APEX MINING CO., INC.

2016 Annual Report

Responsible Miner

Partner in Community Development

TABLE OF CONTENTS

3
2016 HIGHLIGHTS

4
COMPANY PROFILE
MISSION/VISION STATEMENT

5
CHAIRMAN'S AND
PRESIDENT'S MESSAGE

8
MACO GOLD MINE

11
OPERATIONS REPORT

17
CORPORATE SOCIAL RESPONSIBILITY

19
ENVIRONMENTAL PROTECTION

21
MONTE ORO RESOURCES
& ENERGY, INC.

23
ITOGON-SUYOC RESOURCES, INC.

25
2016 FINANCIAL STATEMENTS

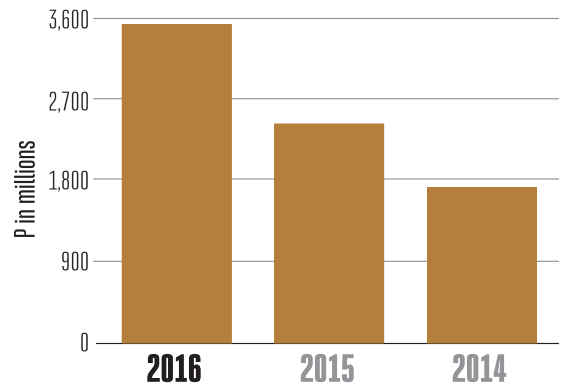
104
BOARD OF DIRECTORS
AND OFFICERS

106
CORPORATE DIRECTORY

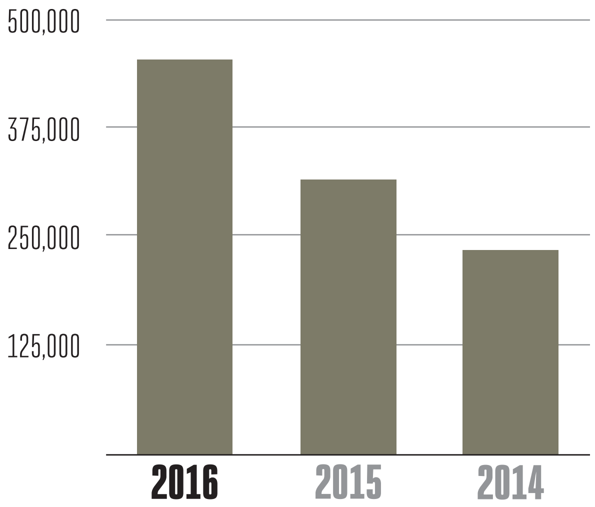
ABOUT THE COVER

The Miner represents the Company's advocacy to be a catalyst and active partner in social and community development.

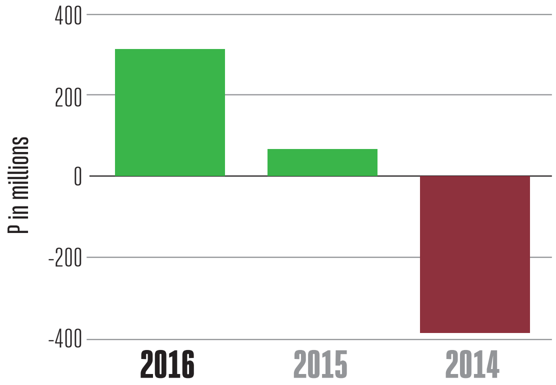
REVENUE
P3,522 million



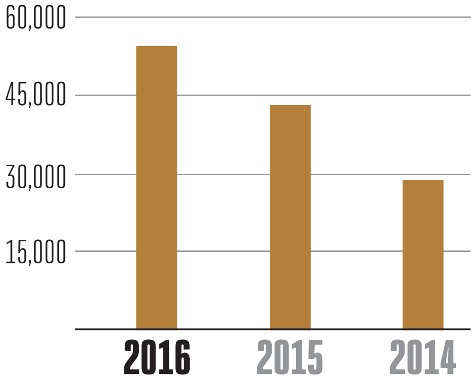
TONNES MILLED
452,548



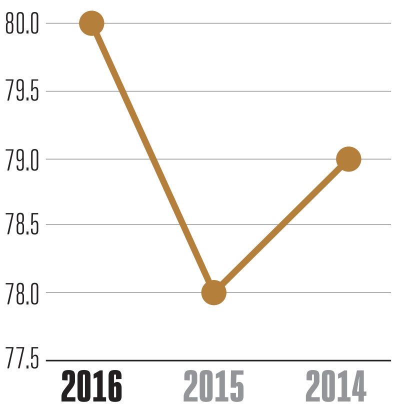
NET INCOME
P322 million



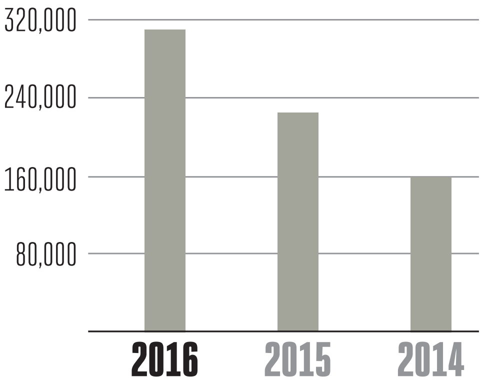
GOLD PRODUCTION
54,681 ounces



MILL RECOVERY RATE (%)
80%



SILVER PRODUCTION
309,623 ounces

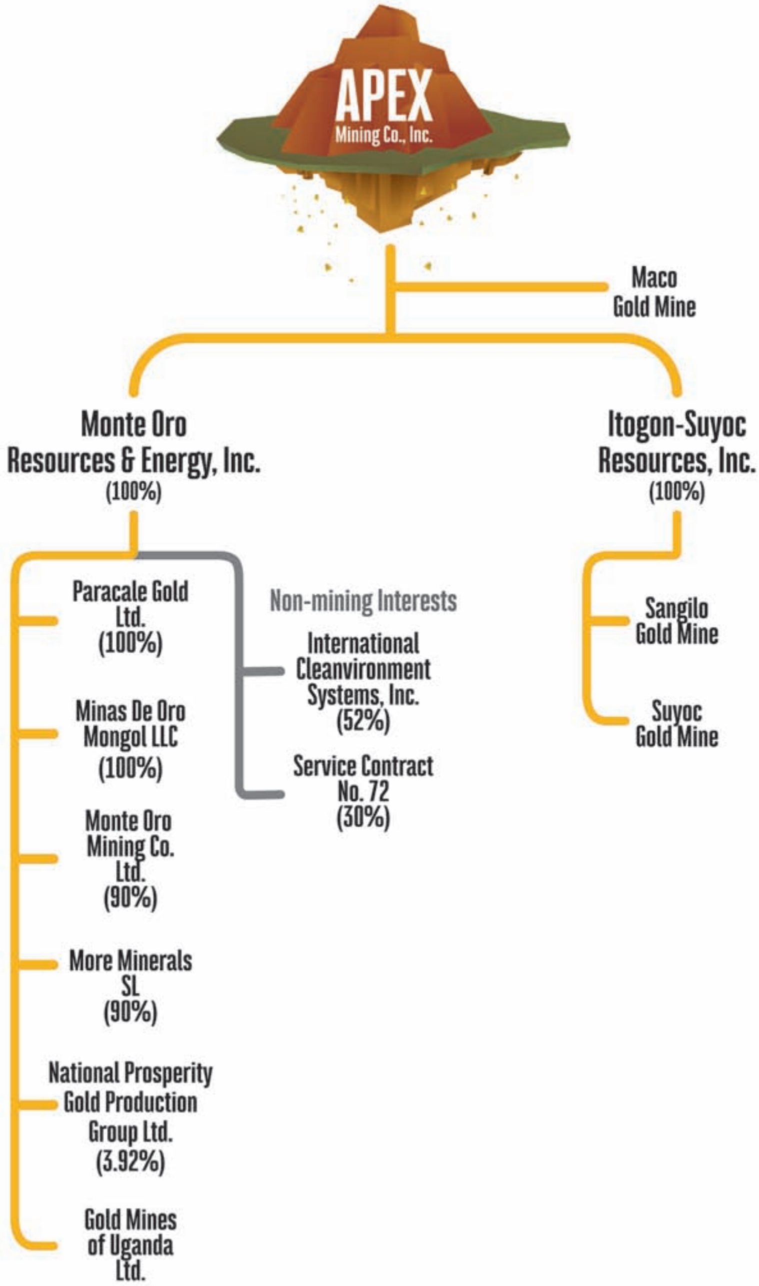


COMPANY PROFILE

Apex Mining Co., Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission in February 1970, primarily to carry on the business of mining and related activities. Its shares are listed in the Philippine Stock Exchange since March 1974 under the symbol APX. Apex owns and operates the Maco Gold Mine in Compostela Valley located in Southern Mindanao.

