# COVER SHEET

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SEC Registration Number

APEX MINING CO., INC.

(Company's Full Name)

Unit 1704, 17th Floor, Prestige Tower Condominium, F. Ortigas Jr. Road, Ortigas Center, Pasig City

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

**Rosanna A. Parica**

(Contact Person)

**(02) 706-2805**

(Company Telephone Number)

1 2 3 1

*Month* *Day*

(Fiscal Year)

A A F S

(Form Type)

0 6 2 4

*Month* *Day*

(Annual Meeting)

**Not Applicable**

(Secondary License Type, If Applicable)

**CRM**

Dept. Requiring this Doc.

**Not Applicable**

Amended Articles Number/Section

Total Amount of Borrowings

**2,816**

Total No. of Stockholders

**Not Applicable**

Domestic

**Not Applicable**

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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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**



The Stockholders and the Board of Directors
Apex Mining Co., Inc.
Unit 1704, 17th Floor, Prestige Tower Condominium
F. Ortigas Jr. Road, Ortigas Center
Pasig City

**Report on the Financial Statements**

We have audited the accompanying financial statements of Apex Mining Co., Inc., which comprise the statements of financial position as at December 31, 2012 and 2011, and the 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Apex Mining Co., Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

**Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Apex Mining Co., Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all materials respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-3 (Group A),
March 21, 2013, valid until March 20, 2016
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669674, January 2, 2013, Makati City

March 21, 2013

BUREAU OF INTERNAL REVENUE
RECEIVED
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EXCISE LT REGULATORY DIVISION

# APEX MINING CO., INC.
## STATEMENTS OF FINANCIAL POSITION



| | December 31 2012 | December 31 2011 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | **₱52,923,378** | ₱53,550,286 |
| Receivables (Note 5) | **617,685,238** | 407,376,223 |
| Inventories (Note 6) | **598,511,429** | 350,054,504 |
| Advances to a related party (Note 13) | **34,738,559** | – |
| Prepayments and other current assets (Note 7) | **130,600,582** | 68,846,332 |
| **Total Current Assets** | **1,434,459,186** | 879,827,345 |
| **Noncurrent Assets** | | |
| Property, plant and equipment (Note 8) | **915,175,677** | 579,316,307 |
| Deferred exploration and mine development costs (Note 9) | **965,584,745** | 530,156,205 |
| Mine and mining properties (Note 10) | **662,204,354** | 774,453,464 |
| Other noncurrent assets (Note 11) | **57,861,741** | 49,877,351 |
| **Total Noncurrent Assets** | **2,600,826,517** | 1,933,803,327 |
| **TOTAL ASSETS** | **₱4,035,285,703** | ₱2,813,630,672 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 12) | **₱637,499,916** | ₱654,759,259 |
| Advances from stockholders and related parties (Note 13) | **837,215,067** | 855,047,855 |
| **Total Current Liabilities** | **1,474,714,983** | 1,509,807,114 |
| **Noncurrent Liabilities** | | |
| Accrued retirement benefits (Note 14) | **43,919,929** | 31,313,497 |
| Provision for mine rehabilitation and decommissioning (Note 15) | **82,790,453** | 66,811,963 |
| Deferred income tax liabilities (Note 23) | **37,769,623** | 35,995,557 |
| **Total Noncurrent Liabilities** | **164,480,005** | 134,121,017 |
| **Total Liabilities** | **1,639,194,988** | 1,643,928,131 |
| **Equity** | | |
| Capital stock (Notes 1 and 16) | **1,664,565,290** | 1,390,955,655 |
| Additional paid-in capital (Note 16) | **2,561,661,966** | 1,665,701,307 |
| Revaluation surplus on property, plant and equipment (Note 8) | **55,751,783** | 80,514,893 |
| Deficit | **(1,885,888,324)** | (1,967,469,314) |
| **Total Equity** | **2,396,090,715** | 1,169,702,541 |
| **TOTAL LIABILITIES AND EQUITY** | **₱4,035,285,703** | ₱2,813,630,672 |

*See accompanying Notes to Financial Statements.*

## APEX MINING CO., INC.
## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **REVENUE** | | | |
| Gold | **₱1,657,461,829** | ₱1,814,725,479 | ₱1,441,831,547 |
| Silver | **159,859,735** | 223,847,220 | 104,798,405 |
| | **1,817,321,564** | 2,038,572,699 | 1,546,629,952 |
| **COST OF SALES** (Note 18) | **1,199,510,778** | 1,514,144,018 | 1,131,864,328 |
| **GROSS PROFIT** | **617,810,786** | 524,428,681 | 414,765,624 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** (Note 19) | **595,013,284** | 509,247,451 | 561,220,553 |
| **INCOME (LOSS) FROM OPERATIONS** | **22,797,502** | 15,181,230 | (146,454,929) |
| **OTHER INCOME (CHARGES)** - Net (Note 20) | **18,588,079** | (104,459,989) | 60,902,669 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **41,385,581** | (89,278,759) | (85,552,260) |
| **BENEFIT FROM (PROVISION FOR) DEFERRED INCOME TAX** (Note 23) | **15,432,299** | 49,492,306 | (35,090,477) |
| **NET INCOME (LOSS)** | **56,817,880** | (39,786,453) | (120,642,737) |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | – | – | – |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱56,817,880** | (₱39,786,453) | (₱120,642,737) |
| **Basic Net Income (Loss) Per Share** (Note 17) | **₱0.04** | (₱0.03) | (₱0.13) |
| **Diluted Net Income (Loss) Per Share** (Note 17) | **₱0.04** | (₱0.03) | (₱0.13) |

*See accompanying Notes to Financial Statements.*

# APEX MINING CO., INC.

## STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | Capital Stock (Note 16) | Additional Paid-in Capital (Note 16) | Revaluation Surplus (Note 8) | Deficit | Total |
|---|---|---|---|---|---|
| **Balances at December 31, 2009** | ₱756,682,170 | ₱4,224,410 | ₱103,287,388 | (₱1,829,812,619) | ₱965,618,651 |
| Net loss for the year | – | – | – | (120,642,737) | (120,642,737) |
| Other comprehensive income, net of tax | – | – | – | – | – |
| Total comprehensive loss for the year | – | – | – | (120,642,737) | (120,642,737) |
| Transfer of portion of revaluation surplus realized through depreciation and depletion, net of tax | – | – | (11,307,208) | 11,307,208 | – |
| Debt-to-equity conversion | 560,935,860 | 1,499,156,545 | – | – | 2,060,092,405 |
| **Balances at December 31, 2010** | 1,317,618,030 | 1,503,380,955 | 91,980,180 | (1,939,148,148) | 973,831,017 |
| Net loss for the year | – | – | – | (39,786,453) | (39,786,453) |
| Other comprehensive income, net of tax | – | – | – | – | – |
| Total comprehensive loss for the year | – | – | – | (39,786,453) | (39,786,453) |
| Transfer of portion of revaluation surplus realized through depreciation, depletion and disposal, net of tax | – | – | (11,465,287) | 11,465,287 | – |
| Subscriptions during the year | 73,337,625 | 183,273,855 | – | – | 256,611,480 |
| Transaction costs of stock issuance | – | (20,953,503) | – | – | (20,953,503) |
| **Balances at December 31, 2011** | 1,390,955,655 | 1,665,701,307 | 80,514,893 | (1,967,469,314) | 1,169,702,541 |
| Net income for the year | – | – | – | 56,817,880 | 56,817,880 |
| Other comprehensive income, net of tax | – | – | – | – | – |
| Total comprehensive income for the year | – | – | – | 56,817,880 | 56,817,880 |
| Transfer of portion of revaluation surplus realized through depreciation, depletion and disposal, net of tax | – | – | (24,763,110) | 24,763,110 | – |
| Subscriptions during the year | 273,609,635 | 924,915,126 | – | – | 1,198,524,761 |
| Transaction costs of stock issuance | – | (28,954,467) | – | – | (28,954,467) |
| **Balances at December 31, 2012** | ₱1,664,565,290 | ₱2,561,661,966 | ₱55,751,783 | (₱1,885,888,324) | ₱2,396,090,715 |

*See accompanying Notes to Financial Statements.*

# APEX MINING CO., INC.
# STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income (loss) before income tax | **₱41,385,581** | (₱89,278,759) | (₱85,552,260) |
| Adjustments for: | | | |
| Depreciation, depletion and amortization (Note 21) | **414,410,409** | 409,911,851 | 428,772,457 |
| Unrealized foreign exchange loss (gain) - net | **(42,105,385)** | 2,276,217 | (65,203,465) |
| Movement in accrued retirement benefits | **12,541,295** | 11,684,928 | 10,039,698 |
| Loss on disposal of property, plant and equipment (Note 20) | **6,117,866** | – | – |
| Loss on write off of: | | | |
| Property, plant and equipment (Note 20) | **5,446,023** | – | 250,894 |
| Deferred exploration and mine development cost (Notes 9 and 20) | **–** | 37,196,282 | – |
| Interest and accretion expense (Notes 15 and 20) | **3,803,784** | 4,086,989 | 1,994,965 |
| Interest income (Notes 4 and 20) | **(2,422,908)** | (356,756) | (66,488) |
| Gain from extinguishment of liability (Note 20) | **–** | (6,058,789) | – |
| Operating income before working capital changes | **439,176,665** | 369,461,963 | 320,235,801 |
| Decrease (increase) in: | | | |
| Receivables | **(210,309,015)** | (166,478,649) | (63,658,784) |
| Inventories | **(248,456,925)** | (173,685,708) | (207,189,534) |
| Prepayments and other current assets | **(36,709,331)** | 64,912,145 | (58,885,069) |
| Increase (decrease) in trade and other payables | **365,351,281** | (14,792,064) | 120,919,772 |
| Cash generated from operations | **309,052,675** | 79,417,687 | 111,422,186 |
| Interest received | **2,422,908** | 356,756 | 66,488 |
| Interest paid | **(232,010)** | – | – |
| Net cash flows from operating activities | **311,243,573** | 79,774,443 | 111,488,674 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of property, plant and equipment (Note 8) | **(572,428,022)** | (357,950,900) | (184,695,782) |
| Increase in: | | | |
| Deferred exploration and mine development costs (Note 9) | **(435,428,540)** | (245,929,047) | (82,562,572) |
| Other noncurrent assets (Note 11) | **(12,630,118)** | (33,681,390) | (9,676,803) |
| Proceeds from sale of property, plant and equipment | **41,806,162** | – | 7,504,795 |
| Net cash flows used in investing activities | **(978,680,518)** | (637,561,337) | (269,430,362) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net proceeds from subscriptions to capital stock (Note 16) | **840,009,533** | 235,657,977 | – |
| Increase (decrease) in advances from stockholders and related parties | **(166,103,243)** | 365,438,191 | 160,800,732 |
| Cash from merger with Teresa Crew Gold (Philippines), Inc. | **134,360** | – | – |
| Net cash flows from financing activities | **674,040,650** | 601,096,168 | 160,800,732 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **6,603,705** | 43,309,274 | 2,859,044 |
| **EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS** | **(7,230,613)** | (7,618,650) | (1,835,733) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **53,550,286** | 17,859,662 | 16,836,351 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱52,923,378** | ₱53,550,286 | ₱17,859,662 |

*See accompanying Notes to Financial Statements.*

## 1. Corporate Information

Company Background

Apex Mining Co., Inc. (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 26, 1970, primarily to carry on the business of mining, milling, concentrating, converting, smelting, treating, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in gold, silver, copper, lead, zinc brass, iron, steel and all kinds of ores, metals and minerals.

The Company currently operates the Maco Mines in Maco, Compostela Valley.

On March 7, 1974, the Company listed its shares in the Philippine Stock Exchange (PSE) and attained status of being a public company on the same date. The Company is considered a public company under Rule 3.1 of the Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public corporation as any corporation with assets of at least ₱50.00 million and having 200 or more stockholders, each of which holds at least 100 shares of its equity securities.

The Company's track record information is shown as follows:

| SEC order rendered effective or permitted to sell | Event | Authorized capital stock balance | Issued shares | Issue/offer price |
|---|---|---|---|---|
| August 4, 1988 | Stock dividend declaration | ₱150 million | *– | ₱0.01 |
| August 31, 1988 | Increase in authorized capital stock | 300 million | – | – |
| April 26, 1989 | Pre-emptive rights offering | 300 million | 9.39 billion | 0.01 |
| June 28, 2000 | Increase in authorized capital stock | 800 million | – | – |
| October 18, 2000 | Debt-to-equity conversion transaction | 800 million | 459.54 million | 1.00 |
| September 10, 2010 | Increase in authorized capital stock | 2.8 billion | – | – |
| October 13, 2010 | Debt-to-equity conversion transaction | 2.8 billion | 560.94 million | 1.00 |
| November 14, 2011 | Issuance of additional shares | 2.8 billion | 73.34 million | 3.50 |
| January 26, 2012 | Issuance of additional shares | 2.8 billion | 75.56 million | 3.70 |
| July 13, 2012 | Issuance of additional shares | 2.8 billion | 198.05 million | 4.40 |

**The Company has no records on the number of issued shares for the transaction.*

As at December 31, 2012 and 2011, the Company has 2,535 and 2,838 stockholders, respectively, each holding at least 100 shares.

The Company's ownership structure as at December 31, 2012 and 2011 is as follows (in percentage):

| | Country of Incorporation | 2012 | 2011 |
|---|---|---|---|
| Mapula Creek Gold Corporation (MCGC) | Philippines | **43.57** | 49.45 |
| Mindanao Gold Ltd. (MGL) | Malaysia | **30.62** | 31.47 |
| Monte Oro Resources & Energy, Inc. (MOREI) | Philippines | **11.61** | 5.00 |
| Public ownership | – | **14.20** | 14.08 |

As at December 31, 2012 and 2011, MGL owns 40% of MCGC, while Abracadabra Speculative Ventures, Inc. (ASVI), the ultimate parent company organized and incorporated in Malaysia and prepares its financial statements in compliance with International Financial Reporting Standards, owns 100% of MGL.

The Company's registered business address and principal office is at Unit 1704, 17/F Prestige Tower Condominium F. Ortigas Jr. Road, Ortigas Center, Pasig City. The Company has 1023 and 1,052 employees as at December 31, 2012 and 2011, respectively.

Merger with Teresa Crew Gold (Philippines), Inc. (TCGPI)
Pursuant to Sections 76 to 80 of the Corporation Code of the Philippines, the Board of Directors (BOD) and stockholders of the Company and TCGPI (collectively referred to as "Constituent Corporations") at a meeting held on September 1, 2011 and August 1, 2011 of the BOD of the Company and TCGPI, respectively, and at a meeting held on October 6, 2011 and September 15, 2011 of the stockholders of the Company and TCGPI, respectively, approved the Plan of Merger (the Merger) of the Constituent Corporations, the Company being the surviving corporation and TCGPI being the absorbed Corporation.

On December 1, 2011, the SEC approved the Articles of the Merger. As indicated in the Articles of the Merger, the merger will be effective on the first day of the month immediately following the month in which approval for the Merger is obtained from the SEC, thus the merger will be effective beginning January 1, 2012 (the "Effectivity of the Merger").

The merger is considered a business reorganization since the transaction involved companies under common control. Accordingly, the merger was accounted for at historical cost in a manner similar to the pooling of interests method and will be effected prospectively in the financial statements of the Company, as elected by management.

