
|---|--|-------------------|--------------------|-----------------------|
| <b>IFRIC 9</b>  | Reassessment of Embedded Derivatives   | ✓                 |                    |                       |
|   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                 | ✓                 |                    |                       |
| <b>IFRIC 10</b>   | <i>Interim Financial Reporting and Impairment</i>  |                   |                    | ✓                     |
| <b>IFRIC 11</b>   | PFRS 2- Group and Treasury Share Transactions  |                   |                    | ✓                     |
| <b>IFRIC 12</b>   | Service Concession Arrangements  |                   |                    | ✓                     |
| <b>IFRIC 13</b>   | Customer Loyalty Programmes  |                   |                    | ✓                     |
| <b>IFRIC 14</b>   | 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 | ✓                 |                    |                       |
| <b>IFRIC 16</b>   | Hedges of a Net Investment in a Foreign Operation  |                   |                    | ✓                     |
| <b>IFRIC 17</b>   | Distributions of Non-cash Assets to Owners   | ✓                 |                    |                       |
| <b>IFRIC 18</b>   | Transfers of Assets from Customers   |                   |                    | ✓                     |
| <b>IFRIC 19</b>   | Extinguishing Financial Liabilities with Equity Instruments                                      |                   |                    | ✓                     |
| <b>IFRIC 20</b>   | Stripping Costs in the Production Phase of a Surface Mine  | Not early adopted |                    |                       |
| <b>SIC-7</b>  | Introduction of the Euro   |                   |                    | ✓                     |
| <b>SIC-10</b>   | Government Assistance - No Specific Relation to Operating Activities                             |                   |                    | ✓                     |
| <b>SIC-12</b>   | Consolidation - Special Purpose Entities   |                   |                    | ✓                     |
|   | Amendment to SIC - 12: Scope of SIC 12   |                   |                    | ✓                     |
| <b>SIC-13</b>   | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                            | ✓                 |                    |                       |
| <b>SIC-15</b>   | Operating Leases - Incentives  |                   |                    | ✓                     |
| <b>SIC-25</b>   | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                        |                   |                    | ✓                     |
| <b>SIC-27</b>   | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                     | ✓                 |                    |                       |
| <b>SIC-29</b>   | Service Concession Arrangements: Disclosures.  |                   |                    | ✓                     |
| <b>SIC-31</b>   | Revenue - Barter Transactions Involving Advertising Services                                     |                   |                    | ✓                     |
| <b>SIC-32</b>   | 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:                           |   |                                   |                             |
| Lepanto Consolidated Mining Corporation                 | 2,169,703,990   | ₱2,169,704                        | ₱–                          |
| Indophil Resources NL                                   | 29,240,806  | 307,317                           | –                           |
| PetroEnergy Resources Corporation                       | 28,226,551  | 168,230                           | –                           |
| Philippine Realty & Holdings Corporation                | 68,865,002  | 30,315                            | –                           |
| Others  | –   | 10,861                            | –                           |
|   |   | 2,686,427                         |                             |
| Investments in unquoted shares:                         |   |                                   |                             |
| Pitkin Petroleum Limited                                | 24,000,000  | 1,231,440                         | –                           |
| Pacific Global One Aviation                             | –   | 37,500                            | –                           |
| Philippine Associated Smelting and Refining Corporation | 14,047,247  | 14,055                            | –                           |
| Others  | –   | 21,339                            | –                           |
|   |   | 1,304,334                         |                             |
|   |   | ₱3,990,761                        | ₱–                          |

Quoted AFS financial assets are valued based on PSE and ASX (Australian stock exchange) quotation as at December 31, 2012. 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, 2012**

| Name and Designation<br>of debtor | Balance at beginning<br>of period | Additions | Amounts collected | Amounts written off | Current | Not Current | Balance at end<br>of period |
|-----------------------------------|-----------------------------------|-----------|-------------------|---------------------|---------|-------------|-----------------------------|
|-----------------------------------|-----------------------------------|-----------|-------------------|---------------------|---------|-------------|-----------------------------|

|                       |
|-----------------------|
| <b>NOT APPLICABLE</b> |
|-----------------------|



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C**  
**AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED**  
**DURING CONSOLIDATION**  
**December 31, 2012**  
**(Amounts in Thousands)**