A wholly-owned subsidiary acquired in 2015, Itogon-Suyoc Resources Inc. owns the Sangilo Mine in Itogon, and the Suyoc Mine in Mankayan. Both gold mines are located in the Benguet Province.

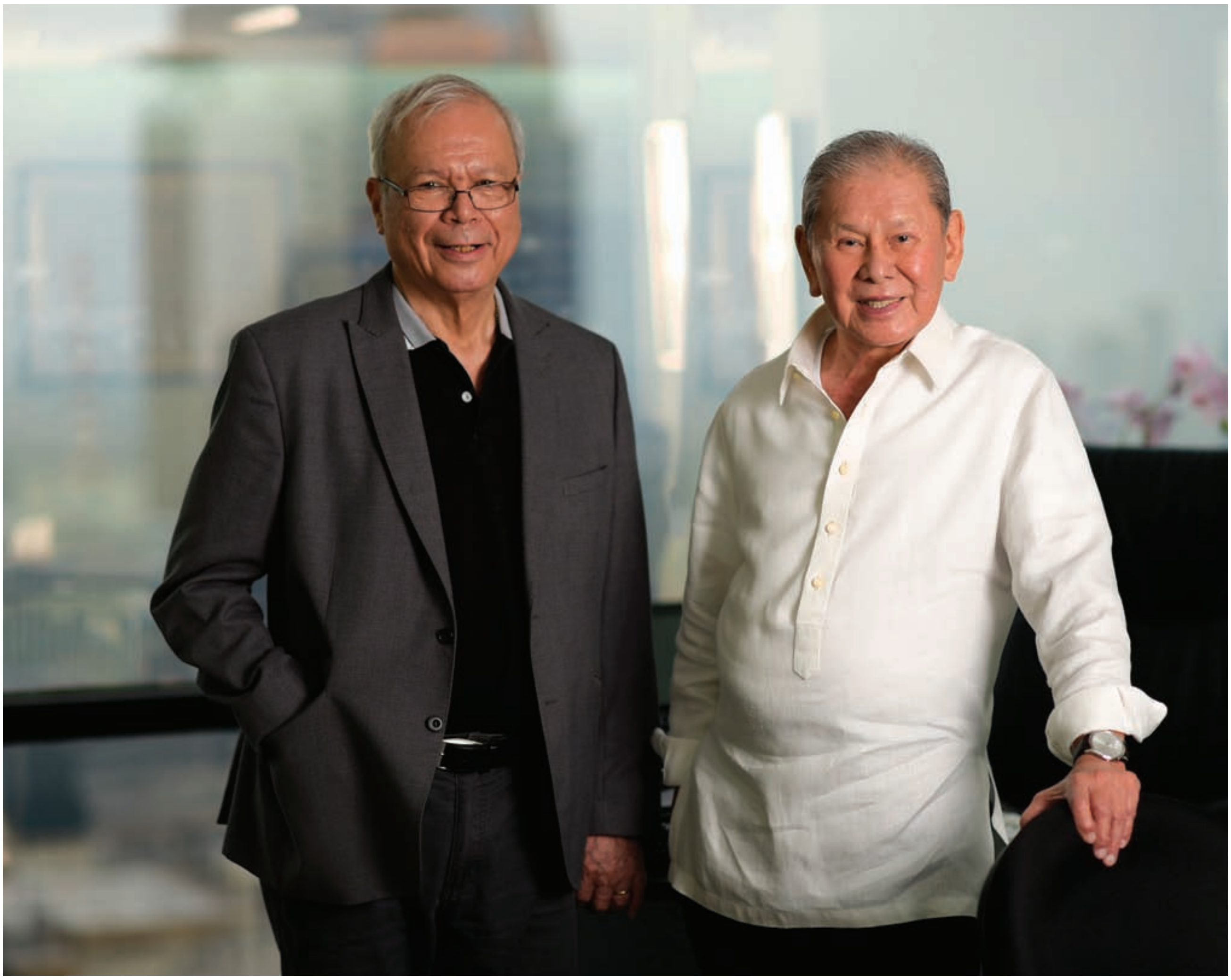
A wholly-owned subsidiary acquired in 2014, Monte Oro Resources & Energy, Inc. owns the Paracale Gold Project in Camarines Norte Province, as well as several mining interests and projects located outside of the Philippines. Monte Oro also has interests in a natural gas project and in solid waste management business in the Philippines.



MISSION & VISION STATEMENT

To promote the well-being of all stakeholders by embracing safety as a way of life, achieving world class environment standards, and upholding a holistic approach to wellness.

This we do with care and sincere commitment to realize a sustainable, responsible, and globally recognized mining company.



As we prepare for our shareholders' meeting scheduled for June 30 of this year, we recall the challenges we faced when we took over management of Apex Mining in October 2013. We have been responsible for managing your company for more than 3 years now, and we are thus grateful for the opportunity to report to you that we have been able to maintain consistent progress in terms of levels of production, efficiency of operations, and increasing profitability throughout the period to date. And as we will update you during the meeting, this has continued over the first half of 2017. Furthermore, we are optimistic that we can sustain this performance over the long term.

This has been in spite of many challenges, beginning with our taking over of a company that was challenged by inappropriate application of mining technology, lack of financial resources, and severe problems relating to insurgency in the area. The situation was further complicated in 2014 when a substantial loss was incurred due to the burning of our equipment by an armed group.

However, we were able to achieve profitability throughout 2015, and we are pleased to report a record-breaking 2016 in spite of the challenges faced not only by our company but the entire Philippine mining industry over the past year.

Our Maco mine in Compostela Valley continues to establish new records. Milling throughput in 2016 increased to 452,948 tonnes (1,373 tonnes per day) as compared to 316,148 tonnes (1,073 tonnes per day) milled in the previous year. Mill recovery improved to 80% for gold and 72%

for silver for the year, as compared to 78% and 65%, respectively, in 2015. This resulted in record production of 54,681 ounces of gold and 309,623 ounces of silver in 2016 from an average ore grade of 4.68 grams per tonne. The previous record was in 2015 when 43,048 ounces of gold and 224,479 ounces of silver were produced from the average ore grade of 5.42 grams per tonne.

Early in 2016, metal prices surged with gold reaching a high of $1,304 per ounce and silver at $18 per ounce. The momentum was not sustained throughout the year, though, and for the Maco mine's production the prices averaged $1,255 per ounce gold and $18 per ounce silver. Nonetheless, these were higher than the 2015 average of $1,158 per ounce gold and $16 per ounce silver. The higher prices for the year combined with the record production output generated the highest annual revenue level of the Company thus far of P3.5 billion, 45% higher than the previous record of P2.4 billion achieved in 2015. Cash operating costs increased to P2.3 billion this year from P1.9 billion in 2015, due to the increase in milling tonnage. Capital expenditures for the year amounted to P1.5 billion as compared to P2.5 billion last year, which is an indication of improvements in operating efficiency and better control of inventory levels.