Below is the proforma statement of financial position of the merged Constituent Corporations as at December 31, 2011:

| | Company | TCGPI | Eliminating Entries | Combined |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash | ₱53,550,286 | ₱134,360 | ₱– | ₱53,684,646 |
| Receivables | 407,376,223 | 383,684,277 | (383,684,277) | 407,376,223 |
| Inventories | 350,054,504 | – | – | 350,054,504 |
| Due from related parties | – | 99,158,396 | (99,158,396) | – |
| Prepayments and other current assets | 68,846,332 | 25,044,919 | – | 93,891,251 |
| **Total Current Assets** | 879,827,345 | 508,021,952 | (482,842,673) | 905,006,624 |
| **Noncurrent Assets** | | | | |
| Property, plant and equipment | 579,316,307 | 3,325,156 | 63,294,818 | 645,936,281 |
| Investment properties | – | 63,294,818 | (63,294,818) | – |
| Deferred exploration and mine development costs | 530,156,205 | – | – | 530,156,205 |
| Mine and mining properties | 774,453,464 | – | – | 774,453,464 |
| Other noncurrent assets | 49,877,351 | 35,290,281 | – | 85,167,632 |
| **Total Noncurrent Assets** | 1,933,803,327 | 101,910,255 | – | 2,035,713,582 |
| **TOTAL ASSETS** | ₱2,813,630,672 | ₱609,932,207 | (₱482,842,673) | ₱2,940,720,206 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Trade and other payables | ₱654,759,259 | ₱1,138,790 | (₱383,684,277) | ₱272,213,772 |
| Advances from stockholders and related parties | 855,047,855 | 262,026,291 | (99,158,396) | 1,017,915,750 |
| **Total Current Liabilities** | 1,509,807,114 | 263,165,081 | (482,842,673) | 1,290,129,522 |
| **Noncurrent Liabilities** | | | | |
| Accrued retirement benefits | 31,313,497 | – | – | 31,313,497 |
| Provision for mine rehabilitation cost | 66,811,963 | – | – | 66,811,963 |
| Deferred income tax liabilities | 35,995,557 | 17,206,365 | – | 53,201,922 |
| **Total Noncurrent Liabilities** | 134,121,017 | 17,206,365 | – | 151,327,382 |
| **Equity** | | | | |
| Capital stock | 1,390,955,655 | 10,620,000 | 64,940,771 | 1,466,516,426 |
| Additional paid-in capital | 1,665,701,307 | 1,494,823,448 | (1,240,823,458) | 1,919,701,297 |
| Revaluation surplus on property, plant and equipment | 80,514,893 | – | – | 80,514,893 |
| Deficit | (1,967,469,314) | (1,175,882,687) | 1,175,882,687 | (1,967,469,314) |
| **Total Equity** | 1,169,702,541 | 329,560,761 | – | 1,499,263,302 |
| **TOTAL LIABILITIES AND EQUITY** | ₱2,813,630,672 | ₱609,932,207 | (₱482,842,673) | ₱2,940,720,206 |

Following is the proforma statement of income of the Constituent Corporations for the year ended December 31, 2011:

| | Company | TCGPI | Eliminating Entries | Combined |
|---|---|---|---|---|
| Revenue | ₱2,038,572,699 | ₱305,785,905 | (₱305,785,905) | ₱2,038,572,699 |
| Cost and expenses | 2,133,656,367 | 123,164,121 | (305,785,905) | 1,951,034,583 |
| Net income (loss) | (39,786,453) | 127,837,854 | – | 88,051,401 |

Operations
On December 22, 2005, the Mines and Geosciences Bureau (MGB) approved the Company's Mineral Production Sharing Agreement (MPSA) covering 679.02 hectares situated in Maco, Compostela Valley. On June 25, 2007, MGB approved the Company's second MPSA covering an additional 1,558.50 hectares near the same area.

On July 11, 2008, the Company was registered with the Board of Investments (BOI) as a new producer of gold, silver bullion, copper concentrates with gold, silver, zinc and lead values on a non-pioneer status under the 1987 Omnibus Investment Code. Under this registration, the Company is entitled to certain fiscal and non-fiscal incentives including four (4) year income tax holiday (ITH) from start of commercial operations or registration with the BOI, whichever comes first, which can be further extended for another three (3) years subject to compliance with certain conditions, simplified customs procedures, additional deduction for labor expense, and unrestricted use of consigned equipment for a period of ten (10) years. The Company is required to maintain a base equity of at least 25% upon start of commercial operations as one of the conditions of the registration. On January 1, 2009, the Company commenced commercial operations after achieving target production volume requirements. As at December 31, 2012 and 2011, the Company is compliant with the provisions specified in its registration.

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 operations since the operating subsidiaries and mines are covered by existing 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 Company's mineral properties covered by Exploration Permits, Exploration Permit Application or Application for Production Sharing Agreements 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.

Approval of the Financial Statements
The accompanying financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issuance by the Company's BOD on March 21, 2013.

## 2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The financial statements of the Company have been prepared on a historical cost basis, except for property, plant and equipment, which are carried at revalued amounts. The financial statements are presented in Philippine peso, the Company's functional and presentation currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations which were adopted as at January 1, 2012.

- PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
  The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendment)
  The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a "sale" basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ("use" basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The adoption of the amendments did not have any impact on the Company's financial position or performance.

Standards Issued But Not Yet Effective

The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards and interpretations to have a significant impact on its financial statements.

*Effective in 2013:*

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)
  The amendments are effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in OCI. Items that would be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items of OCI are classified through profit or loss in the future periods. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- PAS 19, *Employee Benefits* (Revised)
  The revised standard is effective for annual periods beginning on or after January 1, 2013. The revised standard includes a number of amendments that 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. Once effective, the Company has to apply the amendments retroactively to the earliest period presented.

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

  The effects of the revisions to the statements of financial position are presented below:

| | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|
| Increase (decrease) in: | | |
| Accrued retirement benefits | ₱9,468,127 | (₱630,075) |
| Unrecognized deferred income tax asset | 2,840,438 | (189,023) |
| Other comprehensive income | (10,372,943) | 2,913,867 |
| Retained earnings | 274,741 | 532,146 |

  The effects of the revisions to the 2012 statement of comprehensive income are presented below:

| | |
|---|---|
| Increase (decrease) in: | |
| Retirement benefits costs | (₱274,741) |
| Net income | 274,741 |

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statement* 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 separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, 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.

- PFRS 7, *Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities* (Amendments)
  The amendments require 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 statement of financial position;
  c) The net amounts presented in the statement 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 amendments to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  This standard is effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, which addresses the accounting for consolidated financial statements. It also addresses the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities*, resulting to SIC being withdrawn. 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 new standard will be applied retrospectively.

- PFRS 11, *Joint Arrangements*
  This standard is effective for annual periods beginning on or after January 1, 2013. 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.

- PFRS 12, *Disclosure of Interests in Other Entities*
  This standard is effective for annual periods beginning on or after January 1, 2013. 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 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 adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement*
  This standard is effective for annual periods beginning on or after January 1, 2013. 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 Company does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation becomes effective for annual periods beginning on or after January 1, 2013 and applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Company.

*Annual Improvements to PFRSs (2009-2011 cycles)*

These amendments to the standards 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 will not have any significant impact on the Company's financial position or performance.

- 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 Company'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 Company'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 Company 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 Company's financial position or performance.

*Effective in 2014:*

- PAS 32, *Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities*
This standard is effective for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify 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 amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be applied retrospectively.

*Effective in 2015:*

- PFRS 9, *Financial Instruments*
  This standard is effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement* and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. 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 (FVPL). All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. 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 Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

*Deferred Effectivity:*

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

The revised, amended and additional disclosure or accounting changes provided by the standards and interpretations will be included in the financial statements of the Company in the year of adoption, if applicable.

<u>Summary of Significant Accounting and Financial Reporting Policies</u>

<u>Presentation of Financial Statements</u>
The Company has elected to present all items of recognized income and expense in one single statement of comprehensive income.

<u>Cash and Cash Equivalents</u>
Cash consists of cash on hand and demandable deposits in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of acquisition and are subject to an insignificant risk of change in value.

Financial Instruments

*Date of Recognition*

The Company recognizes a financial asset or a financial liability in the 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 a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date (i.e., the date that an asset is delivered to or by an entity).

*Initial Recognition and Measurement of Financial Instruments*

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and loans and borrowings.

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

The Company's financial assets are in the nature of loans and receivables, while its financial liabilities are in the nature of loans and borrowings. The Company has no financial assets and financial liabilities classified as FVPL, HTM and AFS investments as at December 31, 2012 and 2011.

*Subsequent Measurement*

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

*Loans and Receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading or designated as AFS investments or financial assets at FVPL.

After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization and losses arising from impairment are recognized in other income (charges) in the statement of comprehensive income.

Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's cash and cash equivalents, receivables and advances to a related party are classified as loans and receivables (see Note 24).

*Loans and Borrowings*
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Loans and borrowings are subsequently measured at amortized cost using the EIR 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 other income (charges) in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Loans and borrowings are classified as current when it is expected to be settled within twelve (12) months after the end of the reporting period if the Company does not have an unconditional right to defer settlement for at least twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent liabilities.

The Company's loans and borrowings include trade and other payables (excluding balances payable to government agencies arising from withholding taxes and payroll deductions), and advances from stockholders and related parties (see Note 24).

Impairment of Financial Assets Carried at Amortized Cost
An assessment is made at each reporting period to determine whether there is objective evidence that a specific financial asset may be impaired.

The Company 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. Evidence of impairment may include indications that the borrower is experiencing significant difficulty, default or delinquency in 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.

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 a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost 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 (excluding future credit losses that have not been incurred) discounted at the financial assets' original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.

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 statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal period.

With respect to receivables, the Company maintains a provision for impairment losses of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. If a future write off is later recovered, the recovery is recognized in the statement of comprehensive income.

Derecognition of Financial Assets and 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 Company 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 Company has transferred its rights to receive cash 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 the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset 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 Company'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 Company could be required to repay.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

*Financial Liabilities*

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

When 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 of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the statement of comprehensive income.

Determination of Fair Values of Financial Instruments

The fair value of financial instruments that are actively traded in active markets is determined by reference to quoted market close prices at the close of business on the end of the financial reporting period.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar financial instruments for which market observable prices and discounted cash flow analysis or other valuation models exists.

Financial instruments recognized at fair value are measured based on:

- Level 1 - Quoted prices in active markets for an identical asset or liability
- Level 2 - Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 - Those with inputs for asset or liability that are not based on observable market data (unobservable inputs)

When fair values of listed equity and debt securities as well as publicly traded derivatives at the end of the financial reporting period are based on quoted market prices or binding dealer price quotations without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation technique. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models and other relevant valuation model. For these financial instruments, inputs into models are market observable and are therefore included within Level 2.

Instruments included in Level 3 include those for which there is currently no active market.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 25.

Offsetting of Financial Instruments
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Accounting for Common Control Business Combinations Using the Pooling of Interest Method
Business combinations involving entities or entities under common control with no consideration transferred are accounted for using the pooling of interest method. The entity has a choice of two approaches for its accounting policy which it must consistently apply.

a. Restate the financial information in the financial statements of the receiving entity, the surviving entity in the business combination, for periods prior to the combination under common control, to reflect the combination as if it had occurred from the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination, with due consideration to the period that the entities commenced being under common control.
b. No restatement of financial information in the financial statements of the receiving entity for periods prior to the combination under common control.

The Company's management elected to apply choice (b) as its policy in accounting for the business combination with TCGPI and would involve the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, that would otherwise be done under the purchase method or acquisition method. The only adjustments that are made are to harmonize accounting policies;
- No new goodwill is recognized as a result of the combination; the only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity; and
- The surviving entity's statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.

Inventories

Inventories, which consist of gold and silver bullion, metal in circuit, ore stockpile, materials and supplies used in the Company's operations, are physically measured or estimated and valued at the lower of cost and net realizable value (NRV). NRV is the estimated future sales price of the product that the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Cost of gold and silver bullion, metal in circuit and ore stockpile are determined using the first-in first-out method while cost of materials and supplies on hand are determined using a moving average.

Any provision for obsolescence is determined by reference to specific items of inventory. A regular review is undertaken to determine the extent of any provision for obsolescence.

Prepayments and Other Current Assets

Prepayments are expenses paid in advance and recorded as asset before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expenses either with the passage of time or through use or consumption.

Input taxes, which represent value-added tax (VAT) arising from purchases of goods and services, are carried at cost and included as part of "Prepayment and other current assets" in the statement of financial position. These may either be applied against future output tax liabilities or claimed for tax credit or refund. The Company conducts regular assessment on the recoverability of the account balance depending on how these are to be utilized. The amount of the loss is measured as the difference between the recoverable amount and the carrying amount of the asset. Impairment loss is recognized in the profit or loss as the difference between the asset's carrying amount and estimated recoverable value, and the carrying amount of the asset is reduced through the use of an allowance account.

Property Plant and Equipment

Following initial recognition at cost, property, plant and equipment is carried at revalued amounts, which represent the fair value at date of revaluation less any subsequent accumulated depreciation, depletion and impairment losses, if any.

The initial cost of property, plant and equipment comprises its purchase price or construction cost, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. All other repairs and maintenance are charged to current operations during the financial period in which they are incurred.

Valuations are performed frequently enough to ensure that the fair value of a revalued property, plant and equipment does not significantly differ from its carrying amount. Any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. The increase of the carrying amount of an asset as a result of a revaluation is credited directly to other comprehensive income, unless it reverses a revaluation decrease previously recognized as an expense, in which case it is credited in profit or loss. A revaluation decrease is charged directly against any related revaluation surplus, with any excess being recognized as an expense in the profit or loss.

Deferred income tax is provided on the temporary difference between the carrying amount of the revalued property, plant and equipment and its tax base. Any taxable temporary differences reflects the tax consequences that would follow from the recovery of the carrying amount of the asset through sale (non-depreciable assets) and through use (depreciable assets), using the applicable tax rate.

Each year, the Company transfers from revaluation surplus reserve to retained earnings the amount corresponding to the difference, net of tax, between the depreciation charges calculated based on the revalued amounts and the depreciation charge based on the assets' historical costs.

Construction in-progress is stated at cost, which includes cost of construction equipment and other direct costs less any impairment in value. Construction in-progress is not depreciated nor depleted until such time as the relevant assets are completed and put into operational use.

Gains and losses on disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit or loss. On disposal of the revalued asset, the relevant revaluation surplus included in the reserve account is transferred directly to retained earnings.

The Company's future retained earnings is restricted to the extent of the revaluation surplus recognized in equity.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| Type of Asset | Estimated Useful Life in Years |
|---|---|
| Building and improvements | 5 to 20 |
| Mining and milling equipment | 3 to 5 |
| Power equipment | 3 to 5 |
| Roads and bridges and land improvements | 5 to 10 |
| Exploration equipment and others | 3 to 5 |

The assets' residual values, estimated recoverable reserves and useful lives are reviewed and adjusted if appropriate at each reporting date.

Property, plant and equipment are depreciated or depleted from the moment of the asset's availability for use and after the risks and rewards are transferred to the Company. Depreciation and depletion ceases when the assets are fully depreciated or depleted, or at the earlier of the period that the item is classified as held for sale (or included in the disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the period the item is derecognized.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Deferred Exploration and Mine Development Costs

*Deferred Exploration Costs*

Expenditures for mine exploration work prior to drilling are charged to the statement of comprehensive income. Deferred exploration costs represent capitalized expenditures related to the acquisition and exploration of mining properties, including acquisition of property rights, are capitalized and stated at cost and are accumulated in respect of each identifiable area of interest, less any impairment in value.