| Name and Designation of Debtor          | Balance at<br>beginning of<br>period | Additions  | Amounts<br>collected | Amounts<br>Written off | Current    | Not Current | Balance at end<br>of period |
|---|--------------------------------------|------------|----------------------|------------------------|------------|-------------|-----------------------------|
| <b>Subsidiaries</b>                     |                                      |            |                      |                        |            |             |                             |
| <i>Advances:</i>                        |                                      |            |                      |                        |            |             |                             |
| Silangan Mindanao Exploration Co., Inc. | P4,012,855                           | P1,861     | P–                   | P–                     | P4,014,716 | P–          | P4,014,716                  |
| Philex Gold Philippines, Inc.           | 1,087,763                            | 508,356    | –                    | –                      | 1,596,119  | –           | 1,596,119                   |
| Silangan Mindanao Mining Co., Inc.      | –                                    | 1,183,604  | –                    | –                      | 1,183,604  | –           | 1,183,604                   |
| Philex Petroleum Corporation            | 646,428                              | –          | (25,451)             | –                      | 620,977    | –           | 620,977                     |
| Brixton Energy and Mining Corporation   | 185,190                              | 214,781    | –                    | –                      | 399,971    | –           | 399,971                     |
| Philex Gold, Inc.                       | 20,316                               | 3,803      | –                    | –                      | 24,119     | –           | 24,119                      |
| Philippines Gold Mining Corporation BV  | 3,642                                | 164        | –                    | –                      | 3,806      | –           | 3,806                       |
| FEC Resources Inc.                      | 14,018                               | –          | (14,018)             | –                      | –          | –           | –                           |
| Others                                  | –                                    | 3,697      | –                    | –                      | 3,697      | –           | 3,697                       |
|   | 5,970,212                            | 1,916,266  | (39,469)             | –                      | 7,847,009  | –           | 7,847,009                   |
| <i>Loans to:</i>                        |                                      |            |                      |                        |            |             |                             |
| Forum Philippines Holdings Ltd.         | 263,040                              | 352,710    | –                    | –                      | 615,750    | –           | 615,750                     |
|   | P6,233,252                           | P2,268,976 | (P39,469)            | P–                     | P8,462,759 | P–          | P8,462,759                  |



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D**  
**INTANGIBLE ASSETS - OTHER ASSETS**  
**December 31, 2012**  
**(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 Assets              |                   |                   |                              |                           |                                      |                |
| Goodwill                          | P258,593          | P–                | P–                           | P–                        | P–                                   | P258,593       |
| ii) Other Assets                  |                   |                   |                              |                           |                                      |                |
| Deferred mine exploration costs   | 12,650,459        | 2,075,783         | –                            | –                         | –                                    | 14,726,242     |
| Allowance for impairment          | (1,048,829)       | –                 | –                            | –                         | 18                                   | (1,048,811)    |
|                                   | 11,601,630        | 2,075,783         | –                            | –                         | 18                                   | 13,677,431     |
| Deferred oil exploration costs    | 1,329,516         | 22,232            | –                            | (50,212)                  | –                                    | 1,301,536      |
| Allowance for unrecoverable costs | (54,343)          | –                 | (388,631)                    | –                         | –                                    | (442,974)      |
|                                   | 1,275,173         | 22,232            | (388,631)                    | (50,212)                  | –                                    | 858,562        |
| Others                            | 141,509           | 1,460             | –                            | –                         | –                                    | 142,969        |
| Allowance for write down          | (47,435)          | –                 | –                            | –                         | –                                    | (47,435)       |
|                                   | 94,074            | 1,460             | –                            | –                         | –                                    | 95,534         |
|                                   | P13,229,470       | P2,099,475        | (P388,631)                   | (P50,212)                 | P18                                  | P14,890,120    |

Deferred oil exploration costs for the Libertad gas field amounting to P50,212 was transferred in the first quarter of 2012 to oil and gas mine properties. Also, the carrying value of the investment in SC40 has been impaired by P388,631 which is included in “Impairment of deferred exploration costs and others” in the consolidated statements of income.



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E**  
**LONG TERM DEBT**  
**December 31, 2012**

| 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" |
|---------------------------------------|--------------------------------|--|---------------------------------------|
|---------------------------------------|--------------------------------|--|---------------------------------------|

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|                       |
|-----------------------|
| <b>NOT APPLICABLE</b> |
|-----------------------|



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE F**  
**INDEBTEDNESS TO RELATED PARTIES (LONG - TERM LOANS FROM RELATED COMPANIES)**  
**December 31, 2012**

Name of the Related Party

Balance at beginning of period

Balance at end of period

|                       |
|-----------------------|
| <b>NOT APPLICABLE</b> |
|-----------------------|



**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE G**  
**GUARANTEES OF SECURITIES OF OTHER ISSUERS**  
**December 31, 2012**

| Name of the issuing entity of securities<br>guaranteed by the company for which the<br>statement is filed | Title of issue of each class of<br>securities guaranteed | Total amount<br>guaranteed and<br>outstanding | Amount owned by person<br>for which statement is<br>lifted | Nature of<br>guarantee |
|---|--|---|--|------------------------|
|---|--|---|--|------------------------|

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|                       |
|-----------------------|
| <b>NOT APPLICABLE</b> |
|-----------------------|





**PHILEX MINING CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H**  
**CAPITAL STOCK**  
**December 31, 2012**

| Title of<br>Issue | Number of Shares<br>Authorized | Number of shares issued and<br>outstanding and shown under<br>related balance sheet caption | Number of shares reserved for<br>options, warrants, conversion<br>and other rights | Number of shares<br>held by related<br>parties | Directors,<br>officers and<br>employees | Others |
|-------------------|--------------------------------|---|--|--|---|--------|
| Common            | 8,000,000,000                  | 4,933,026,818   | —  | —  | 15,961,704                              | —      |