Consolidated net income for the year 2016 of P322 million was 351% higher than the previous year. Parent Company net income for 2016 was higher at P441 million; however administrative costs of non-operating subsidiaries, namely Monte Oro Resources and Energy, Inc. and Itogon-Suyoc Resources, Inc., account for the lower consolidated net income. This compares favorably to 2015 figures of the Parent Company's net income of P169.3 million, while consolidated net income was P71.4 million. This is the second year that the Company generated net earnings after the losses reported in prior years, validating the Company's ability to sustain the profitability of its operation.

The rehabilitation of the Sangilo mine of Itogon-Suyoc Resources, Inc., which was acquired by the Company in June 2015, is underway. From its mine and mill refurbishment activities, incidental gold was produced. As of December 2016, a total of 1,547 ounces of gold valued at P92.1 million were shipped. The mill is being tested currently at the rate of about 50 tonnes per day, and by the latter part of 2017 it should be able to reach 75 tonnes per day. The Company is now pursuing funding for the full rehabilitation of the Sangilo mine which is being envisioned to operate initially at 400 tonnes per day, and thereafter at 1,900 tonnes per day as its final installed capacity.

The plan for the Suyoc mine, on the other hand, is for a 300-tonnes-per-day operation. The total investment costs for these projects is currently estimated to about $106 million.

In September 2016, the Company obtained its ISO 14001:2015 certification issued by Certification International for the Maco mine. Likewise, in April 2017, Itogon-Suyoc Resources, Inc. obtained its ISO 14001:2015 certification from TUV Rheinland for the Sangilo and Suyoc mines. With these certifications for environmental management systems, the mines are now compliant with the DENR administrative order mandating mining contractors to be ISO certified. The audit conducted by the DENR in 2016 which the Maco mine successfully hurdled further affirms the Company's commitment to the upkeep and well-being of the environment where it operates as part of the Company's legal, moral, and social responsibility.

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Towards this mission, the Company's social development and management programs are designed to provide means for the improvement of the lives of the people in the mines' host and neighboring communities. In 2016, P38.1 million was provided for public infrastructures, educational support, socio-cultural and religious support, health and medical assistance, and livelihood programs. Of particular note was the turnover of the first 20 housing units constructed by the Maco mine in Brgy. Elizalde to relocate prioritized families residing in geo-hazard areas declared by the MGB inside the mine's tenement. A total of 90 units are programed for this project. In fulfillment of the Company's commitment to the religious needs of the community, the altar of the Immaculate Conception of Mary Parish Church of the Brgy. was finished. Furthermore, the Company and staff residents in the area continue to contribute to the construction and maintenance of the church.

The Company was instrumental in facilitating dialogues between three indigenous groups, namely: the Maco Ancestral Domain, Inc. (MADCI), the Mankatadung Mansaka Indigenous Peoples Ancestral Domain of Maco, Inc. (MMIPADMA), and the Sumpaw ng Inangsabong Mansaka, Inc. (SIMI). Through our intercession, they were able to settle the major points with regard to the sharing formula pertinent to their royalties and surface compensation.

This should resolve the legal issue between the groups pending the final resolution of the NCIP on the matter for which the parties involved have already submitted their motions to expedite. Under the agreement, SIMI has the right to receive and manage the surface rights compensation; while MADCI and MMIPADMA agreed to form a joint management committee that will manage the royalties which they acknowledge as belonging to the whole Mansaka tribe of Maco, Compostela Valley. With this agreement, the recipient of the funds can now resolve their differences and thus enjoy the benefits of their share in the Maco mine's operations and thus improve the economic status not only of the indigenous people, but the communities in the vicinity of the mine as a whole.

Monte Oro Resources & Energy, Inc. (MOREI) reported a net loss of P11.6 million this year compared to the net income of P50.3 million in 2015. There was no significant development in 2016 with regard to MOREI's local and foreign mining interests. However, the 30% participating interest in Service Contract (SC) 72 which covers the Sampaguita natural gas deposit in the Reed (Recto) Bank in Northwest Palawan has been given some impetus by the decision of the United Nations Arbitral Tribunal in the Hague in July 2016 on the maritime case filed by the Philippines against China declaring that the Reed (Recto) Bank in the disputed area of the West Philippine Sea where SC 72 is located within the Philippine Exclusive Economic Zone (EEZ) as defined under the United Nations' Convention on the Law of the Sea (UNCLOS). Depending on the Philippine Government's guidance on the matter, and the improvement in relations of China and the Philippines since the Duterte administration took over, this development could possibly lead to the resumption of activities in SC 72, which will augur well for MOREI and eventually to the Company as the parent of MOREI.

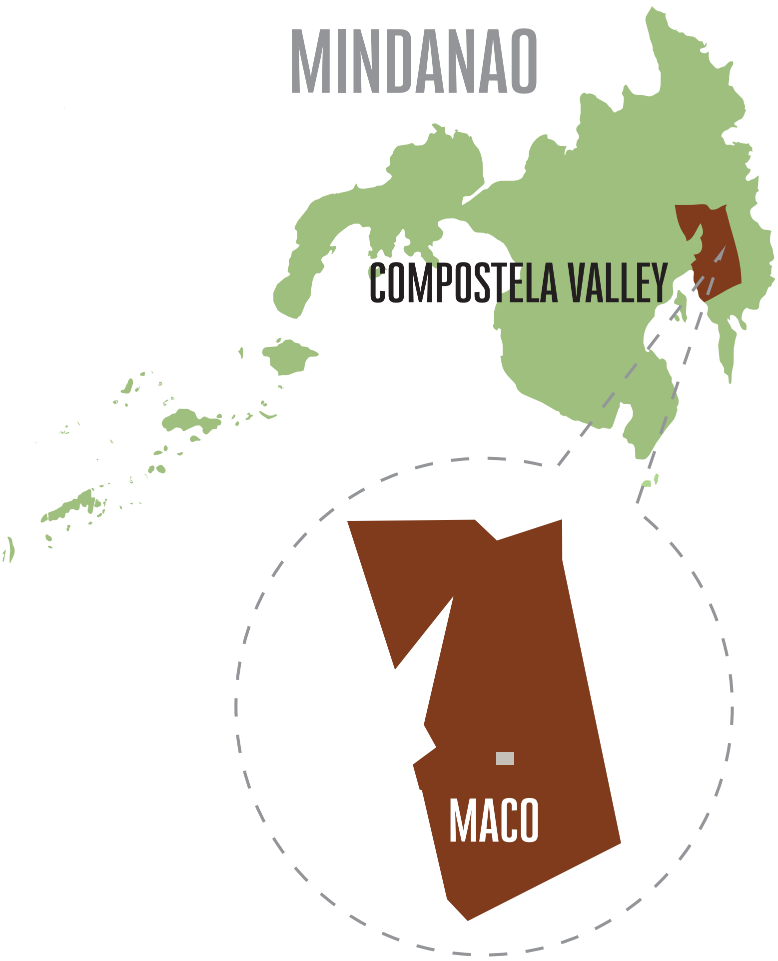
In the first quarter of 2017, the Maco mill has already reached an average throughput of 1,677 tonnes per day. The objective is to stabilize milling tonnage at a sustained rate of 1,800 tonnes per day by year's end. Should the Maco mine be able to attain this, we should see even better metal production. And for as long as metal prices remain at their current levels, the Company can expect continuing earnings growth in 2017 which we expect can be sustained particularly when the production programs for the Sangilo and Suyoc mines have been successfully implemented.

On behalf of the Company, we are grateful for the continuing support of our Stakeholders consisting of the Board of Directors, officers and employees, suppliers and shareholders who continue to support the Company. We shall strive to continue our programs to become one of the most efficient and largest gold producers in our country and hopefully in the region over the long term.