The Company classifies deferred exploration costs as tangible or intangible according to the nature of the asset acquired or cost incurred and applies the classification consistently. Certain deferred exploration costs are treated as intangible (e.g., license and legal fees), whereas others are tangible (e.g., submersible pumps). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset.

Capitalized amounts may be written down if future cash flows, including potential sales proceeds related to the property, are projected to be less than the carrying value of the property. If no mineable ore body is discovered, capitalized acquisition costs are expensed in the period in which it is determined that the mineral property has no future economic value.

*Mine Development Costs*

When it has been established that a mineral deposit is commercially mineable, development sanctioned, and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), amounts previously carried under deferred exploration costs are tested for impairment and transferred to mine development costs.

Subsequent expenditures incurred to develop a mine on the property prior to the start of mining operations are stated at cost and are capitalized to the extent that these are directly attributable to an area of interest or those that can be reasonably allocated to an area of interest, which may include costs directly related to bringing assets to the location and condition for intended use and costs incurred, net of any revenue generated during the commissioning period, less any impairment in value. These costs are capitalized until assets are already available for use or when the Company has already achieved commercial levels of production at which time, these costs are moved to mine and mining properties.

Commercial production is deemed to have commenced when management determines that the completion of operational commissioning of major mine and plant components is completed, operating results are being achieved consistently for a period of time and that there are indicators that these operating results will be continued.

No depreciation or depletion is charged during the mine exploration or development phase.

Mine and Mining Properties

Upon start of commercial operations, mine development costs are capitalized as part of mine and mining properties and presented as a separate line item in the statement of financial position. These costs are subject to depletion, which is computed using the units-of-production method based on proven and probable reserves. Mine and mining properties include the initial estimate of provision for mine and rehabilitation and decommissioning.

Development costs, including construction in-progress incurred on an already operating mine area, are stated at cost and included as part of mine and mining properties. These pertain to expenditures incurred in sourcing new resources and converting them to reserves, which are not depleted or amortized until such time as these are completed and become available for use.

The carrying value of mine and mining properties transferred from mine development costs represents total expenditures incurred to date on the area of interest, net of gross margin from saleable material recognized during the pre-commercial production period, if any.

Deduction is only appropriate if it can clearly be shown that the production of the saleable material is directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

Intangible Assets

Intangible assets, which consist of acquired computer software licenses and other licenses, are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over their estimated useful lives of three (3) years. These are included as part of "Other noncurrent assets" in the statement of financial position.

Impairment of Nonfinancial Assets

*Property, Plant and Equipment and Other Noncurrent Assets*

The Company assesses at each reporting date whether there is an indication that property, plant and equipment and other noncurrent assets may be impaired when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication exists and if the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at 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 useful life.

*Deferred Exploration and Mine Development Costs*
An impairment review is performed when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the reporting period in which this is determined. Deferred exploration and mine development costs are carried forward provided that at least one of the following indicators is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation and development activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Retirement Benefits
The Company has a funded, noncontributory defined benefit retirement plan which is actuarially determined using the projected unit credit actuarial valuation method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized. If such aggregate is negative, the asset is 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.

Retirement cost comprise of current service cost, interest cost and amortization of actuarial gains and losses less the expected return on plan assets, if any.

The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefits liability.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting period exceeded ten percent (10%) of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that period. The excess actuarial gains and losses are recognized over the average remaining working life of employees participating in that plan in the statement of comprehensive income.

Provisions

*General*

Provisions are recognized when the Company 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. Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance expense in the statement of comprehensive income.

*Provision for Mine Rehabilitation and Decommissioning*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, 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 installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and provision for mine rehabilitation and decommissioning when they occur.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded using the prevailing exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated at the closing exchange rate at the end of the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Equity

Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Subscriptions receivable pertains to the amount owed from investors. Subscriptions receivable is classified as an asset when payment of the full amount is expected to be made in the near term, normally the Company's normal operating cycle. Otherwise, the amount is presented as a deduction from capital stock.

Deficit represents the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Dividends are recognized as a liability and deducted from equity when they are approved by the BOD of the Company. Dividends for the period that are approved after the end of the reporting period are dealt with as an event after the reporting period.

Earnings (Loss) Per Share

*Basic*

Basic earnings (loss) per share is calculated by dividing the net loss attributable to ordinary stockholders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Company and held as treasury shares.

*Diluted*

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive common shares during the period.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Gold and Silver*

Revenue is recognized when the risk and reward of ownership has passed from the Company to an external party and the selling price can be determined with reasonable accuracy. Revenue is measured at the fair value of the consideration received.

*Interest Income*

Income is recognized as the interest accrues using the EIR method.

Costs and expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized in statement of comprehensive income in the period these are incurred.

Leases

*Determination of Whether an Arrangement Contains a Lease*

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the period when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the period of renewal or extension period for scenario (b).

*Operating Lease*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of comprehensive income on a straight-line basis over the lease terms.

Income Taxes

*Current Income Tax*

Current tax liabilities for the current and prior year periods are measured at the amount expected to be paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as of the financial reporting date.

*Deferred Income Tax*

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the reporting 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 and carryforward benefits of unused net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and unused NOLCO and excess of MCIT over RCIT can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income 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 the future taxable income will allow the deferred tax asset to be recovered. Deferred income tax assets are measured at the tax rate that is expected to apply to the period when the asset is realized based on tax rate and tax laws that has been enacted or substantively enacted as at the reporting date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions. Management looks at the Company as one business segment operating in one geographical area.

Contingencies

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

Events after the Reporting Period

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

## 3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. However, actual outcome can differ from these estimates.

<u>Judgments</u>
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those including estimations and assumptions, which have the most significant effect on the amount recognized in the Company's financial statements.

*Determination of Functional Currency*
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates and is the currency in which payments for majority of expenses are made.

*Assessment Whether an Agreement is a Finance or Operating Lease*
Management assesses at the inception of the lease whether an arrangement is a finance or operating lease based on who bears substantially all the risk and benefits incidental to the ownership of the leased item. Based on management's assessment, the risk and rewards of owning the items leased by the Company are retained by the lessor and therefore accounts for such lease as operating lease.

*Operating Lease - Company as a Lessee*
The Company has entered into several contracts of lease and has determined that the lessors retain all the significant risks and rewards of ownership of these properties. The leases were therefore, accounted for as operating leases. In determining significant risks and rewards of ownership, the Company considered, among others, the significance of the lease term as compared with the estimated life of the related assets.

Operating leases of the Company are related to leases of mining and milling equipment, transportation vehicles and others that are normally accounted for on either on a per usage basis.

*Determination of Accounting Policy on Common Control Business Combinations*
The Company and TCGPI, companies under common control of ASVI, formed an agreement to enter into a business combination (see Note 1). The Merger, once effective, will result in the continuation of existence of Company and cease for TCGPI. Applying the provisions of IFRS 3, *Business Combinations*, and PAS 27, *Consolidated and Separate Financial Statements*, management determined the pooling of interest method of accounting instead of the acquisition or purchase method is to be applied in the circumstance. Moreover, the business combination is a combination with no substance as it is merely a continuation of the existing subgroup comprising of the Company's and TCGPI's activities.

Based on these facts, management of the Company concluded that it does not have to restate the financial statements of the Company upon effectivity of the Merger and will carry TCGPI's assets and liabilities at carrying amount, and TCGPI's statement of income for the full year, irrespective of when the combination took place.

*Assessment of Capitalized Deferred Exploration and Mine Development Costs*
The application of the Company's accounting policy for exploration and mine development costs requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and mine development expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available. Deferred exploration and mine development costs amounted to ₱965.58 million and ₱530.16 million as at December 31, 2012 and 2011, respectively (see Note 9).

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

*Estimation of Allowance for Doubtful Accounts on Receivables and Advances to a Related Party*
If the Company assessed that there is objective evidence that an impairment loss has been incurred in the receivables and advances to a related party account, the Company estimates the related allowance for doubtful accounts that are specifically identified as doubtful of collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. In these cases, the Company uses judgment based on the best available facts and circumstances, including but not limited to, the length of its relationship with the customer and the customer's credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce the receivables to amounts that the Company expects to collect. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

The allowance for doubtful accounts as at December 31, 2012 and 2011 represents the amounts estimated to be uncollectible from advances to officers and employees carried under receivables amounting to ₱2.33 million in both years (see Note 5). No provision for impairment losses were made in 2012 and 2011 on trade and other receivables and advances to a related party as management believes that these will be recovered within the terms established with the debtor.

As at December 31, 2012 and 2011, the carrying values of receivables amounted to ₱617.69 million and ₱407.38 million, respectively (see Note 5), while the carrying values of advances to a related party amounted to ₱34.74 million and nil, respectively (see Note 13).

*Estimation of Allowance for Inventory Losses and Obsolescence*
The Company maintains allowance for inventory losses and obsolescence at a level considered adequate to reflect the excess of cost of inventories over their NRV. NRV of inventories are assessed regularly based on prevailing estimated selling prices of inventories and the corresponding cost of disposal. Increase in the NRV of inventories will increase cost of inventories but only to the extent of their original acquisition costs.

Provision for inventory losses and obsolescence amounting to nil, ₱15.17 million and nil in 2012, 2011 and 2010, respectively, was made on material supplies and inventory. As at December 31, 2012 and 2011, the carrying amounts of inventories amounted to ₱598.51 million and ₱350.05 million, respectively, net of allowance for inventory losses and obsolescence of ₱15.17 million in both years (see Note 6).

*Assessment of the Realizability of Input VAT*
The Company assesses the realizability of input VAT based on the Company's ability to utilize the input VAT. A review to determine the realizability of the asset is made by the Company on a continuing basis year on year.

The carrying value of input VAT amounted to ₱94.66 million and ₱53.70 million as at December 31, 2012 and 2011, respectively, and is included under "Prepayments and other current assets" account in the statement of financial position (see Note 7).

*Estimation of Fair Value, Useful Lives and Residual Values of Property, Plant and Equipment*
The Company estimates the fair value, useful lives and residual values of property, plant and equipment based on the results of assessment of independent appraisers. Fair value and estimated useful lives of the property, plant and equipment are reviewed periodically and are 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. Management does not expect carrying amounts of property, plant and equipment as at December 31, 2012 and 2011 to materially vary in the succeeding year as the most recent revaluation adjustment was only recognized in 2010 based on appraisal report dated January 25, 2010 covering all of the Company's property, plant and equipment.

There were no changes in the estimated fair values, useful lives and residual values of property, plant and equipment in 2012 and 2011. Remaining property, plant and equipment as at December 31, 2012 and 2011 are expected to be realized through continued use under the current mining plan with none identified subject for sale or disposal (see Note 8).

*Estimation of Depletion Rate*
Depletion rates used to amortize mine and mining properties and are assessed on an annual basis based on the results of latest estimate of recoverable reserves, which are subject to future revisions; hence, render any sensitivity as impracticable. The Company estimates its reserves in accordance with local regulatory guidelines provided under the Philippine Mineral Reporting Code and duly verified and reviewed by a competent person.

Depletion rates used to amortize mine and mining properties in 2012, 2011 and 2010 were 16%, 21% and 16%, respectively. Mine and mining properties, net of accumulated depletion, amounted to ₱662.20 million and ₱774.45 million as at December 31, 2012 and 2011, respectively (see Note 10).

*Estimation of Provision for Mine Rehabilitation and Decommissioning*
The Company assesses its provision for mine rehabilitation and decommissioning annually. Significant estimates and assumptions are made in determining the provision as there are numerous factors that will affect it. 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 the end of the reporting period represents management's best estimate of the present value of the future rehabilitation and other costs required. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability.

As at December 31, 2012 and 2011, the provision for mine rehabilitation and decommissioning amounted to ₱82.79 million and ₱66.81 million, respectively (see Note 15).

*Estimation of Recoverable Reserves*
Recoverable reserves were determined using various factors or parameters such as market price of metals and global economy. These are mineable reserves based on the current market condition. The estimated recoverable reserves are used in the calculation of depreciation, amortization, and testing of impairment, the assessment of life of the mine, stripping ratios and for forecasting the timing of the payment of mine rehabilitation costs. As at December 31, 2012 and 2011, the mine is expected to last until 2030.

*Estimation of Retirement Benefits*
The determination of the Company's retirement obligation and employee benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates and salary increase rates.

Actuarial gains and losses comprised of experience adjustments and changes in actuarial assumptions are appropriately considered in determining both present value of retirement obligation and fair value of plan assets. One or more of the actuarial assumptions may differ significantly and as a result, the actuarial present value of the retirement benefit obligation estimated at the reporting date may differ significantly from the amount reported.

Retirement benefits costs amounted to ₱12.54 million, ₱11.68 million and ₱10.04 million in 2012, 2011 and 2010, respectively. Accrued retirement benefits amounted to ₱43.92 million and ₱31.31 million as at December 31, 2012 and 2011, respectively (see Note 14).

*Estimation of Impairment of Nonfinancial Assets, including Deferred Exploration and Mine Development Costs, Property, Plant and Equipment, Mine and Mining Properties and Other Noncurrent Assets*
The Company evaluates whether deferred exploration and mine development costs, property and equipment, mine and mining properties and other noncurrent assets have suffered any impairment either annually or when circumstances indicate that related carrying amounts are no longer recoverable. The recoverable amounts of these assets have been determined based on either value in use or fair value, if said information is readily available.

Estimation of value in use requires the use of estimates on cost projections, gold and silver prices, foreign exchange rates and mineral reserves, which are determined based on approved mine plan, fluctuations in the market and assessment of either internal or third party geologists, who abide by certain methodologies that are generally accepted within the industry. Fair value is based on the results of assessment done by independent appraisers engaged by the Company. The approach utilizes prices recently paid for similar assets with adjustments made to the indicated market price to reflect condition and utility of the appraised assets relative to the market comparable.

Aggregate net book values of property, plant and equipment, deferred exploration and mine development costs, mine and mining properties and other noncurrent assets amounted to ₱2.60 billion and ₱1.93 billion as at December 31, 2012 and 2011, respectively (see Notes 8, 9, 10 and 11).

These are subjected to impairment testing when impairment indicators are present. The Company wrote-off deferred exploration and mine development cost in 2012, 2011 and 2010 amounting to nil, ₱37.20 million and nil, respectively. No impairment loss was recognized in 2012 and 2011 as there were no impairment indicators identified by management (see Note 20).

*Assessment of Realizability of Deferred Income Tax Assets*
The Company reviews the carrying amounts of deferred income taxes assets at each end of the reporting period and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Accordingly, the Company did not recognize deferred tax assets in respect of deductible temporary differences and unused tax losses, which are expected to be realized or expire within the ITH period (see Note 23).

*Estimation of Legal Contingencies*
The Company evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsel believe that the Company has substantial legal and factual bases for its position and are of the opinion that losses arising from these cases, if any, will not have material impact on the Company's financial statements. No provision for probable losses arising from these cases was recognized in the financial statements as at December 31, 2012 and 2011 (see Note 26).

*Determination of Fair Value of Financial Assets and Liabilities*
PFRS requires that certain financial instruments (including derivative instruments) be carried at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement are determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ using a different valuation methodology. Any change in the assumptions that could have an effect on the fair values of financial instruments (including derivative instruments) would directly affect the statement of comprehensive income and statement of changes in equity.

The fair values of financial instruments are disclosed in Note 25.

## 4. Cash and Cash Equivalents

| | **2012** | 2011 |
|---|---|---|
| Cash on hand | **₱2,550,322** | ₱977,228 |
| Cash in banks | **10,373,056** | 52,573,058 |
| Cash equivalents | **40,000,000** | – |
| | **₱52,923,378** | ₱53,550,286 |

Cash in banks earn interest at the respective bank deposit rates.

Cash equivalents pertain to short-term cash investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Company and earn interest at a rate of 4.13% per annum.

Interest income arising from cash in banks and cash equivalents, net of final tax, amounted to ₱2.42 million, ₱0.36 million and ₱0.07 million in 2012, 2011 and 2010, respectively (see Note 20).

The Company has United States (US) dollar-denominated cash and cash equivalents amounting to $0.1 million (equivalent to ₱5.26 million) and $0.1 million (equivalent to ₱5.12 million) as at December 31, 2012 and 2011, respectively (see Note 24).

## 5. Receivables

| | **2012** | 2011 |
|---|---|---|
| Trade receivables | **₱370,090,931** | ₱328,863,296 |
| Advances to suppliers and contractors | **242,388,503** | 76,212,707 |
| Others | **570,810** | 840,048 |
| | **613,050,244** | 405,916,051 |
| Advances to officers and employees | **6,964,864** | 3,790,042 |
| Less allowance for doubtful accounts | **2,329,870** | 2,329,870 |
| | **4,634,994** | 1,460,172 |
| | **₱617,685,238** | ₱407,376,223 |

Trade receivables are noninterest-bearing and are generally on thirty (30) to forty-five (45) days' terms.

Advances to suppliers and contractors comprise mainly of advance payments made by the Company relating to the services, materials and supplies needed for production and construction. These are noninterest-bearing and will be realized through offsetting with future billings from suppliers and contractors.

Advances to officers and employees pertain to business related cash advances that are subject to liquidation within the established terms and policies of the Company.

The Company's receivables consist mainly of individually significant accounts and were therefore subject to the specific impairment approach. Based on management's assessment of the collectibility of the accounts, the Company recognized allowance for impairment losses on advances to officers and employees considered as individually impaired. There were no movements in the allowance for doubtful accounts in 2012 and 2011.

## 6. Inventories

| | 2012 | 2011 |
|---|---|---|
| At NRV: | | |
| Materials and supplies | **₱561,025,665** | ₱311,590,281 |
| Allowance for inventory losses and obsolescence | **(15,172,592)** | (15,172,592) |
| | **545,853,073** | 296,417,689 |
| At cost: | | |
| Gold and silver in bullion | **39,880,313** | 41,698,005 |
| Metal in circuit | **12,778,043** | 11,209,009 |
| Ore stockpile | **–** | 729,801 |
| | **₱598,511,429** | ₱350,054,504 |

Cost of inventories recognized as part of cost of sales in 2012, 2011 and 2010 amounted to ₱489.65 million, ₱517.43 million and ₱289.06 million, respectively (see Note 18). There was no movement in the allowance for inventory losses and obsolescence in 2012 and 2011. The Company directly wrote off inventories amounting to nil, ₱0.10 million and ₱2.12 million in 2012, 2011 and 2010, respectively (see Note 20).

## 7. Prepayments and Other Current Assets

| | 2012 | 2011 |
|---|---|---|
| Input VAT | **₱94,658,359** | ₱53,699,432 |
| Creditable withholding taxes (CWT) | **24,933,054** | – |
| Prepayments | **9,356,823** | 13,150,986 |
| Others | **1,652,346** | 1,995,914 |
| | **₱130,600,582** | ₱68,846,332 |

CWT pertain to amounts withheld by the customers which can be applied against income tax payable provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. These pertain to CWT in the books of TCGPI prior to the Merger from amounts withheld by the Company in leasing out TCGPI's property. The Company directly wrote off input VAT amounting to nil, ₱72.97 million and nil in 2012, 2011 and 2010, respectively (see Note 20).

## 8. Property, Plant and Equipment

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Buildings and Improvements | Mining and Milling Equipment | Power Equipment | Roads and Bridges and Land Improvements | Exploration Equipment, and Others | Construction in-Progress | Total |
| **At revalued amounts:** | | | | | | | |
| **Balances at beginning of year** | ₱157,590,940 | ₱1,587,674,197 | ₱118,787,395 | ₱481,289,570 | ₱70,258,948 | ₱76,342,550 | ₱2,491,943,600 |
| **Additions** | – | 306,361,796 | 7,854,652 | 1,082,986 | 21,487,477 | 235,641,111 | 572,428,022 |
| **Change in estimate of provision for mine rehabilitation** (Note 15) | 502,711 | – | – | – | – | – | 502,711 |
| **Reclassification/transfer** | – | (4,889,732) | 5,294,732 | – | (405,000) | – | – |
| **Reclassifications to (from) construction in-progress** | 13,690,896 | 8,634,059 | – | 71,394,223 | – | (93,719,178) | – |
| **Reclassification from other noncurrent assets** (Note 11) | – | 30,741,574 | – | – | – | – | 30,741,574 |
| **Transfers from TCGPI** | 31,209,173 | 427,944,133 | 233,776,907 | – | 137,393,755 | – | 830,323,968 |
| **Disposals and write offs** | (11,376,119) | (131,953,380) | – | (37,496,264) | (8,935,774) | – | (189,761,537) |
| **Balances at end of year** | 191,617,601 | 2,224,512,647 | 365,713,686 | 516,270,515 | 219,799,406 | 218,264,483 | 3,736,178,338 |
| **Accumulated depreciation and amortization:** | | | | | | | |
| **Balances at beginning of year** | 97,052,632 | 1,303,395,488 | 85,570,823 | 239,244,988 | 24,689,151 | – | 1,749,953,082 |
| **Depreciation** (Note 21) | 17,132,718 | 176,926,595 | 20,423,581 | 20,274,126 | 28,219,627 | – | 262,976,647 |
| **Reclassification/transfer** | – | 405,000 | – | – | (405,000) | – | – |
| **Reclassification from other noncurrent assets** (Note 11) | – | 23,532,236 | – | – | – | – | 23,532,236 |
| **Transfers from TCGPI** | 29,920,625 | 374,848,832 | 228,809,685 | – | 130,124,852 | – | 763,703,994 |
| **Disposal and write offs** | (8,692,582) | (124,569,493) | – | (265,172) | (8,310,262) | – | (141,837,509) |
| **Balances at end of year** | 135,413,393 | 1,754,538,658 | 334,804,089 | 259,253,942 | 174,318,368 | – | 2,658,328,450 |
| **Accumulated impairment loss:** | | | | | | | |
| **Balances at beginning and end of year** | 126,037 | 3,318,744 | – | 159,229,430 | – | – | 162,674,211 |
| **Net book values** | ₱56,078,171 | ₱466,655,245 | ₱30,909,597 | ₱97,787,143 | ₱45,481,038 | ₱218,264,483 | ₱915,175,677 |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Buildings and Improvements | Mining and Milling Equipment | Power Equipment | Roads and Bridges and Land Improvements | Exploration Equipment, and Others | Construction in-Progress | Total |
| At revalued amounts: | | | | | | | |
| Balances at beginning of year | ₱139,473,619 | ₱1,379,902,534 | ₱87,725,759 | ₱435,185,530 | ₱30,520,229 | ₱45,274,918 | ₱2,118,082,589 |
| Additions | – | 152,574,730 | 26,746,032 | – | 40,315,400 | 138,314,739 | 357,950,901 |
| Change in estimate of provision for mine rehabilitation (Note 15) | (457,810) | – | – | – | – | – | (457,810) |
| Reclassification/transfer | – | 2,115,183 | (1,538,502) | – | (576,681) | – | – |
| Reclassifications to (from) construction in-progress | 18,629,448 | 26,997,551 | – | 46,104,040 | – | (91,731,039) | – |
| Reclassification to deferred exploration and mine development costs (Note 9) | – | – | – | – | – | (2,371,044) | (2,371,044) |
| Reclassification from other noncurrent assets | – | 32,692,569 | – | – | – | – | 32,692,569 |
| Reclassification from inventory | – | – | 5,854,106 | – | – | – | 5,854,106 |
| Transfers from TCGPI | – | 5,724,928 | – | – | – | – | 5,724,928 |
| Disposals and write offs | (54,317) | (12,333,298) | – | – | – | (13,145,024) | (25,532,639) |
| Balances at end of year | 157,590,940 | 1,587,674,197 | 118,787,395 | 481,289,570 | 70,258,948 | 76,342,550 | 2,491,943,600 |
| Accumulated depreciation and amortization: | | | | | | | |
| Balance at beginning of year | 83,768,440 | 1,143,785,782 | 79,838,118 | 219,329,962 | 10,320,267 | – | 1,537,042,569 |
| Depreciation (Note 21) | 13,284,192 | 136,745,257 | 5,903,632 | 19,915,026 | 14,400,919 | – | 190,249,026 |
| Reclassification/transfer | – | 202,962 | (170,927) | – | (32,035) | – | – |
| Reclassification from other noncurrent assets | – | 32,692,569 | – | – | – | – | 32,692,569 |
| Disposals | – | (10,031,082) | – | – | – | – | (10,031,082) |
| Balances at end of year | 97,052,632 | 1,303,395,488 | 85,570,823 | 239,244,988 | 24,689,151 | – | 1,749,953,082 |
| Accumulated impairment loss: | | | | | | | |
| Balances at beginning and end of year | 126,037 | 3,318,744 | – | 159,229,430 | – | – | 162,674,211 |
| Net book values | ₱60,412,271 | ₱280,959,965 | ₱33,216,572 | ₱82,815,152 | ₱45,569,797 | ₱76,342,550 | ₱579,316,307 |

In 2009, the Company revalued its property, plant and equipment based on estimated fair values as indicated in the independent appraiser's report dated January 25, 2010. Fair values were determined in terms of money at which the property would exchange in the current real estate market, between willing parties both having knowledge of all relevant facts. The assigned value was estimated using the market data approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as location, size and shape of the properties.

Accordingly, the Company recognized net increase of ₱86.03 million which was directly credited to the revaluation surplus, net of deferred taxes amounting to ₱25.81 million. Correspondingly, the Company recognized impairment loss amounting to ₱162.67 million on certain property and equipment, which represents difference between indicated fair values in the same appraisal report and carrying amounts as at reporting date.

Movement in revaluation surplus in equity is as follows:

| | **2012** | 2011 |
|---|---|---|
| Balances at beginning of year | **₱80,514,893** | ₱91,980,180 |
| Realized portion through depreciation, depletion and disposal, net of tax | **24,763,110** | 11,465,287 |
| Balance at end of year | **₱55,751,783** | ₱80,514,893 |

Total revaluation surplus is not available for distribution to stockholders.

If the property, plant and equipment were carried at cost less accumulated depreciation and accumulated impairment loss, the amounts would be as follows:

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Buildings and Improvements** | **Mining and Milling Equipment** | **Power Equipment** | **Roads and Bridges and Land Improvements** | **Exploration Equipment, and Others** | **Construction in-Progress** | **Total** |
| Cost: | | | | | | | |
| **Balances at beginning of year** | **₱47,222,942** | **₱645,664,014** | **₱60,305,183** | **₱420,215,779** | **₱70,570,372** | **₱76,342,549** | **₱1,320,320,839** |
| **Additions** | – | **306,361,796** | **7,854,652** | **1,082,986** | **21,487,477** | **235,641,111** | **572,428,022** |
| **Change in estimate of provision for mine rehabilitation** (Note 15) | **502,711** | – | – | – | – | – | **502,711** |
| **Reclassification/transfer** | – | **(4,889,732)** | **5,294,732** | – | **(405,000)** | – | – |
| **Reclassifications from (to) construction in-progress** | **13,690,896** | **8,634,059** | – | **71,394,223** | – | **(93,719,178)** | – |
| **Reclassification from other noncurrent assets** (Note 11) | – | **30,741,574** | – | – | – | – | **30,741,574** |
| **Transfer from TCGPI** | **31,209,173** | **427,944,133** | **233,776,907** | – | **137,393,756** | – | **830,323,969** |
| **Disposals and write offs** | **(11,376,119)** | **(124,569,493)** | – | **(37,496,264)** | **(8,935,775)** | – | **(182,377,651)** |
| **Balances at end of year** | **81,249,603** | **1,289,886,351** | **307,231,474** | **455,196,724** | **220,110,830** | **218,264,482** | **2,571,939,464** |
| **Accumulated Depreciation and Amortization:** | | | | | | | |
| **Balances at beginning of year** | **22,088,931** | **426,607,644** | **29,037,884** | **188,706,200** | **26,910,938** | – | **693,351,597** |
| **Depreciation** | **15,691,088** | **150,376,240** | **20,423,581** | **20,274,126** | **28,219,627** | – | **234,984,662** |
| **Reclassification/transfer** | – | **405,000** | – | – | **(405,000)** | – | – |
| **Reclassification from other noncurrent assets** (Note 11) | – | **23,532,236** | – | – | – | – | **23,532,236** |
| **Transfers from TCGPI** | **29,920,625** | **374,848,832** | **228,809,685** | – | **130,124,852** | – | **763,703,994** |
| **Disposals and write offs** | **(8,692,582)** | **(124,569,493)** | – | **(265,172)** | **(8,310,262)** | – | **(141,837,509)** |
| **Balances at end of year** | **59,008,062** | **851,200,459** | **278,271,150** | **208,715,154** | **176,540,155** | – | **1,573,734,980** |
| **Accumulated Impairment Loss:** | | | | | | | |
| **Balances at beginning and end of year** | **126,037** | **3,318,744** | – | **159,229,430** | – | – | **162,674,211** |
| **Net Book Values** | **₱22,115,504** | **₱435,367,148** | **₱28,960,324** | **₱87,252,140** | **₱43,570,675** | **₱218,264,482** | **₱835,530,273** |

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Buildings and Improvements | Mining and Milling Equipment | Power Equipment | Roads and Bridges and Land Improvements | Exploration Equipment, and Others | Construction in-Progress | Total |
| Cost: | | | | | | | |
| Balances at beginning of year | ₱29,105,621 | ₱437,892,351 | ₱29,243,547 | ₱374,111,739 | ₱30,831,653 | ₱45,274,918 | ₱946,459,829 |
| Additions | – | 152,574,730 | 26,746,032 | – | 40,315,400 | 138,314,738 | 357,950,900 |
| Change in estimate of provision for mine rehabilitation (Note 15) | (457,810) | – | – | – | – | – | (457,810) |
| Reclassification/transfer | – | 2,115,183 | (1,538,502) | – | (576,681) | – | – |
| Reclassifications from (to) construction in-progress | 18,629,448 | 26,997,551 | – | 46,104,040 | – | (91,731,039) | – |
| Reclassification to deferred exploration and mine development cost (Note 9) | – | – | – | – | – | (2,371,044) | (2,371,044) |
| Reclassification from other noncurrent assets (Note 11) | – | 32,692,569 | – | – | – | – | 32,692,569 |
| Reclassification from inventory | – | – | 5,854,106 | – | – | – | 5,854,106 |
| Transfer from TCGPI | – | 5,724,928 | – | – | – | – | 5,724,928 |
| Disposals and write offs | (54,317) | (12,333,298) | – | – | – | (13,145,024) | (25,532,639) |
| Balances at end of year | 47,222,942 | 645,664,014 | 60,305,183 | 420,215,779 | 70,570,372 | 76,342,549 | 1,320,320,839 |
| Accumulated Depreciation and Amortization: | | | | | | | |
| Balances at beginning of year | 10,264,167 | 280,592,819 | 23,387,783 | 169,402,377 | 13,172,920 | – | 496,820,066 |
| Depreciation | 11,824,764 | 123,150,377 | 5,821,028 | 19,303,823 | 13,770,053 | – | 173,870,045 |
| Reclassification/transfer | – | 202,962 | (170,927) | – | (32,035) | – | – |
| Reclassification from other noncurrent assets (Note 11) | – | 32,692,569 | – | – | – | – | 32,692,569 |
| Disposal write off | – | (10,031,083) | – | – | – | – | (10,031,083) |
| Balances at end of year | 22,088,931 | 426,607,644 | 29,037,884 | 188,706,200 | 26,910,938 | – | 693,351,597 |
| Accumulated Impairment Loss: | | | | | | | |
| Balances at beginning and end of year | 126,037 | 3,318,744 | – | 159,229,430 | – | – | 162,674,211 |
| Net Book Values | ₱25,007,974 | ₱215,737,626 | ₱31,267,299 | ₱72,280,149 | ₱43,659,434 | ₱76,342,549 | ₱464,295,031 |

The cost of fully depreciated property, plant and equipment that is still in use amounted to ₱1.36 billion and ₱402.74 million as at December 31, 2012 and 2011, respectively.