RAMON Y. SY
Chairman of the Board

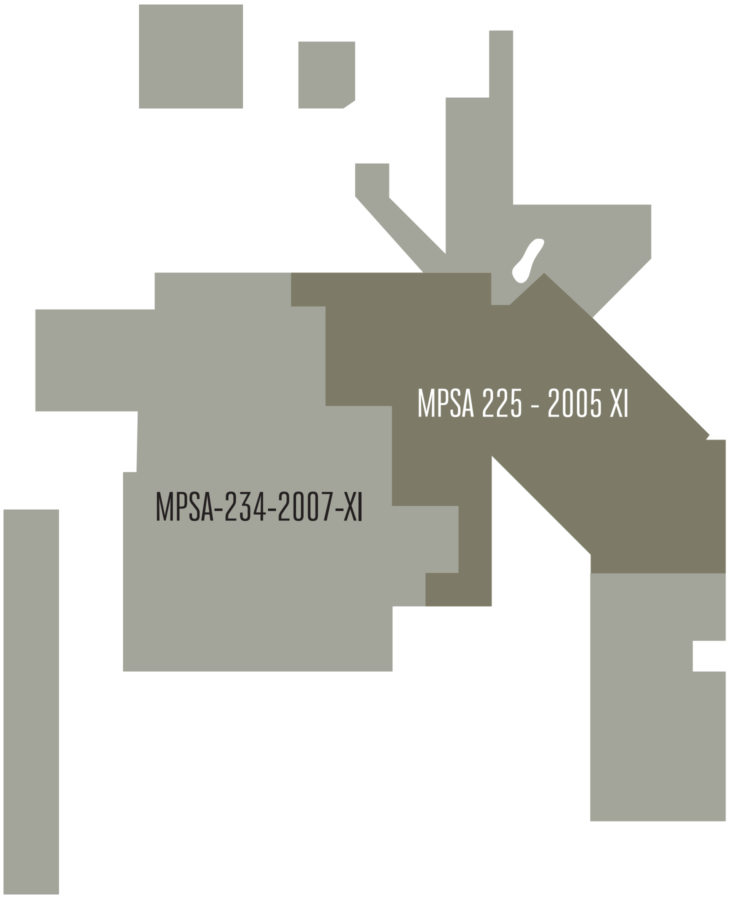
WALTER W. BROWN
President & CEO

MACO GOLD MINE



The **Maco Gold Mine** is situated in the municipalities of Maco and Mabini in the Compostela Valley Province in Southern Mindanao. The area is well known for its epithermal gold and porphyry copper deposits and has a long history of production. In 1970, the Maco mine operated as a copper mine, until 1975 when it was converted into a gold mining operation.

Underground rock drilling by miners



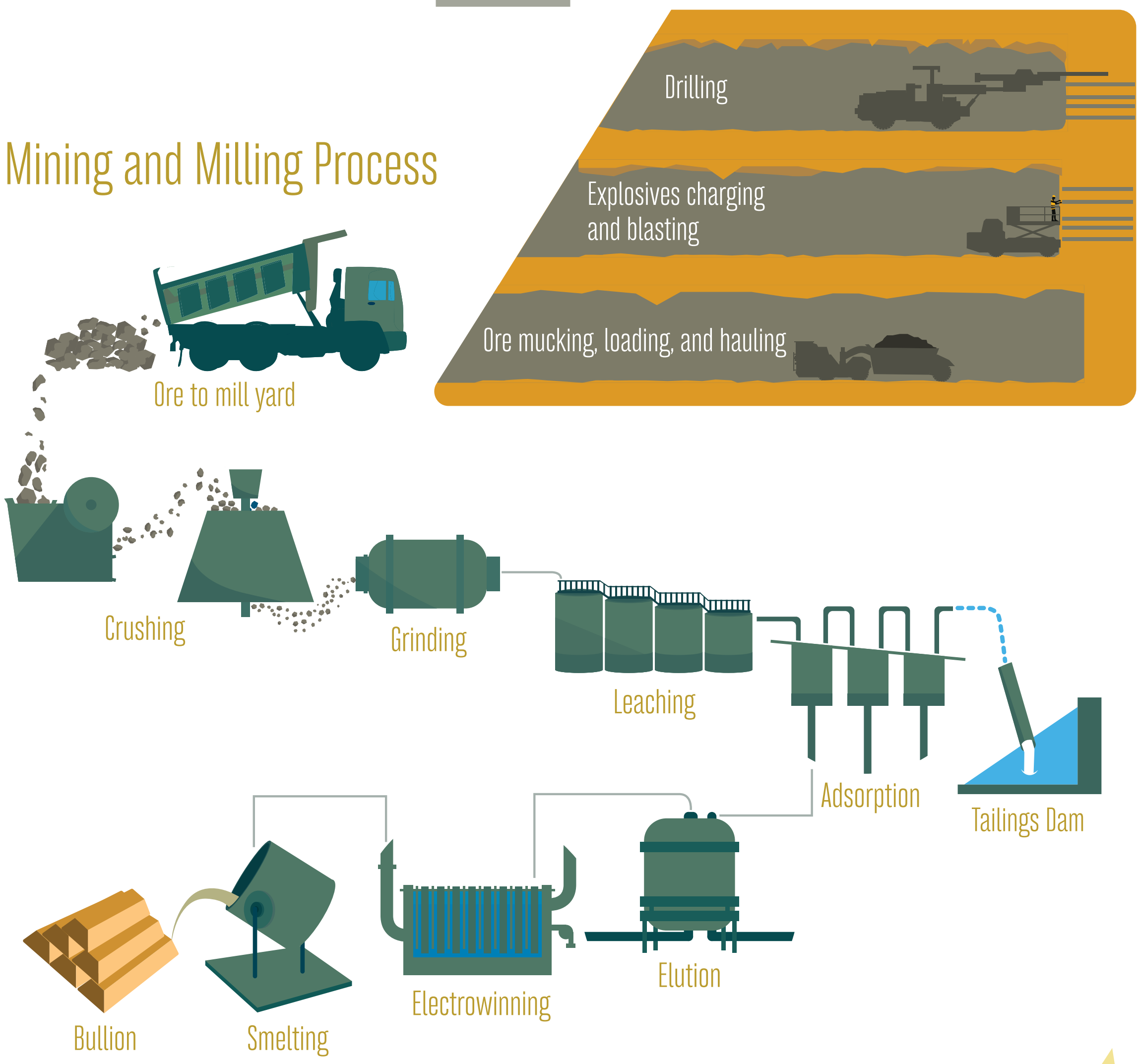
The mine is under two Mineral Production Sharing Agreements (MPSA) with the government, namely:

MPSA 225-2005-XI – granted in 2005 covering 679.02 hectares valid for a 25-year term until 2030, renewable for another 25 years thereafter; and

MPSA 234-2007-XI – granted in 2007 covering 1,558.5 hectares valid for a 25-year term until 2032, renewable for another 25 years thereafter.

The Maco mine is vein-type, adopting underground trackless and conventional mining methods, with a current milling capacity of up to 1,800 tonnes per day employing the carbon-in-pulp gold extraction process.

Mining and Milling Process



Estimated Mineral Resources @ Cut-off Grade of 1.5 GPT

Category	Grade (gpt)	Tonnes	Estimated Gold (in ounces)
Inferred	4.40	1,842,000	261,000
Indicated	8.40	505,000	136,000
Measured	8.70	213,000	60,000
Total/Average	5.60	2,560,000	457,000

From the technical report dated August 2015 compliant with the Philippine Mineral Reporting Code prepared and submitted by Mr. Rolando Pena, Registered Geologist,License No. 068; PMRC CP Registration No. 07-08-08.