## 9. Deferred Exploration and Mine Development Costs

| | 2012 | 2011 |
|---|---|---|
| Exploration costs: | | |
| Balances at beginning of year | **₱258,089,262** | ₱71,818,450 |
| Additions | **218,404,190** | 186,270,812 |
| Balances at end of year | **476,493,452** | 258,089,262 |
| Development costs: | | |
| Balances at beginning of year | **272,066,943** | 90,062,001 |
| Additions | **217,024,350** | 220,832,843 |
| Transfer from property, plant and equipment (Note 8) | – | 2,371,044 |
| Reclassification to mine and mining properties (Note 10) | – | (4,002,663) |
| Write off (Note 20) | – | (37,196,282) |
| Balances at end of year | **489,091,293** | 272,066,943 |
| | **₱965,584,745** | ₱530,156,205 |

Deferred exploration costs consist of expenditures related to the exploration of additional veins discovered within the area. These costs include fees incurred in finalizing service contract for the development of the mines, advance payments made by the Company to local cooperatives and other direct costs related to explorations.

## 10. Mine and Mining Properties

| | 2012 | | |
|---|---|---|---|
| | **Mine and Mining Properties** | **Mine Rehabilitation Asset** | **Total** |
| **Cost:** | | | |
| **Balances at beginning of year** | **₱1,275,339,534** | **₱54,786,374** | **₱1,330,125,908** |
| **Effect of change in estimate** (Note 15) | **–** | **11,904,004** | **11,904,004** |
| **Balances at end of year** | **1,275,339,534** | **66,690,378** | **1,342,029,912** |
| **Accumulated depletion:** | | | |
| **Balances at beginning of year** | **539,375,522** | **16,296,922** | **555,672,444** |
| **Depletion** (Note 21) | **117,560,534** | **6,592,580** | **124,153,114** |
| **Balances at end of year** | **656,936,056** | **22,889,502** | **679,825,558** |
| **Net book values** | **₱618,403,478** | **₱43,800,876** | **₱662,204,354** |

| | 2011 | | |
|---|---|---|---|
| | Mine and Mining Properties | Mine Rehabilitation Asset | Total |
| Cost: | | | |
| Balances at beginning of year | ₱1,276,383,216 | ₱71,055,224 | ₱1,347,438,440 |
| Transfer from mine development costs (Note 9) | 4,002,663 | – | 4,002,663 |
| Reclassification | (5,046,345) | 5,046,345 | – |
| Effect of change in estimate | – | (17,114,128) | (17,114,128) |
| Adjustment | – | (4,201,067) | (4,201,067) |
| Balances at end of year | 1,275,339,534 | 54,786,374 | 1,330,125,908 |
| Accumulated depletion: | | | |
| Balances at beginning of year | 335,607,713 | 4,479,204 | 340,086,917 |
| Depletion for the year (Note 21) | 203,767,809 | 11,817,718 | 215,585,527 |
| Balances at end of year | 539,375,522 | 16,296,922 | 555,672,444 |
| Net book values | ₱735,964,012 | ₱38,489,452 | ₱774,453,464 |

Upon commencement of commercial operations on July 1, 2011 of the Bibak vein, the Company transferred accumulated mine development costs, including provision for reforestation costs, amounting to ₱4.00 million to mine and mining properties (see Note 9).

## 11. Other Noncurrent Assets

| | **2012** | 2011 |
|---|---|---|
| Intangible and idle assets | **₱33,361,151** | ₱26,769,115 |
| Deposits | **16,401,354** | 15,009,000 |
| Mine rehabilitation fund (Note 10) | **5,150,000** | 5,150,000 |
| National transmission lines | **2,949,236** | 2,949,236 |
| | **₱57,861,741** | ₱49,877,351 |

Intangible assets consist of software licenses and other licenses. Idle assets pertain to unused property such as furniture and fixture that is no longer in use. These idle properties may be transferred to property, plant and equipment once determined usable by the Company.

Movement of intangible assets for the years ended December 31, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| **Cost:** | | |
| Balances at beginning of year | **₱74,726,006** | ₱84,966,450 |
| Additions | **6,934,095** | 22,452,125 |
| Transfers from TCGPI | **73,657,086** | – |
| Reclassification to property, plant and equipment (Note 8) | **(30,741,574)** | (32,692,569) |
| Disposals | **(30,721,404)** | – |
| Balances at end of year | **93,854,209** | 74,726,006 |
| **Accumulated amortization:** | | |
| Balances at beginning of year | **47,956,891** | 76,572,162 |
| Amortization (Note 21) | **27,280,648** | 4,077,298 |
| Transfers from TCGPI | **39,509,159** | – |
| Reclassification to property, plant and equipment (Note 8) | **(23,532,236)** | (32,692,569) |
| Disposals | **(30,721,404)** | – |
| Balances at end of year | **60,493,058** | 47,956,891 |
| **Net book values** | **₱33,361,151** | ₱26,769,115 |

Deposits, which pertain to security deposits on leases of equipment, will be recovered through offsetting against final usage billings from lessors.

As at December 31, 2012 and 2011, the Company maintains contingent liability rehabilitation funds consisting of monitoring trust, rehabilitation cash, and environmental trust totaling ₱5.15 million in both years as provided in its agreements entered into with the provincial government and Mines and Geosciences Bureau (MGB). The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities affected by mining activities, pollution control, slope stabilization and integrated community development projects. These funds do not meet the features provided under Philippine Interpretation - IFRIC 5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.

## 12. Trade and Other Payables

| | 2012 | 2011 |
|---|---|---|
| Trade: | | |
| Third parties | **₱413,270,762** | ₱123,193,411 |
| TCGPI (Note 13) | – | 383,684,277 |
| Accrued liabilities | **185,144,284** | 107,733,963 |
| Payable to government agencies | **12,573,115** | 19,934,789 |
| Payable to employees | **11,300,709** | 13,454,191 |
| Retentions | **8,962,403** | 6,758,628 |
| Others | **6,248,643** | – |
| | **₱637,499,916** | ₱654,759,259 |

Trade payables and accrued liabilities and others are noninterest-bearing. Trade payables are payable on demand while accrued liabilities are generally settled in thirty (30) to sixty (60) days terms.

Included in accrued liabilities are penalties amounting to ₱33.77 million and nil as at December 31, 2012 and 2011, respectively, related to a final assessment from the Philippine Bureau of Internal Revenue (BIR) on its 2009 income tax return.

Payable to government agencies are normally remitted to various regulatory bodies within ten (10) days from the close of each taxable month.

Payable to employees pertain to accrued leave benefits that are monetized and given to employees upon separation from the Company, and unclaimed salaries and wages as of reporting date.

Retention payable pertains to withheld payment of service or product incurred pending the completion of some specified condition such as successful construction and installation of equipment. Settlement may vary depending on the remaining estimated time to complete the condition. Retention payable is noninterest-bearing.

## 13. Related Party Disclosures

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

In the normal course of business, transactions with related parties consist mainly of rendering of professional services, rentals, unsecured noninterest-bearing, short-term cash advances for working capital requirements of the Company, which are due and demandable.

| Category | Year | Volume/Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| Ultimate parent | | | | | |
| *ASVI* | | | | | |
| Advances to a related party | **2012**<br>2011 | **₱34,738,559**<br>₱– | **₱34,738,559**<br>₱– | Payable on demand, noninterest-bearing | Unsecured, no impairment, not guaranteed |
| | **2012** | | **₱34,738,559** | | |
| | 2011 | | ₱– | | |
| Advances from stockholders and related parties | **2012**<br>2011 | **₱–**<br>₱– | **₱–**<br>₱62,349,865 | Payable on demand, noninterest-bearing | Unsecured, not guaranteed |
| Stockholder | | | | | |
| *MGL* | | | | | |
| Advances from stockholders and related parties | **2012**<br>2011 | –<br>– | **668,090,429**<br>680,837,984 | Payable on demand, noninterest-bearing | Unsecured, not guaranteed |

*(Forward)*

| Category | Year | Volume/Amount | Outstanding Balance | Terms | Conditions |
|---|---|---|---|---|---|
| *MCGC* | | | | | |
| Advances from stockholders and related parties | **2012** | **₱151,332,703** | **₱169,124,638** | Payable on demand, noninterest-Bearing | Unsecured, not guaranteed |
| | 2011 | ₱– | ₱12,701,610 | | |
| Under common control *TCGPI* | | | | | |
| Advances from stockholders and related parties | **2012** | – | – | Payable on demand, noninterest-bearing | Unsecured, not guaranteed |
| | 2011 | – | 99,158,396 | | |
| | **2012** | | **₱837,215,067** | | |
| | 2011 | | ₱855,047,855 | | |
| Under common control *TCGPI* | | | | | |
| Trade payable (Note 12) | **2012** | **₱–** | **₱–** | Payable on demand, noninterest-bearing | Unsecured, not guaranteed |
| | 2011 | ₱305,785,905 | ₱383,684,277 | | |
| | **2012** | | **₱–** | | |
| | 2011 | | ₱383,684,277 | | |
| Under common control *TCGPI* | | | | | |
| Rent expense | **2012** | **₱–** | **₱–** | Payable on demand, noninterest-bearing | Unsecured, not guaranteed |
| | 2011 | ₱305,785,905 | ₱305,785,905 | | |
| | **2012** | | **₱–** | | |
| | 2011 | | ₱305,785,905 | | |

a. Advances to and from ASVI, which are noninterest-bearing and has no fixed repayment date, pertain to payment by the Company on behalf of ASVI for operational expenditure incurred during the year, as well as payment of prior year liabilities of the Company to ASVI relating to working capital advances made prior to commercial operation.
b. Advances from MGL and MCGC, which are noninterest-bearing and has no fixed repayment date, pertain to advances for working capital requirements of the Company, as well as assumed related party liabilities of TCGPI to MGL and MCGC as a result of the business combination.
c. Related party transactions of the Company with TCGPI pertain to rent and trade payables as a result of the MOA, and advances for working capital requirements in previous years.

On January 31, 2008, a memorandum of agreement (MOA) was entered into by the Company and TCGPI wherein the latter will cease milling operations and lease related assets to the former for a consideration equivalent to 15% of proceeds received from the Company's sale of ore, gold and silver bullion and its by-products. Consequently, approximately 422 employees were transferred from TCGPI to the Company without any break in the length of service that these employees earned while working for TCGPI. Rent expense recognized in 2012, 2011 and 2010 pertaining to the MOA amounted to nil, ₱305.79 million and ₱244.97 million, respectively.

As at December 31, 2011, the agreement is deemed effective until cancelled by both parties. The Merger, as discussed in Note 1, resulted in the automatic cancellation of the MOA as at January 1, 2012, the effective date of the Merger, as only one party to the MOA will survive the business combination.

On July 20, 2012, MGL and MCGC each entered into a Deed of Assignment with the Company for the assignment and conversion of the Company's debt to both related parties to equity amounting to ₱320.81 million and ₱164.09 million, respectively, in exchange for the issuance of ₱72.91 million Class "B" shares and ₱37.29 million Class "A" shares, respectively, which were approved by the BOD of all parties. The documents necessary for the approval of the debt-to-equity transaction were submitted to the SEC on March 15, 2013, and have not yet been approved as at March 21, 2013.

The Company considered as key management personnel all employees holding managerial positions up to the President. There were no stock options or other long-term benefits for key management personnel in 2012, 2011 and 2010. The following are the components of compensation of the Company's key management personnel in 2012, 2011 and 2010:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Salaries and short-term benefits | **₱68,709,410** | ₱66,517,542 | ₱38,837,557 |
| Post-retirement benefits | **3,767,928** | 4,109,405 | 2,409,528 |
| | **₱72,477,338** | ₱70,626,947 | ₱41,247,085 |

## 14. Retirement Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering all qualified officers and employees.

The following tables summarize the components of retirement benefits costs recognized in the Company's statements of comprehensive income and the accrued retirement benefits recognized in the Company's statements of financial position.

Retirement Benefits Cost

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current service cost | **₱10,129,224** | ₱9,343,755 | ₱8,724,439 |
| Interest cost | **3,105,861** | 2,872,832 | 1,430,027 |
| Expected return on plan assets | **(693,790)** | (659,929) | – |
| Amortization of actuarial gain | – | – | (243,039) |
| Net transition obligation recognized during the year | – | 128,270 | 128,271 |
| | **₱12,541,295** | ₱11,684,928 | ₱10,039,698 |

Accrued Retirement Benefits

| | **2012** | 2011 |
|---|---|---|
| Balance at beginning of year | **₱31,313,497** | ₱19,628,569 |
| Retirement benefits cost | **12,541,295** | 11,684,928 |
| Effect of the Merger | **65,137** | – |
| Balance at end of year | **₱43,919,929** | ₱31,313,497 |

Changes in the present value of the defined benefits obligation are as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of obligation at beginning of year | **₱44,496,569** | ₱35,643,079 |
| Current service cost | **10,129,224** | 9,343,755 |
| Interest cost | **3,105,861** | 2,872,832 |
| Actuarial loss (gain) due to: | | |
| Changes in assumption | **2,328,445** | (1,560,741) |
| Experience adjustments | **7,816,275** | (1,802,356) |
| Effect of the Merger | **190,452** | – |
| Present value of obligation at end of year | **₱68,066,826** | ₱44,496,569 |

Changes in the fair value of plan assets are as follows:

| | **2012** | 2011 |
|---|---|---|
| Fair value of plan assets at beginning of year | **₱13,813,147** | ₱13,198,572 |
| Expected return on plan assets | **693,790** | 659,929 |
| Actuarial loss (gain) due to experience adjustments | **46,518** | (45,354) |
| Effect of the Merger | **125,315** | – |
| Fair value of plan assets at end of year | **₱14,678,770** | ₱13,813,147 |

Actual return on plan assets in 2012, 2011 and 2010 amounted to ₱0.74 million, ₱0.61 million and ₱0.76 million, respectively.

Amounts for the current and previous years are as follows:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **₱68,066,826** | ₱44,496,569 | ₱35,643,079 | ₱15,836,402 | ₱21,508,157 |
| Fair value of plan assets | **14,678,770** | 13,813,147 | 13,198,572 | – | – |
| Unfunded status of defined benefit obligation | **53,388,056** | 30,683,422 | 22,444,507 | 15,836,402 | 21,508,157 |
| Actuarial gain (loss) on experience adjustments on: | | | | | |
| Defined benefit obligation | **(7,816,275)** | 1,802,356 | 2,430,346 | 7,934,049 | (16,593,223) |
| Plan assets | **(46,518)** | 45,354 | 762,553 | – | – |

The principal assumptions used in determining retirement obligations for the Company's plan for the years ended December 31, 2012, 2011and 2010 are shown below:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Discount rate | **6.62%** | 6.98% | 8.06% |
| Expected return on plan assets | **5.00%** | 5.00% | 5.00% |
| Future salary increase rate | **5.00%** | 5.00% | 5.00% |

The Company's retirement fund is being held by a trustee bank. The carrying amount and fair value of the retirement fund amounted to ₱14.14 million and ₱14.83 million, respectively, as at December 31, 2012, and ₱13.48 million and ₱14.08 million, respectively, as at December 31, 2011.

The retirement fund consists of investments in government securities, cash and short-term deposits, and unquoted equity securities which accounts for 72.42%, 19.01% and 10.61%, respectively, of the retirement fund.

The Company made no contributions to the fund in 2012 and 2011. There were no transactions made between the Company and the retirement fund in both years.

## 15. Provision for Mine Rehabilitation and Decommissioning

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | **₱66,811,963** | ₱80,296,912 |
| Accretion (Note 20) | **3,571,775** | 4,086,989 |
| Effect of change in estimate (Notes 8 and 10) | **12,406,715** | (17,571,938) |
| Balance at end of year | **₱82,790,453** | ₱66,811,963 |

The Company makes a full provision for the future cost of rehabilitation of the plant and other future costs on a discounted basis. Provision for mine rehabilitation and decommissioning represents the present value of future rehabilitation and other costs, based on the approved final mine rehabilitation and decommissioning plan (FMRDP). The FMRDP was approved by the MGB on August 9, 2010. These provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions.

However, actual costs will ultimately depend upon future market prices for the necessary works required which will reflect market conditions at the relevant time. Furthermore, the timing of the rehabilitation and expenditure of other costs is likely to depend on when the mine ceases to produce at economically viable rates, and the timing that the event for which the other provisions provided for will occur.

## 16. Capital Stock

Capital Stock

As at December 31, 2012 and 2011, authorized capital stock consists of:

| | Shares | Amount |
|---|---|---|
| Class "A" - ₱1 par value per share | 1,680,000,000 | ₱1,680,000,000 |
| Class "B" - ₱1 par value per share | 1,120,000,000 | 1,120,000,000 |
| | 2,800,000,000 | ₱2,800,000,000 |

Only Filipino citizens or entities with at least 60% Filipino equity are qualified to acquire, own, or hold Class "A" shares. Class "B" shares, on the other hand, may be acquired by Filipinos and non-Filipinos.

Movement in the subscribed, issued and outstanding capital is as follows:

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Class A | | Class B | | Total | |
| | **Shares** | **Amount** | **Shares** | **Amount** | **Shares** | **Amount** |
| Issued and subscribed shares at January 1, 2012 | 875,653,756 | ₱875,653,756 | 515,537,971 | ₱515,537,971 | 1,391,191,727 | ₱1,391,191,727 |
| Less: subscription receivable | 144,004 | 144,004 | 92,068 | 92,068 | 236,072 | 236,072 |
| Total issued and subscribed at January 1, 2012 | 875,509,752 | 875,509,752 | 515,445,903 | 515,445,903 | 1,390,955,655 | 1,390,955,655 |
| Issued during the year | 150,000,000 | 150,000,000 | 48,048,864 | 48,048,864 | 198,048,864 | 198,048,864 |
| Issuance of capital stock to effect the Merger | 45,336,463 | 45,336,463 | 30,224,308 | 30,224,308 | 75,560,771 | 75,560,771 |
| Issued shares at December 31, 2012 | 1,070,846,215 | ₱1,070,846,215 | 593,719,075 | ₱593,719,075 | 1,664,565,290 | ₱1,664,565,290 |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Class A | | Class B | | Total | |
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Issued and subscribed shares at January 1, 2011 | 802,316,131 | ₱802,316,131 | 515,537,971 | ₱515,537,971 | 1,317,854,102 | ₱1,317,854,102 |
| Less: subscription receivable | 144,004 | 144,004 | 92,068 | 92,068 | 236,072 | 236,072 |
| Total issued and subscribed at January 1, 2011 | 802,172,127 | 802,172,127 | 515,445,903 | 515,445,903 | 1,317,618,030 | 1,317,618,030 |
| Issued during the year | 73,337,625 | 73,337,625 | – | – | 73,337,625 | 73,337,625 |
| Issued shares at December 31, 2011 | 875,509,752 | ₱875,509,752 | 515,445,903 | ₱515,445,903 | 1,390,955,655 | ₱1,390,955,655 |

Details of the most recent capital stock transactions of the Company are as follows:

a. On October 13, 2010, the SEC approved the Company's application for the increase of its authorized capital stock from ₱800 million, divided into 480 million Class "A"; 320 million Class "B" shares both with par value of ₱1.00 each, to ₱2.80 billion, divided into 1.68 billion Class "A" shares; 1.12 billion Class "B" shares both with par value of ₱1.00 each. Of the increase in capital stock, the amount of ₱560.94 million consisting of 560.94 million common shares was fully subscribed and paid for on the same date as follows:

   - Conversion of Company's advances from MCGC in the amount of ₱1.26 billion, in exchange for 341.14 million Class "A" shares with a par value of ₱1.00 per share, at an issue value of ₱3.70 per share.
   - Conversion of Company's advances from MGL in the amount of ₱813.26 million, in exchange for 219.80 million Class "B" shares with a par value of ₱1.00 per share at an issue value of ₱3.70 per share.

b. On November 14, 2011, MOREI had acquired a minority stake in the Company by purchasing 73.34 million Class "A" shares equivalent to 5% of the total outstanding capital stock of the Company for United States dollars (US$) 6 million or its equivalent of ₱256.61 million. MOREI purchased. The proceeds will be used by the Company for its capital expenditures for its mine and mill to start exploration drilling program of its Maco prophyry copper-gold tenement.

c. On January 26, 2012, 75.56 million shares divided into 45.34 million Class "A" shares and 30.22 million Class "B" shares were issued to MCGC and MGL, respectively, to effect the Merger between the Company and TCGPI.

d. On July 13, 2012, the Company received subscriptions from the following:

- MOREI for the purchase of additional 120.00 million Class "A" shares for a total subscription amount of US$12.00 million or ₱528.00 million. The additional subscription increased MOREI's ownership in the Company to 11.61%.
- MGL acquired additional 48.05 million Class "B" shares for a total subscription amount of US$5.00 million or ₱208.96 million. MGL's stake in the Company after both issuances changed to 30.62%.
- Third party investors for the purchase of 30.00 million Class "A" shares for a total subscription amount of ₱132.00 million.

Movement in the APIC is as follows:

| | **2012** | 2011 |
|---|---|---|
| Balance at beginning of year | **₱1,665,701,307** | ₱1,503,380,955 |
| APIC from stock issuances during the year | **924,915,126** | 183,273,855 |
| Transaction costs of stock issuances | **(28,954,467)** | (20,953,503) |
| Balance at end of year | **₱2,561,661,966** | ₱1,665,701,307 |

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

Basic earnings (loss) per share is calculated by dividing the net loss attributable to stockholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Estimation of earnings (loss) per share for the three years ended December 31. 2012, 2011 and 2010 are as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Net income (loss) shown in the statements of comprehensive income | **₱56,817,880** | (₱39,786,453) | (₱120,642,737) |
| Weighted average number of common shares for basic earnings (loss) per share | **1,551,228,163** | 1,330,077,040 | 896,916,135 |
| Effect of dilution from debt-to-equity conversion | **45,918,086** | – | – |
| Weighted average number of common shares adjusted for the effect of dilution | **1,597,146,249** | 1,330,077,040 | 896,916,135 |
| Basic earnings (loss) per share | **₱0.04** | (₱0.03) | (₱0.13) |
| Diluted earnings (loss) per share | **₱0.04** | (₱0.03) | (₱0.13) |

## 18. Cost of Sales

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Mine and milling costs (Note 6) | **₱489,650,737** | ₱517,427,219 | ₱289,060,055 |
| Depreciation, depletion and amortization (Note 21) | **350,437,240** | 352,330,784 | 295,429,893 |
| Personnel costs (Note 22) | **114,436,974** | 110,561,293 | 124,719,255 |
| Utilities | **110,281,739** | 99,223,590 | 94,749,784 |
| Rent (Notes 13) | **53,939,385** | 372,774,027 | 264,610,714 |
| Marketing | **17,322,468** | 22,623,095 | 14,820,473 |
| Contracted services | **4,998,995** | 8,119,357 | 10,222,435 |
| Repairs and maintenance | **4,172,954** | 4,718,968 | 10,880,722 |
| Others | **54,270,286** | 26,365,685 | 27,370,997 |
| | **₱1,199,510,778** | ₱1,514,144,018 | ₱1,131,864,328 |

## 19. General and Administrative Expenses

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Personnel costs (Note 22) | **₱165,113,759** | ₱129,440,942 | ₱109,455,357 |
| Depreciation and amortization (Note 21) | **63,973,169** | 57,581,067 | 133,342,564 |
| Penalties | **33,766,428** | – | 30,000,000 |
| Contracted services | **40,360,137** | 42,250,571 | 23,887,604 |
| Rent | **38,439,472** | 30,604,307 | 22,699,249 |
| Excise tax | **36,285,010** | 37,475,699 | 33,903,123 |
| Materials and supplies | **35,305,845** | 49,036,585 | 42,332,211 |
| Taxes, licenses and permits | **34,310,395** | 30,366,235 | 16,631,719 |
| Insurance | **19,281,252** | 7,151,799 | 1,509,627 |
| Surface rights | **18,193,216** | 25,594,468 | 31,064,602 |
| Royalties | **18,173,216** | 20,652,617 | 25,200,961 |
| Professional fees | **16,458,675** | 29,279,628 | 38,657,930 |
| Donations and contributions | **14,304,783** | 1,537,552 | 4,553,959 |
| Representation and entertainment | **10,367,093** | 6,780,453 | 4,331,976 |
| Employee activities | **7,345,429** | 5,420,475 | 4,073,360 |
| Transportation and accommodation | **6,486,543** | 7,039,777 | 4,221,573 |
| Utilities | **3,061,062** | 5,116,587 | 3,566,819 |
| Repairs and maintenance | **1,350,889** | 1,054,170 | 3,627,787 |
| Others | **32,436,911** | 22,864,519 | 28,160,132 |
| | **₱595,013,284** | ₱509,247,451 | ₱561,220,553 |

Royalties pertain to expenses incurred for payments made to Indigenous People near its mining tenements. Other expenses pertain to community development expenses, freight and handling, donations, bank charges and miscellaneous expenses.

## 20. Other Income (Charges)

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Foreign exchange gains - net | **₱31,532,844** | ₱3,476,353 | ₱65,203,465 |
| Interest income (Note 4) | **2,422,908** | 356,756 | 66,488 |
| Loss on disposal of property, plant and equipment | **(6,117,866)** | – | – |
| Loss on write off of: | | | |
| Property, plant and equipment | **(5,446,023)** | – | (250,894) |
| Input VAT (Note 7) | – | (72,972,527) | – |
| Deferred exploration and mine development cost (Note 9) | – | (37,196,282) | – |
| Inventory (Note 6) | – | (96,089) | (2,121,425) |
| Interest and accretion expense (Note 15) | **(3,803,784)** | (4,086,989) | (1,994,965) |
| Gain from extinguishment of liability | – | 6,058,789 | – |
| | **₱18,588,079** | (₱104,459,989) | ₱60,902,669 |

In 2011, the Company, with approval from the BOD, reversed certain liabilities incurred in 2008 resulting to a gain.

## 21. Depreciation, Depletion and Amortization

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Property, plant and equipment (Note 8) | **₱262,976,647** | ₱190,249,026 | ₱197,335,311 |
| Mine and mining properties (Note 10) | **124,153,114** | 215,585,527 | 187,115,394 |
| Other noncurrent assets (Note 11) | **27,280,648** | 4,077,298 | 44,321,752 |
| | **₱414,410,409** | ₱409,911,851 | ₱428,772,457 |

The amounts were distributed as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Cost of sales (Note 18) | **₱350,437,240** | ₱352,330,784 | ₱295,429,893 |
| General and administrative expenses (Note 19) | **63,973,169** | 57,581,067 | 133,342,564 |
| | **₱414,410,409** | ₱409,911,851 | ₱428,772,457 |

## 22. Personnel Costs

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Salaries and wages | **₱174,815,763** | ₱156,307,271 | ₱157,976,502 |
| Other employee benefits | **92,193,675** | 72,010,036 | 66,158,412 |
| Retirement benefits cost (Note 14) | **12,541,295** | 11,684,928 | 10,039,698 |
| | **₱279,550,733** | ₱240,002,235 | ₱234,174,612 |

The amounts were distributed as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Cost of sales (Note 18) | **₱114,436,974** | 110,561,293 | 124,719,255 |
| General and administrative expenses (Note 19) | **165,113,759** | 129,440,942 | 109,455,357 |
| | **₱279,550,733** | ₱240,002,235 | ₱234,174,612 |

## 23. Income Tax

There is no current provision for income tax for the years ended December 31, 2012 and 2011 due to the Company's ITH incentives (see Note 1).

Reconciliation between the benefit from (provision for) income tax computed at the statutory income tax rate and the provision for (benefit from) deferred income tax as shown in the statements of comprehensive income follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Benefit from (provision for) income tax computed at statutory income tax rate | **(₱12,415,674)** | ₱26,783,628 | ₱25,665,678 |
| Add (deduct) tax effects of: | | | |
| Operating income (loss) under ITH | **28,437,597** | 53,584,080 | (41,880,680) |
| Benefit from write off of deferred income tax liability from TCGPI | **17,206,365** | – | – |
| Various nondeductible expenses | **(13,129,928)** | (865,636) | (10,595,364) |
| Expired NOLCO | **(4,252,858)** | – | – |
| Changes in unrecognized deferred income tax assets | **(1,140,075)** | (189,628) | (51,223,631) |
| Interest income subjected to final tax | **726,872** | 107,027 | 19,947 |
| Write off of input VAT, deferred exploration and mine development costs, and inventory | – | (33,079,470) | – |
| Capitalized development cost | – | 3,152,305 | 42,923,573 |
| Benefit from (provision for) income tax | **₱15,432,299** | ₱49,492,306 | (₱35,090,477) |

Details of deductible temporary differences, unused tax credit and losses as at December 31, 2012 and 2011, for which no deferred income tax assets were recognized in the Company's statement of financial position are as follows:

| | **2012** | 2011 |
|---|---|---|
| NOLCO | **₱153,586,259** | ₱167,762,451 |
| Allowance for impairment of property, plant and equipment | **162,674,211** | 162,674,211 |
| Accrued retirement benefit | **43,919,929** | 31,313,497 |
| Provisions for: | | |
| Mine rehabilitation and decommissioning | **31,519,777** | 27,948,003 |
| Inventory losses and obsolescence | **15,172,592** | 15,172,592 |
| Unrealized foreign exchange losses | **12,201,571** | 7,240,127 |
| Allowance for doubtful accounts | **2,329,870** | 2,329,870 |
| Past service cost contribution | – | 3,163,206 |
| | **₱421,404,209** | ₱417,603,957 |

Total deferred income tax assets not recognized for the years ended December 31, 2012 and 2011 arising from future deductible temporary differences amounted to ₱126.42 million and ₱125.28 million, respectively.