Estimated Ore Reserves @ Cut-off Grade of 3.0 GPT

Category	Grade (gpt)	Tonnes	Estimated Gold (in ounces)
Probable	7.50	1,033,000	249,000
Proven	10.00	177,000	57,000
Total/Average	7.86	1,210,000	306,000

From the technical report dated August 2015 compliant with the Philippine Mineral Reporting Code prepared and submitted by Engineer Raul B. Cesar, Registered Mining Engineer, License No. 1709; CP Registration No. EM 01709-20/11.

Ore hauling at Maligaya portal

The mine is **ISO 14001:2015** certified for Environmental Management System issued in September 2016 by Certification International. The scope of the certification includes exploration activities; underground mining; milling and recovery/smelting of gold and silver using carbon-in-pulp process; mine waste and mill tails management; and all support services, valid for three years until September 29, 2019 subject to satisfactory results of annual audits.

Certificate of Registration

This is to certify that

Apex Mining Company, Inc.

Barangay Masara, Maco, Compostela Valley Province, Philippines

operates an environmental management system which has been assessed as conforming to

ISO 14001:2015

for the scope of activities

Exploration activities; underground mining; milling and recovery/smelting of gold and silver using carbon-in-pulp process; mine waste and mill tails management; and all support services.

Certificate No: **CIP/5259/16/08/980** Issue Date: **30 September 2016**

Valid until **29 September 2019** subject to adherence to the agreed ongoing audit programme, successful endorsement of certification following each audit and compliance with CI Regulations

Signed for and on behalf of

A new record output of the Maco mine has again been established in 2016. The record production was achieved through increased milling tonnage and higher recovery rate despite a decline in ore grade.

To resolve bottleneck problems and improve metal recovery, the following major activities were undertaken by the Maco mill plant:

New installations
Drum Scrubber, Conveyor for FOB Feed (CV15), Air Compressor at Comminution, Cyanide Analyzer, and Geho Pump

Modified Installations
Conversion of Ball Mill 2 Discharge, and Conversion of Tertiary Crusher

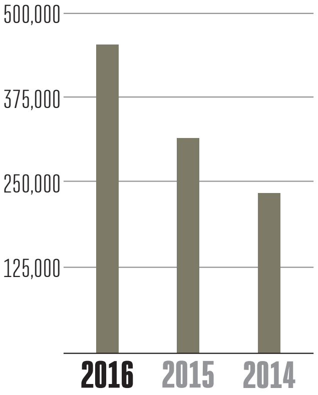
New Infrastructures
Gold Room, Liquid Chemical Storage, and Lube Station

Other Improvements
Concreting of Pump Bases, Water Supply Lines, Improved Tailings Pumps, Hoists for CIP Tanks, and Mechanical Shop/Supply Area

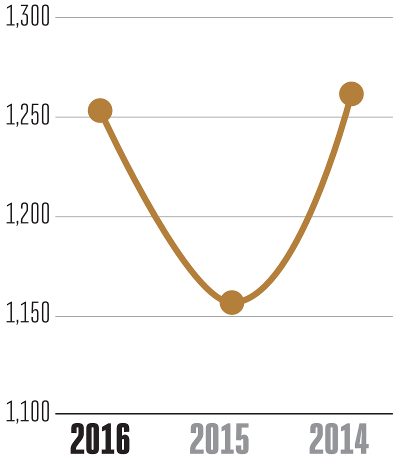
A new gold room was constructed as part of 2016's new infrastructures.

Operating Highlights

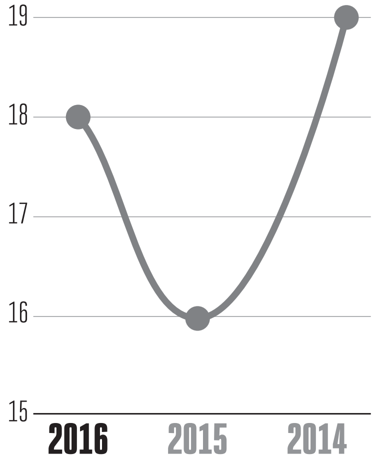
Tonnage



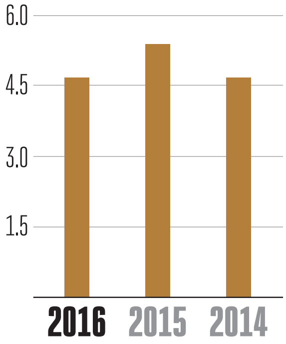
Realized Gold Prices (USD)



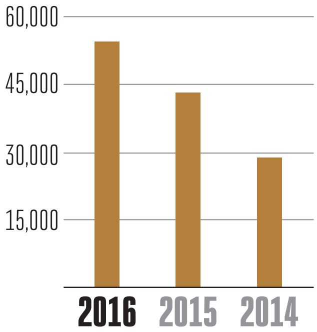
Realized Silver Prices (USD)



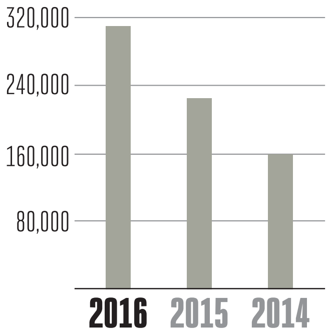
Gold Grade



Gold Production (ounces)



Silver Production (ounces)



Milling throughput increased to 452,548 tonnes at the average of 1,373 tonnes per day in 2016 from 316,148 tonnes at an average of 1,073 tonnes per day in 2015. Mill recovery averaged 80% for gold and 72% for silver in 2016, as compared to the average of 78% for gold and 65% for silver in 2015. Although ore grade was lower at 4.68 grams per tonne in 2016 from 5.42 grams per tonne in 2015, metal production increased to 54,681 ounces of gold and 309,623 ounces of silver during the year, as compared to 43,048 ounces of gold and 224,479 ounces of silver in 2015.

Mine development on waste (off-vein) access drives advanced 5,602 meters or 11% higher than the target set at the beginning of 2016. Meanwhile, mine development on ore (on-vein) drives advanced 8,326 meters, lower by 22% compared to the planned target for 2016.

Underground drilling was focused on near-mine extensions of the gold-bearing quartz and breccia veins. One unit of DE-140 rig, one unit of (1) HFU-3a and one (1) XU-200 rig were dedicated to evaluate the continuity of the Masarita 2, Sandy North, Sandy North 2, Maria Inez, and Bibak Vein in terms of lateral and down dip extensions. A total of 15 holes were completed for the year 2016, which have indicated additional resources that will guide further in-fill drilling to qualify for inclusion in the resource model. Total meters of diamond drilling achieved for the year 2016 was 2,408 meters from 15 holes in MPSA 225.

In September 2016, the Maco mine was issued its ISO 14001:2015 certification for Environmental Management Systems by Certification International. This made the mine compliant with the Department of Environment and Natural Resources (DENR) Administrative Order No. 2015-07 mandating mining contractors to be ISO certified.

The Maco mine's operations was also audited by the DENR pursuant to its Memorandum Order No. 2016-01 which called for an audit of all operating mines in the country. With the Maco mine successfully hurdling the audit, its compliance with mining and environmental regulations has been affirmed, and was thus allowed to continue.