Realization of the future tax benefits related to the deferred income tax assets is dependent on many factors including the Company's ability to generate taxable income within the allowed carryover period and determining whether realization of these deferred income tax assets will fall within the ITH period. The Company's management has considered these factors in not recognizing deferred income tax assets for these temporary difference and unused tax losses and credits.

The Company's deferred income tax liabilities as at December 31, 2012 and 2011 are as follows:

| | **2012** | 2011 |
|---|---|---|
| Revaluation surplus on property, plant and equipment | **₱23,893,622** | ₱34,506,384 |
| Unrealized foreign exchange gain | **13,876,001** | 1,489,173 |
| | **₱37,769,623** | ₱35,995,557 |

The Merger resulted in the recognition of deferred income tax liability from TCGPI in the amount of ₱17.21 million in 2012. Management believes that the temporary difference will no longer reverse because the related party advances to which the temporary difference relate to was eliminated in the combination process. The Company has reversed the deferred income tax liability in the same year that resulted in the recognition of a benefit from income tax of the same amount.

The Company has NOLCO that can be claimed as deduction from future taxable income as follows:

| Year Incurred | Expiration | **2012** | 2011 |
|---|---|---|---|
| 2012 | 2015 | **₱–** | ₱– |
| 2011 | 2014 | **10,507,684** | 10,507,684 |
| 2010 | 2013 | **143,078,575** | 143,078,575 |
| 2009 | 2012 | – | 14,176,192 |
| | | **₱153,586,259** | ₱167,762,451 |

The movements of NOLCO are as follows:

| | **2012** | 2011 |
|---|---|---|
| Balances at beginning of year | **₱167,762,451** | ₱622,477,247 |
| Additions | – | 10,507,684 |
| Expirations | **(14,176,192)** | (465,222,480) |
| Balances at end of year | **₱153,586,259** | ₱167,762,451 |

The Company did not avail of the Optional Standard Deduction in 2012 and 2011.

## 24. Financial Risk Management Objectives and Policies and Capital Management

Financial Risk Management Objectives and Policies
The Company's main financial instruments are cash and cash equivalents and receivables. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Company. The Company has various other financial instruments, such as trade and other payables, which arise directly from its operations, advances to a related party and advances from stockholders and related parties.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, and foreign currency risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below.

*Credit Risk*
Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its customers and counterparties to fulfill their obligations on maturity periods or due to adverse market conditions.

The Company has a concentration of credit risk on its trade receivables, included as part of receivables, as it has only one (1) customer purchasing its gold and silver bullion under a Sale-Purchase Contract. However, management believes that credit risk on trade receivables is not significant as the Company's gold and silver bullion are considered a highly traded commodity that has a readily available market.

The maximum exposure to credit risk of the Company's financial assets (cash in banks, cash equivalents, trade receivables, other receivables, and advances to a related party), without taking into account any collateral and other credit enhancements, as at December 31, 2012 and 2011 is equal to the carrying amount of these financial instruments as illustrated in Note 25.

Aging analysis of the Company's financial assets classified as loans and receivables as at December 31, 2012 and 2011 are as follows:

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | | Neither past due nor | Past due but not impaired | | |
| | Total | impaired | 1-30 Days | 31-60 Days | Over 60 Days |
| **Cash and cash equivalents** | | | | | |
| **Cash on hand and in banks** | **₱12,923,378** | **₱12,923,378** | **₱–** | **₱–** | **₱–** |
| **Cash equivalents** | **40,000,000** | **40,000,000** | – | – | – |
| **Receivables** | | | | | |
| **Trade receivables** | **370,090,931** | **370,090,931** | – | – | – |
| **Others** | **570,810** | **27,814** | **23,907** | **40,960** | **478,129** |
| **Advances to a related party** | **34,738,559** | **34,738,559** | – | – | – |
| | **₱458,323,678** | **₱457,780,682** | **₱23,907** | **₱40,960** | **₱478,129** |

| | December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | | Neither past due nor | Past due but not impaired | | |
| | Total | impaired | 1-30 Days | 31-60 Days | Over 60 Days |
| Cash and cash equivalents | | | | | |
| Cash on hand and in banks | ₱53,550,286 | ₱53,550,286 | ₱– | ₱– | ₱– |
| Cash equivalents | – | – | – | – | – |
| Receivables | | | | | |
| Trade receivables | 328,863,296 | 328,863,296 | – | – | – |
| Others | 840,048 | 49,292 | 129,797 | 245,245 | 415,714 |
| Advances to a related party | – | – | – | – | – |
| | ₱383,253,630 | ₱382,462,874 | ₱129,797 | ₱245,245 | ₱415,714 |

The credit quality of financial assets is managed by the Company using internal credit ratings and is classified into three (3): High grade, which has no history of default; Standard grade, which pertains to accounts with history of one (1) or two (2) defaults; and substandard grade, which pertains to accounts with history of at least three (3) payment defaults.

Accordingly, the Company has assessed the credit quality of the following financial assets that are neither past due nor impaired:

a. Cash on hand and in banks, and cash equivalents were assessed as high grade since these are deposited in reputable banks, which have a low probability of insolvency.
b. Trade receivables and advances to a related party were assessed as high grade since these have a high probability of collection and currently have no history of default.
c. Advances to others receivables are operational in nature and were assessed as standard grade as they have a history of default.

Liquidity Risk

Liquidity risk arises when there is shortage of funds and the Company, as a consequence, would not meet its maturing obligations. The Company manages its liquidity based on business needs, tax, capital or regulatory considerations, if applicable, in order to maintain flexibility.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and receivables. The Company considers its available funds and its liquidity in managing its long-term financial requirements. For its short-term funding, the Company's policy is to ensure that there are sufficient capital inflows to match repayments of short-term debt.

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2012 and 2011 based on contractual undiscounted payments.

| **2012** | **On demand** | **Less than three months** | **Three to 12 months** | **Total** |
|---|---|---|---|---|
| **Trade and other payables** | | | | |
| **Trade** | **₱413,270,762** | **₱–** | **₱–** | **₱413,270,762** |
| **Accrued liabilities** | – | **185,144,284** | – | **185,144,284** |
| **Payable to employees** | – | **11,300,708** | – | **11,300,708** |
| **Retentions** | – | – | **8,962,403** | **8,962,403** |
| **Others** | – | – | **6,248,643** | **6,248,643** |
| **Advances from stockholders and related parties** | **837,215,067** | – | – | **837,215,067** |
| | **₱1,250,485,829** | **₱196,444,992** | **₱15,211,046** | **₱1,462,141,867** |

| 2011 | On demand | Less than three months | Three to 12 months | Total |
|---|---|---|---|---|
| Trade and other payables | | | | |
| Trade | ₱506,877,688 | ₱– | ₱– | ₱506,877,688 |
| Accrued liabilities | – | 107,733,963 | – | 107,733,963 |
| Payable to employees | – | 13,454,191 | – | 13,454,191 |
| Retentions | – | – | 6,758,628 | 6,758,628 |
| Others | – | – | – | – |
| Advances from stockholders and related parties | 855,047,855 | – | – | 855,047,855 |
| | ₱1,361,925,543 | ₱121,188,154 | ₱6,758,628 | ₱1,489,872,325 |

The table below summarizes the maturity profile of the Company's financial assets used to manage liquidity risk of the Company as at December 31, 2012 and 2011.

| **2012** | **On demand** | **Less than three months** | **Three to 12 months** | **Total** |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| **Cash on hand and in banks** | **₱12,923,378** | **₱–** | **₱–** | **₱12,923,378** |
| **Cash equivalents** | – | **40,000,000** | – | **40,000,000** |
| **Receivables** | | | | |
| **Trade receivables** | **370,090,931** | – | – | **370,090,931** |
| **Others** | – | **570,810** | – | **570,810** |
| **Advances to a related party** | **34,738,559** | – | – | **34,738,559** |
| | **₱417,752,868** | **₱40,570,810** | **₱–** | **₱458,323,678** |

| 2011 | On demand | Less than three months | Three to 12 months | Total |
|---|---|---|---|---|
| Cash and cash equivalents | | | | |
| Cash on hand and in banks | ₱53,550,286 | ₱– | ₱– | ₱53,550,286 |
| Cash equivalents | – | – | – | – |
| Receivables | | | | |
| Trade receivables | 328,863,296 | – | – | 328,863,296 |
| Others | – | 840,048 | – | 840,048 |
| Advances to a related party | – | – | – | – |
| | ₱382,413,582 | ₱840,048 | ₱– | ₱383,253,630 |

*Foreign Currency Risk*

The Company is exposed to currency risk arising from the effect of fluctuations in foreign currency exchange rates mainly on its foreign currency-denominated financial instruments. Foreign currency exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency.

The Company has transactional currency exposures arising from its purchases in US$. To minimize its foreign currency risk, the Company normally requires its purchases from suppliers to be denominated in its functional currency to eliminate or reduce the currency exposures. The Company does not enter into forward currency contracts.

The Company's foreign currency-denominated financial instruments as at December 31, 2012 and 2011 are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **US$** | **Php** | US$ | Php |
| **Financial Assets** | | | | |
| Cash | **$128,130** | **₱5,259,737** | $116,698 | ₱5,116,040 |
| Trade receivables | **9,015,613** | **370,090,931** | 7,501,444 | 328,863,305 |
| Advances to a related party | **846,250** | **34,738,559** | – | – |
| | **9,989,993** | **410,089,227** | 7,618,142 | 333,979,345 |
| **Financial Liability** | | | | |
| Advances from stockholders and affiliates | **16,275,041** | **668,090,429** | 16,734,473 | 733,639,296 |
| **Net financial liability** | **$6,285,048** | **₱258,001,202** | $9,116,331 | ₱399,659,951 |

As at December 31, 2012 and 2011, the exchange rate of the Philippine peso to US$1.00 was ₱41.05 and ₱43.84, respectively.

The sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in fair value of monetary assets and liabilities) as at December 31, 2012 and 2011 are as follows:

| | | Change in foreign exchange rates | Effect in income (loss) before tax |
|---|---|---|---|
| US$ | **2012** | **+0.70** | **(₱4,399,534)** |
| | | **-0.80** | **5,028,038** |
| | 2011 | +0.80 | (₱7,293,065) |
| | | -0.70 | 6,381,432 |

There is no other impact on the Company's equity other than those already affecting the statement of comprehensive income.

Capital Management

The primary objective in capital management is to maintain a strong credit rating in order to support its business, maximize stockholder value, comply with capital restrictions and requirements as imposed by regulatory bodies, including limitations on ownership over the Company's different types of shares, requisites for actual listing and trading of additional shares, if any, and required minimum debt to base equity ratio in order for the Company to continuously benefit from tax and other incentives provided by its registration with BOI. Moreover, the Company continually aims to protect the investing public through transparency and implementation of adequate measures in order to address the accumulated deficit. Capital pertains to equity, excluding reserve from revaluation of property, plant and equipment, and advances from stockholders and related parties.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payments to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2012 and 2011. As at December 31, 2012 and 2011, the Company met its capital management objectives.

The Company considers the following as its core economic capital:

| | **2012** | 2011 |
|---|---|---|
| Capital stock | **₱1,664,565,290** | ₱1,390,955,655 |
| APIC | **2,561,661,966** | 1,665,701,307 |
| Deficit | **(1,885,888,324)** | (1,967,469,314) |
| | **2,340,338,932** | 1,089,187,648 |
| Advances from stockholders and related parties | **837,215,067** | 855,047,855 |
| | **₱3,177,553,999** | ₱1,944,235,503 |

The Company has no externally imposed capital requirements.

## 25. Financial Assets and Liabilities

Fair Value Information and Categories of Financial Instruments

Set out below is a comparison by category and class of carrying values and fair values of all of the Company's financial instruments as at December 31, 2012 and 2011.

| | Carrying Values | | Fair Values | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **Financial Assets** | | | | |
| *Loans and receivables* | | | | |
| Cash and cash equivalents | | | | |
| Cash on hand and in banks | **₱12,923,378** | ₱53,550,286 | **₱12,923,378** | ₱53,550,286 |
| Cash equivalents | **40,000,000** | – | **40,000,000** | – |
| Receivables | | | | |
| Trade receivables | **370,090,931** | 328,863,296 | **370,090,931** | 328,863,296 |
| Others | **570,810** | 840,048 | **570,810** | 840,048 |
| Advances to a related party | **34,738,559** | – | **34,738,559** | – |
| | **₱458,323,678** | ₱383,253,630 | **₱458,323,678** | ₱383,253,630 |
| **Financial Liabilities** | | | | |
| *Loans and borrowings* | | | | |
| Trade and other payables | | | | |
| Trade | **₱413,270,762** | ₱506,877,688 | **₱413,270,762** | ₱506,877,688 |
| Accrued liabilities | **185,144,284** | 107,733,963 | **185,144,284** | 107,733,963 |
| Payable to employees | **11,300,708** | 13,454,191 | **11,300,708** | 13,454,191 |
| Retentions | **8,962,403** | 6,758,628 | **8,962,403** | 6,758,628 |
| Others | **6,248,643** | – | **6,248,643** | – |
| Advances from stockholders and related parties | **837,215,067** | 855,047,855 | **837,215,067** | 855,047,855 |
| | **₱1,462,141,867** | ₱1,489,872,325 | **₱1,462,141,867** | ₱1,489,872,325 |

*Cash on Hand and in Banks, Cash Equivalents, Trade Receivables, Other Receivable, Advances to a Related Party, Trade Payables, Accrued Liabilities, Payable to Employees, Retention Payable, Other Payables, and Advances from Stockholders and Related Parties*

The carrying amount of cash and cash equivalents approximates their fair value due to the short-term nature and maturity of these financial instruments.

## 26. Contingencies

The Company has two (2) MPSA applications pending approval by the MGB. These claims are subject of dispute with another mining company, namely, North Davao Mining Corporation (NDMC) and are pending resolution under the Regional Panel of Arbitrators (the Panel). The Company has filed an Adverse Claim/Protest against the other mining company with the MGB regional office.

On September 4, 1998, the Panel issued a decision dismissing the adverse claim of the Company. On July 21, 2006, the Company's legal counsel filed a motion for reconsideration and on July 28, 2006, the Panel issued an Order requiring the other mining company to file its comment/opposition to the motion filed by the Company. On March 31, 2007, the Panel conducted a clarificatory hearing between both parties. On June 29, 2007, the case was subject to appellate proceedings by the Mines Adjudication Board (MAB). On October 28, 2009, the MAB issued a decision in the case declaring NDMC preferential rights over the cluster.
On December 28, 2009, the Company filed a "Motion for reconsideration" which was acknowledged by MAB on September 14, 2010. As at December 31, 2012 and March 21, 2013, the Company and NDMC are still currently engaged in settlement negotiations.

## 27. Notes to Statements of Cash Flows

The Company had the following non-cash transactions investing and financing activities in 2012, 2011 and 2010 which were considered in the preparation of the statements of cash flows as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Addition (reduction) to mine and mining properties pertaining to capitalized mine rehabilitation cost | **₱11,904,004** | (₱17,114,128) | ₱59,654,966 |
| Addition (reduction) to property, plant and equipment pertaining to capitalized mine rehabilitation cost | **502,711** | (457,810) | 261,288 |
| Debt-to-equity conversion | – | – | 2,060,092,405 |

## 28. Supplementary Information Required by Revenue Regulations Nos. 19-2011 and 15-2010

Supplementary Information Required by Revenue Regulations (RR) No. 19-2011
On December 9, 2011, the BIR has issued RR No. 19-2011 prescribing the new income tax forms to be used effective calendar year 2011 and years thereafter. In the case of corporation using BIR form 1702, the taxpayer is now required to include, as part of its notes to the audited financial statements, which will be attached to the income tax return, schedules and information on taxable income and deductions taken.