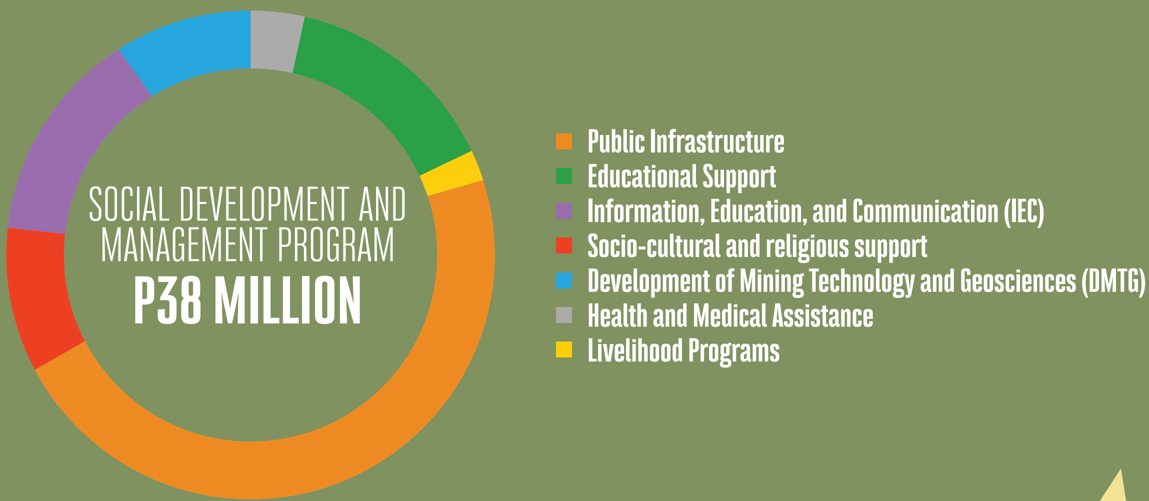
Turnover of first 20 housing units in Brgy. Elizalde

The corporate social responsibility activities of the Company reflect its commitment to being a responsible miner and a catalyst for community development.

The Company maintains its relationship with stakeholders (public, government, and civic partners) through social programs and eco-friendly activities which aim to develop and improve the lives of the communities within its tenements and protect the environment.

The Company's social programs and activities in 2016 consisted of three major categories: (1) Development of Host & Neighboring Communities (DHNC); (2) Information, Education and Communication (IEC) Campaigns; and (3) Development of Mining Technologies and Geosciences (DMTG).

In 2016, the Company spent P38 million for its various social and development programs geared towards socio-economic upliftment of the local communities.



The Company's projects for the development of host and neighboring communities are summarized in the acronym **HELPS**, or simply Health & Medical Assistance, Educational Support, Livelihood Program, Public Infrastructure Programs and Socio-cultural and Religious Support.

HEALTH AND MEDICAL ASSISTANCE

P1.4 M Total health and medical assistance activities

Support to Medical Personnel
In 2016, five (5) medical personnel (1 doctor, 2 nurses, and 2 midwives) from the host municipality were given financial support to assure the availability of medical services to the host and neighboring communities.

Maintenance of Community Health Centers & Clinics
Two (2) health centers were supported during the year: the Clinic in Brgy. Masara and the Elizalde Infirmary Clinic in Brgy. Elizalde. There were 1,482 patients treated for free. Of this total, 106 patients were given free transport via the Company ambulance for further medical treatment in Tagum City. At the Elizalde Infirmary and Lying-in Clinic, 2,187 patients were treated in the same period. All patients at the Company's Clinic were given free medicines, vitamins and medical consultations.

Other Intervening Medical Assistance
The Company also provided financial support and assistance to the local Brgy. medical projects, namely nutrition month activities, medical outreach program and hospitalization assistance.

Medical and dental mission at Brgy. Elizalde.

Summer Big Brother Reading Remediation Program at Tagbaros Elementary School.

EDUCATIONAL SUPPORT

P5.5M Total assistance provided for educational programs

The educational programs of the Company are geared towards the improvement of the quality of education and skills enhancement of the local students, the youth and general constituencies of the Maco mine's host and neighboring barangays.

Adopt-A-School Program
Fourteen (14) public schools composed of nine (9) elementary schools and five (5) secondary schools within the host communities were adopted. A total of P871.2 thousand was spent for the mandatory obligations of these schools such as Brigada Eskwela, school publications and monthly honoraria to augment the salaries of locally paid teachers. In addition, school bags, supplies and hygiene kits were distributed to identified less fortunate grade schoolers in

the municipalities of Maragusan and Pantukan. The Company also provided financial support for school activities and improvement of school facilities.

The Company actively participated in the Bayanihan Para sa Karunungan Program of its seven (7) adopted elementary schools, in partnership with the Provincial Government of Compostela Valley.

Tertiary Scholarship & Educational Aid

The Company provided financial assistance amounting to P2.5 million to 73 college scholars from Tagum, Davao and Cebu cities in 2016.

Special Program for the Employment of Students

24 local students were provided short-term employment by the Maco mine during the year. This program is jointly implemented by the Department of Labor and Employment (DOLE) and the Company, where 60% of the students' wages are shouldered by the Company and 40% charged to DOLE.

School Transportation

The Company incurred a total of P1.95 million as rentals in 2016 for five shuttle buses to fetch and ferry students from pooling centers to their respective schools.

School bag distribution in Tagbaros Elementary School.

Students taking Company provided shuttle bus

Brigada Eskwela participants at Elizalde National High School

LIVELIHOOD PROGRAMS

P0.7M Total assistance provided in executing livelihood programs

One of the Company's advocacies is to provide alternative livelihood for the development of empowered and self-reliant communities. The Company wants its host and neighboring communities not to be totally dependent on the employment generated from the Maco mining operations. The livelihood programs help promote unity and interrelation among members of the communities, by organizing themselves into an association or cooperative that could generate self-employment and income from identified Income Generating Projects (IGP).

Institutional Assistance & Organizational / Capacity Building

Nine community-based organizations were provided technical trainings and capacity-building seminars sponsored by the Company. The beneficiaries were LIRUSWA, MALFA, NEBUFA, TASWA, BESWA, BIRUSWA, BAMAHOWA, TERUSWA, and COBAWA (Community-based Workers Association) Groups.

The Apex Industrial Sewer Producer Cooperative (AISPC) was recognized as Best Livelihood Project for IP Women's Group during the National Community Relations Officers Conference in Baguio City.

Other livelihood contributions

The Company also donated starter kits and initial supplies and machineries amounting P547.6 thousand to the following organizations: Apex Regular Dependents Association (AREDA) for meat processing project, Masara Lines Farmers Association (MALFA) for ventilation tube production, New Barili Upland Farmers Association (NEBUFA) for an abaca stripping machine, Teresa Upland Farmers Association (TUFA) for cacao production and vermiculture, Lim-ao Rural Skilled Workers Association (LIRUSWA) for cacao/ agricultural production, and Biucadan Rural Skilled Workers Association for pebbles production.

Hollow block and pebbles production

PUBLIC INFRASTRUCTURE

P17.8M Total expenditures under the public infrastructure programs

Resettlement Site: **Acquisition, development and maintenance**

For this year, the Company spent P13.2 million for the construction of housing units at Elizalde Relocation Site in Brgy. Elizalde, Maco. Out of 90 planned duplex units, 20 units have already been completed.

Construction/ Repair/ Maintenance of Public Infrastructures

Various public infrastructure projects were implemented by the Company in 2016. Among them were: basketball court lightings in Brgy. Masara; road maintenance from Brgy. Masara – Tagbaros; covered court improvement in Brgy. Golden Valley; covered court improvement in Brgy. Masara; road rehabilitation in Brgy. New Barili; electrical installation of vent tube production area in Brgy. Tagbaros; electrical installation off Foursquare Gospel Church in Brgy. Teresa; support to construction of Immaculate Conception Parish of Mary in Brgy. Elizalde; tribal hall improvement in Brgy. New Leyte; road upgrading project in Brgy. New Leyte; installation of perimeter fence in Brgy. Teresa; construction of PNP-Detachment in Brgy. Masara; street lightings in Brgy. Masara; road upgrading project (Road Section) in Brgy. Elizalde; provision of materials for Teresa ES, Roman Catholic Chapel; and provision of materials in Brgy. Teresa Hall. Moreover, 98 individuals were engaged by the company for temporary employment through the quarterly conduct of roadside brushing.

Housing units constructed at Brgy. Elizalde relocation site

Handing of the symbolic key to the Brgy. Elizalde housing project recipients

SOCIO-CULTURAL AND RELIGIOUS SUPPORT

P3.7M Total expenditures under the Socio-Cultural and Religious Support programs

The Company also cares about and respects the existing socio-cultural religious values and other related activities which promote social cohesion, awareness and community pride from within the host and neighboring communities.

Sponsorship, financial assistance and donations were extended to various Brgy.s, municipalities, and the Compostela Valley provincial government through free transportation services, assistance to day care workers, local special events and assemblies, Brgy. hall improvement and renovation, anniversaries, town fiestas, nutrition programs, bloodletting, church activities, improvement of water reservoir, water system project, IP activities, construction of covered courts, and support to physically challenged persons and the elderlies, among others.

The Company also supported the local Peacekeepers through financial assistance during the year-end evaluation activity of 71st IB, 71ID, PA, Pro-Environment Peace and Development Activities, Compostela Valley PPO National Women's Month Celebration and AFP in Mawab, ComVal. AMCI also provided supplies and construction materials for the improvement of the camps/detachments of the AFP in Brgy. Tuboran, Mawab and in Paloc, Maragusan.

Immaculate Concepcion of Mary Parish Church

INFORMATION, EDUCATION AND COMMUNICATION (IEC) PROGRAM

P5.5M The total expenditures for IEC activities

The Information, Education and Communication Program aims to institutionalize greater public awareness on responsible mineral development and the promotion of geosciences and related technologies.

Various IEC activities were implemented where a total of 2,663 participants attended the lectures and seminars conducted for free to reach as many Brgy.s as possible.

DEVELOPMENT OF MINING TECHNOLOGY AND GEOSCIENCES (DMTG)

P3.4 M Total assistance spent for DMTG

Student Summer Training Program (SSTP) / On the Job Training (OJT)

The Company incurred a total cost of P2.4 million in accommodating 98 OJTs and SSTPs, and 12 mining-related courses scholars during the year. Two-day training sessions for community organizing and project development formulation were also conducted.

Symposia, Fora, and Participation in Mining Activities

The Company sponsored and supported activities related to the promotion of mining and geosciences, which include, among others, the following: (1) Mining and Geology Conference (The Hunt for Ore) held in Davao City last January 25-26, 2016; (2) Mining Symposium: Mineral Industry's Development held at USEP Davao City last February 12, 2016; (3) 2-Day Live-out Seminar for SDMP/CDP Implementors in Region XI held at Pinnacle Hotel, Davao City last March 9-10, 2016; (4) Sponsorship to the Mining Convention 2016 in Legaspi City on May 6, 2016; (5) Sponsorship for Mining Engineering Review at USEP Davao on June 15, 2016; (6) Sponsorship for the USEP Geology Review on June 27, 2016; (7) Sponsorship to the 3rd IIEE Northern Davao Congress Regional Conference – August 18-20, 2016; (8) Sponsorship to the 22nd Mining Symposium: Mindanao Association of Mining Engineers (MAEM) – September 22-23, 2016; (9) Support to National Convention of the Society of Filipino Foresters Incorporated – September 19-21, 2016; (10) Preparation to PMSEA Activities; (11) Participation to PMSEA Activities last November 15-21, 2016 in Baguio City; (12) 4th National Community Relations Officers Conference last November 16, 2016 in Baguio City; (13) Participation to GeoSea 2016 Conference last October 21, 2016; and (14) Participation to Annual Geology Conference last December 13-14, 2016 in Manila.

Baseline Information Gathering for Mining Related Activities

The Company financially supported the baseline information studies conducted by different public sectors in the entire Company operations, namely: (1) Field study for SDMP best practices in the host communities conducted by Department of Environment and Natural Resources (DENR) and Mines and Geosciences Bureau Central (MGB) Offices for the Philippine Poverty Extractive and Initiative (PPEI) Program of Department of Interior and Local Government (DILG); (2) Survey for the K-12 Technical Courses in the adopted schools of Apex; (3) Microbial analysis of the sources of community potable water in Brgy. Teresa. Assistance included costs of laboratory analyses and logistics during water collection activities; (4) Survey and area delineation at Parcel 5 (PJAC) conducted by MGB. The Company extended financial support to Brgy. Tanods and Indigenous People (IP) members who assisted MGB personnel; (5) Study for the Maco mining operation conducted by USEP Engineering Students; and (6) Baseline information gathering of the Company's mining activities.

Signing of the Kasabutan (Agreement) between Apex and IP Leaders

ENVIRONMENTAL PROTECTION

As a responsible miner, the Company takes care of the environment and the surroundings where it operates. Preservation of natural resources is foremost in the Company's advocacies. On top of fully complying with mandated rules and regulations, the Company takes extra steps more to pursue protection and rehabilitation of the environment.

In 2016, a total of P85.4 million was spent in the implementation of various EPEP activities of the Company. These activities are continuously being implemented to mitigate the negative effect, if any, of mining operations to the environment. Below is the summary of the activities with corresponding costs.

Activity	P in millions
Construction and Maintenance	77.9
Reforestation and Forest Protection	2.3
Monitoring	2.0
Trainings, IEC, and Research	1.3
Multi-partite monitoring team/mine rehabilitation fund committee activity	1.0
Domestic Waste Managment	0.8
Total	**85.4**

Tree Planting / Reforestation

The Company operates and maintains nurseries of various tree seedlings. During the year, 180,876 assorted seedlings were stocked at the mangrove and central nurseries, while a total of 233,907 assorted seedlings were consequently produced at the same nurseries. Among the seedlings were Falcata, Mangium, Mahogany, Rubber, Durian, Bamboo, Narra, African tulips, and Mangrove species. A clonal garden for rubber demo-farm and African tulip cuttings at Central nursery was established.

The Company's Forestry Group regularly conducts tree planting, protection and maintenance activities to enhance and improve the disturbed areas. Assorted shrubs and grasses were planted and wattling structures were constructed for slope stabilization and erosion control. For low density areas, enrichment planting was also conducted. For 2016, a total of 28,596 seedlings were planted covering an area of 17.21 has.

At Bucana, Maco, Compostela Valley, a joint mangrove tree planting project between the Company, DENR-Maco and LGU-Maco was conducted where 1,500 mangrove seedlings were planted covering an area of 0.15 hectare.

The Company participated in the 2016 National Clean-Up Day with the theme "Bayan Ko, Linis Ko" where 570 acacia mangium seedlings were planted in St. Francis area.

Continuous protection and maintenance of out-planted seedlings (total of 90,065 seedlings covering an area of 83.17 has. during 2016) within the Company's tenements was done to assure the growth of the new plants. Replanting was also conducted in other locations with low surviving tree species where the Company replanted 21,720 assorted seedlings covering an area of 20.49 has. The tree planting maintenance and protection of the adopted mangrove project at Pantukan and Bucana, Maco, Compostela Valley area was similarly sustained.

The Company also donated 55,039 assorted seedlings to various LGU's, the DENR, civic organizations, Brgy. councils, schools and private individuals for tree planting purposes to cover an approximate area of 110.08 has.

Surface Maintenance

The Company continues to do maintenance work within and outside its minesite areas. These include the desilting of creeks, river channels, sumps, and ponds; road maintenance within mine site; maintenance of drainage canals; construction of earth sump for storm drain; regular cleaning of oil and water separator (OWS) facility; and the regular cleaning and maintenance of used oil storage facility.

Solid Waste Management

The Company, as a public service, provides free collection and hauling of domestic wastes from the Maco minesite and four host Brgy.s going to the Company's material recovery facility which was constructed to facilitate domestic waste management and institute proper waste segregation.

In compliance with RA 9003 (Ecological Solid Waste Management Act) the Company also conducts 2-hour housekeeping activities every Saturday in the minesite work areas. Likewise, all metal scraps, chips and cuttings generated from various operations are being collected and transported to the

A section of the Maco nursery

Tree planting activity in Brgy. Elizalde

scrap yard for proper disposal.