The Company filed and claimed the following income and expenses as itemized deductions in their annual income tax return for the year:

a. Exempt sales, revenues, receipts and fees for the year ended December 31, 2012 consist of net sales of gold and silver amounting to ₱1,817,321,564 earned during the ITH period.

b. Deductible cost of sales for the year ended December 31, 2012 consist of:

| | |
|---|---|
| Mine and milling costs | ₱489,650,737 |
| Depreciation, depletion and amortization | 350,437,240 |
| Utilities | 110,281,739 |
| Personnel costs | 108,803,999 |
| Rent | 53,939,385 |
| Marketing | 17,322,468 |
| Contracted services | 4,998,995 |
| Repairs and maintenance | 4,172,954 |
| Others | 18,894,413 |
| | ₱1,158,501,930 |

c. Non-operating and other income for the year ended December 31, 2012 consist of realized foreign exchange gains in prior year realized in current year amounting to ₱4,963,910.

d. Itemized deductions for the year ended December 31, 2012 consist of:

| | |
|---|---|
| Personnel costs | ₱158,140,302 |
| Depreciation and amortization | 63,973,169 |
| Contracted services | 40,360,137 |
| Rent | 38,439,472 |
| Excise tax | 36,285,010 |
| Materials and supplies | 35,305,845 |
| Taxes, licenses and permits | 34,310,395 |
| Insurance | 19,281,252 |
| Surface rights | 18,193,216 |
| Royalties | 18,173,216 |
| Professional fees | 16,458,675 |
| Donations and contributions | 14,304,783 |
| Loss on write off and disposal of property, plant and equipment | 11,563,889 |
| Representation and entertainment | 10,367,093 |
| Realized foreign exchange losses | 9,759,048 |
| Employee activities | 7,345,429 |
| Transportation and accommodation | 6,486,543 |
| Past service costs | 3,163,206 |
| Utilities | 3,061,062 |
| Interest | 2,844,152 |
| Repairs and maintenance | 1,350,889 |
| Others | 22,436,913 |
| | ₱571,603,696 |

d. Operating income with ITH in 2012 amounted to ₱92,179,848.

Supplementary Information Required by RR 15-2010
On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and license fees paid or accrued during the calendar year.

The Company reported and/or paid the following types of taxes in 2012:

a. Output VAT
The National Internal Revenue Code of 1997 provides for the imposition of VAT on sales of goods and services. In accordance with Republic Act 9337, the Company's sales are subject to zero-rated output VAT. In 2012, the Company declared zero-rated VAT sales, which arise from one hundred percent (100%) export sales of gold and silver bullion, amounting to ₱1,817,321,564, pursuant to BOI certification received by the Company as a new producer of gold, silver bullion, copper concentrates with gold, silver, zinc and lead values on a non-pioneer status.

b. Input VAT
The Company's input VAT came from prior years and current year purchases as follows:

| | |
|---|---|
| Balance at January 1, 2012 | ₱53,699,432 |
| Add current year's domestic purchases/payments for: | |
| Capital goods subject to amortization | 1,138,137 |
| Goods and services | 8,736,648 |
| Balance at December 31, 2012 | ₱63,574,217 |

c. Importations
The total landed cost of imports and the amount of custom duties and tariff fees paid and accrued for the year ended December 31, 2012 follows:

| | |
|---|---|
| Landed cost of imports | ₱345,313,302 |
| Amount paid for customs duties and tariff fees | 6,962,065 |
| | ₱352,275,367 |

d. Excise tax
Excise taxes for the year ended December 31, 2012 resulting from the sales of gold and silver amounted to ₱36,285,010, of which, ₱1,418,928 were accrued at December 31, 2012.

e. Documentary stamp tax
Documentary stamp taxes paid for the year ended December 31, 2012 pertaining to the issuance of additional Company shares of stocks certificates amounted to ₱1,536,779.

f. Other taxes and licenses
All other local and national taxes paid for the year ended December 31, 2012 consist of:

| | |
|---|---|
| Municipal taxes | ₱23,953,214 |
| Real property tax | 2,479,324 |
| Mayor's permit | 1,670,556 |
| Community tax | 21,000 |
| Others | 4,727,086 |
| | ₱32,851,180 |

The above local and national taxes are lodged under taxes, licenses and permits account in general and administrative expenses in the statement of comprehensive income.

g. Withholding taxes
Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2012 consist of:

| | Paid | Accrued | Total |
|---|---|---|---|
| Expanded withholding tax | ₱21,872,848 | ₱915,955 | ₱22,788,803 |
| Withholding tax on compensation | 22,628,168 | 4,433,832 | 27,062,000 |
| Final withholding tax | 5,949,778 | 645,743 | 6,595,521 |
| | ₱50,450,794 | ₱5,995,530 | ₱56,446,324 |

h. Tax assessments
The Company accrued deficiency tax and penalties on withholding taxes and excise taxes amounting to ₱33,766,428 in 2012.

i. Tax cases
The Company has no outstanding tax cases in any other court or bodies outside of the BIR as at December 31, 2012.

SGV & Co
ERNST & YOUNG

**SyCip Gorres Velayo & Co.**
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1226 Makati City
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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
Apex Mining Co., Inc.
Unit 1704, 17th Floor, Prestige Tower Condominium
F. Ortigas Jr. Road, Ortigas Center
Pasig City

We have examined the financial statements of Apex Mining Co., Inc. for the year ended December 31, 2012, on which we have rendered the attached report dated March 21, 2013.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the above Company has a total number of 2,535 stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-3 (Group A),
March 21, 2013, valid until March 20, 2016
Tax Identification No. 102-096-009
BIR Accreditation No. 08-001998-72-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669674, January 2, 2013, Makati City

March 21, 2013

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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 Board of Directors
Apex Mining Co., Inc.
Unit 1704, 17th Floor, Prestige Tower Condominium
F. Ortigas Jr. Road, Ortigas Center
Pasig City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Apex Mining Co., Inc. as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 included in this Form 17-A and have issued our report thereon dated March 21, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules is the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jaime F. del Rosario
Partner
CPA Certificate No. 56915
SEC Accreditation No. 0076-AR-3 (Group A),
March 21, 2013, valid until March 20, 2016
Tax Identification No. 102-096-009
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March 21, 2013

APR 17 2013

## APEX MINING CO., INC.

## INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

**FOR THE YEAR ENDED DECEMBER 31, 2012**

# SCHEDULE I

## APEX MINING CO., INC.

### TABULAR SCHEDULE OF EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER THE PFRS

### PURSUANT TO SRC RULE 68, AS AMENDED

### DECEMBER 31, 2012

**List of Philippine Financial Reporting Standards (PFRSs) effective as at December 31, 2012**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | ✓ | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | ✓ | | |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |

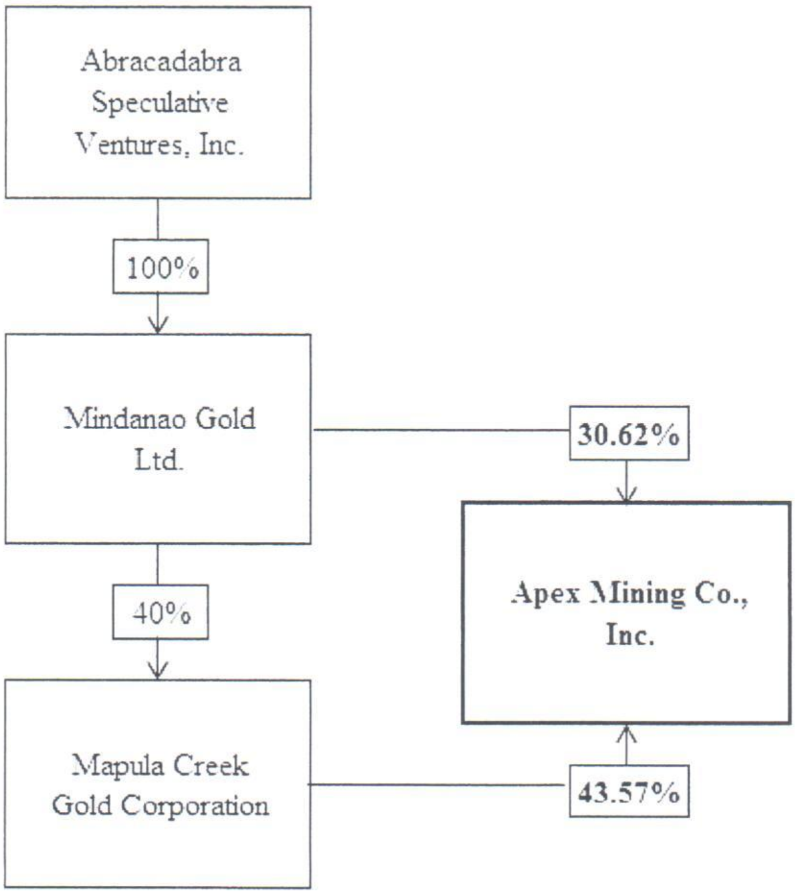
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | | ✓ | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements | | | ✓ |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | | | ✓ |
| **PFRS 13** | Fair Value Measurement | | | ✓ |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | | | ✓ |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | **Amendments to PAS 1: Presentation of Items of Other Comprehensive Income** | | | ✓ |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Balance Sheet Date | ✓ | | |
| **PAS 11** | Construction Contracts | ✓ | | |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Underlying Assets | | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | | ✓ | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | | ✓ | |
| **PAS 19 (Amended)** | Employee Benefits | | ✓ | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | | | ✓ |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27 (Amended)** | Separate Financial Statements | | | ✓ |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | | | ✓ |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | | ✓ |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | | | ✓ |
| **PAS 36** | Impairment of Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 38** | Intangible Assets | ✓ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| **PAS 40** | Investment Property | | | ✓ |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | ✓ | | |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | | | ✓ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | ✓ | | |
| **IFRIC 6** | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 8** | Scope of PFRS 2 | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | Interim Financial Reporting and Impairment | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| IFRIC 11 | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | | | ✓ |
| IFRIC 18 | Transfers of Assets from Customers | | | ✓ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| SIC-12 | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| SIC-15 | Operating Leases - Incentives | | | ✓ |
| SIC-21 | Income Taxes - Recovery of Revalued Non-Depreciable Assets | | | ✓ |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| SIC-29 | Service Concession Arrangements: Disclosures. | | | ✓ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| SIC-32 | Intangible Assets - Web Site Costs | | | ✓ |

## SCHEDULE II
## APEX MINING CO., INC.
### A MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE COMPANY AND ITS ULTIMATE PARENT COMPANY, MIDDLE PARENT, SUBSIDIARIES, CO-SUBSIDIARIES AND ASSOCIATES
## PURSUANT TO SRC RULE 68, AS AMENDED
## DECEMBER 31, 2012



**SCHEDULE III**
**APEX MINING CO., INC.**
**REQUIRED SCHEDULES UNDER ANNEX 68-E**
**PURSUANT TO SRC RULE 68, AS AMENDED**
**DECEMBER 31, 2012**

**APEX MINING CO., INC.**
**Schedule A. Financial Assets**
**December 31, 2012**

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Statement of Financial Position | Value Based on Market Quotations at End of Reporting Date | Income Received and Accrued |
|---|---|---|---|---|

The Company has no securities, bonds and notes of an issuing entity classified as financial assets.

**APEX MINING CO., INC.**

**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Affiliates)**
**For the Year Ended December 31, 2012**

| Name and Designation of Debtor | Beginning Balance | Additions | Deductions | | Current | Non Current | Ending Balance |
|---|---|---|---|---|---|---|---|
| | | | Amount Collected | Amount Written-Off | | | |

There are no receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders other than subject to usual terms, for ordinary travel and expense advances, and for other such items arising in the ordinary course of business, and eliminated in consolidation.

**APEX MINING CO., INC.**

**Schedule C. Amounts Receivable from Related Parties which are Eliminated during the Consolidated Financial Statements**

**For the Year Ended December 31, 2012**

| Name of Subsidiary | Balance at January 1, 2011 | Additions | Amounts Collected | Reclassification | Amounts Written Off | Current | Noncurrent | Amount Eliminated |
|---|---|---|---|---|---|---|---|---|
| The Company does not prepare consolidated financial statements. All of the amounts receivable from related parties are disclosed in Note 13. | | | | | | | | |

**APEX MINING CO., INC.**
**Schedule D. Intangible Assets - Other Assets**
**For the Year Ended December 31, 2012**

| Description | Beginning Balance | Additions At Cost | Deductions: Charged to Costs and Expenses | Deductions: Charged to Other Accounts | Other Changes- Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Deferred exploration costs* | ₱ 272,066,943 | ₱ 217,024,350 | ₱ - | ₱ - | ₱ - | ₱ 489,091,293 |
| Intangible assets** | 26,769,115 | 6,934,095 | 12,804,958 | | | 20,898,252 |
| | | | | | | - |
| | ₱ 298,836,058 | ₱ 223,958,445 | ₱ 12,804,958 | ₱ - | ₱ - | ₱ 509,989,545 |

*Disclosed in Note 9 as part of Deferred exploration and mine development costs.
**Disclosed in Note 11 as part of Other noncurrent assets.

**APEX MINING CO., INC.**
**Schedule E. Long-term Debt**
**December 31, 2012**

| Name of Issuer and Type of Obligation | Amount Authorized by Indenture | Amount Shown as Current | Amount Shown as Long-term | Remarks |
|---|---|---|---|---|
| The Company has no long-term debt. | | | | |

**APEX MINING CO., INC.**

**Schedule F. Indebtedness to Affiliates and Related Parties (Long-term Loans from Related Companies)**
**December 31, 2012**

| Name of Related Party | Beginning Balance | Ending Balance |
|---|---|---|

The Company has no long-term indebtedness to related parties.

**APEX MINING CO., INC.**

**Schedule G. Guarantees of Securities of Other Issuers**

**December 31, 2012**

| Name of Issuing Entity of Securities Guaranteed by the Company for which Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by the Company for which Statement is Filed | Nature of Guarantee |
|---|---|---|---|---|
| The Company has no guarantees of securities of other issuing entities. | | | | |

**APEX MINING CO., INC.**
**Schedule H. Capital Stock**
**December 31, 2012**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Related Parties | Directors, Officers and Employees | Others |
| Class A | 1,680,000,000 | 1,070,846,215 | - | 725,201,190 | 2,003 | 345,643,022 |
| Class B | 1,120,000,000 | 593,719,075 | - | 509,608,703 | 1,998 | 84,108,374 |
| | 2,800,000,000 | 1,664,565,290 | | 1,234,809,893 | 4,001 | 429,751,396 |

Remarks:

As disclosed in Note 16, significant stock transactions of the Company during the year are as follows:

a. Issuance of 45.34 million Class A shares and 30.22 million Class B shares to Mapula Creek Gold Corporation and Mindanao Gold Ltd. (MGL), respectively, to effect the Merger between the Company and Teresa Crew Gold (Philippines), Inc.
b. Issuance of 48.05 million Class B shares to MGL for additional subscriptions during the year.
c. Issuance of 150.00 million shares to third-party investors for subscriptions during the year.