Water Resources and Pollution Management

Tailings Pond Management

The condition of the tailings pond is regularly being monitored by the Company as part of good environmental management. This includes regular desilting at the Lumanggang creek, maintenance of siphoning pipe and tailings pipe lines, and maintenance of drainage canal and spillway along the tailings pond. The construction of Phase 3A dam raising to elevation 650m is currently on-going, as well as the construction of Lumanggang Clearwater Diversion. The Company also conducts regular detoxification at Toe drain discharge and inside the tailings pond using Hydrogen peroxide and SMBS.

To conform to the directive of the DENR, the Company engaged an independent technical consultant to assess the stability of the Maco mine's tailings impoundment facility. This is regularly done as part of the Company's proactive prevention of possible leaks.

River Clean-up

During the celebration of the Philippine Environment Month & World Environment Day with the theme "Go Wild For Life, Combat Biodiversity Loss" held in June 2016, the Company, together with Brgy. Teresa officials, conducted river clean-up on the adopted water body of Buenatigbao River situated in Maco, Compostela Valley. A total of 6,000 kilograms of solid wastes were collected. In the 2016 National Clean-Up Day held in September 2016 with the theme "Bayan Ko, Linis Ko", the Company and the Brgy. jointly participated in the river clean-up at Malumon and Buenatigbao Rivers collecting a total of 1,232 kilograms of solid waste.

Monitoring of effluent and piezometer

The Company conducts regular monitoring of effluents from the different established sampling station points of the Maco mine to ensure that DENR standards are complied with. Piezometer monitoring is also continuously being done at the tailings pond for data gathering, information and reference purposes. All safety measures and maintenance works are undertaken to ensure the smooth and safe operations of tailings conveyance to disposal area.

Monitoring of chemical waste

Chemical wastes at the assay Laboratory are disposed properly. Acid and alkali wastes are diluted with water to reduced acidity and alkalinity, and treated with sodium hydroxide at the sump box before disposal to sewerage. Cupels and slags are contained in drums and brought to a designated area suitable for disposal. Regular analysis of water and effluents samples from the tailings pond are conducted.

Handling of Used and Waste Oil

The Company maintains proper handling of used and waste oil for disposal to third parties with valid permits from the Environment Management Bureau – DENR. For this year, a total of 51,400 liters of used oil and 43 drums of waste water with oil were disposed via the DENR accredited transporters. All used oil-water separators installed in the different discharge areas are regularly monitored and inspected to ensure no oil spillage will affect the river system.

Noise

As part of the Company's Personal Protective Equipment (PPE) policy, the use of earmuffs and earplugs is continuously being enforced among workers assigned in areas where there is high level of noise.

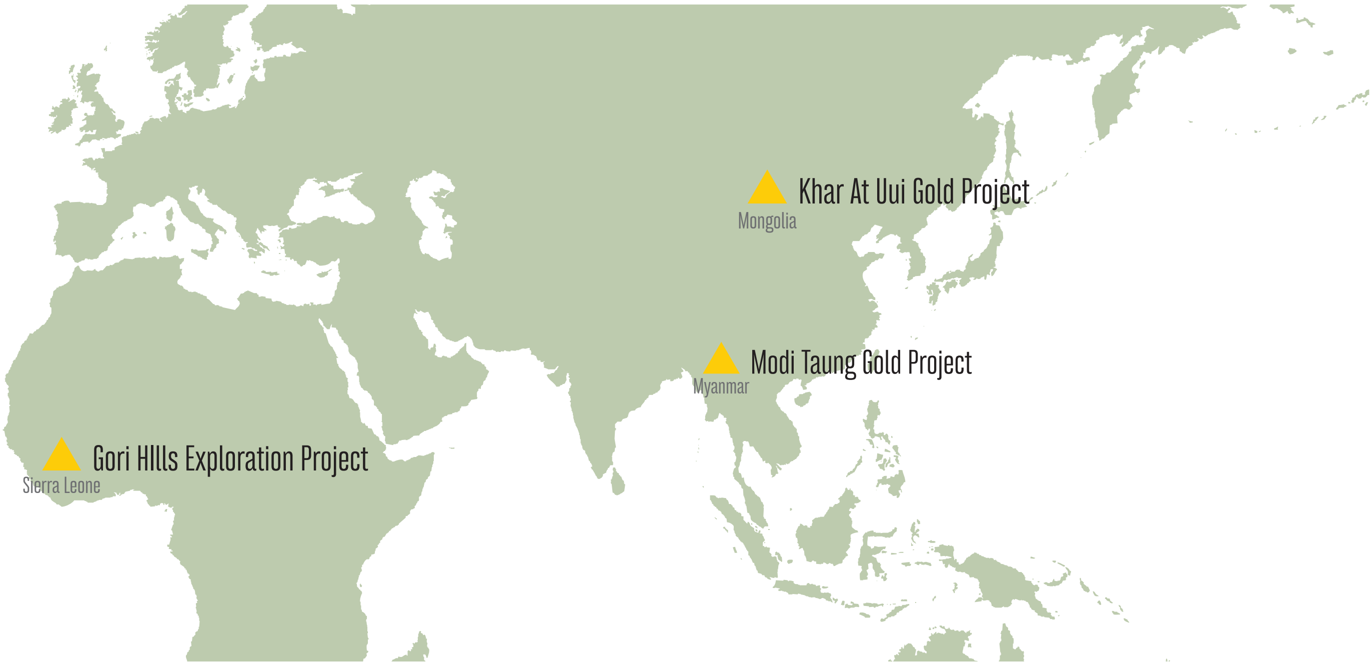
Air Quality

The Company maintains and provides a good ventilation system in the underground areas to ensure adequate air flow within the production areas. Respirator apparatus are available ready to be used by employees whenever necessary.

Ambient air quality within the minesite is monitored using a PM 10 device which measures the impact of aggregate emissions to nearby surroundings. In 2016, tests showed that the particulate matter concentration is within the DENR standards. To suppress dust particles caused by moving vehicles on the roads within the camp, the Maco mine conducts daily road spraying using water tankers.

A lead fume scrubber was installed at the Assay Laboratory to mitigate the impact of lead emission to the nearby surrounding areas.

Ambient air quality monitoring using a PM 10 device.



Monte Oro Resources & Energy, Inc. (MOREI) is a wholly-owned subsidiary of the Company holding various projects locally and abroad.

Modi Taung Gold Project

A gold project at the Moe de Moe mi Region, Yementhin Township, Mandalay Division, Myanmar, located 159 kilometers southeast of Mandalay and 370 kilometers northof Yangoon. Estensively explored by Ivanhoe Myanmar Holdings from 1996 to 2006, the property was taken over in 2011 by National Prosperity Gold Production Corporation in which MOREI has a 3.92% equity interest.

Khar At Uui Gold Project

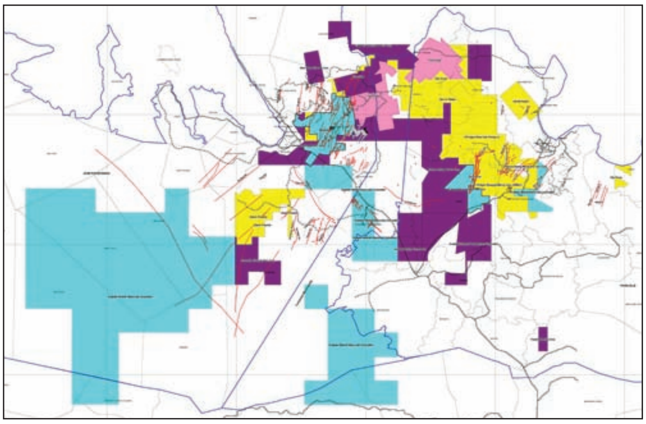
A gold exploration project currently under care and maintenance covering an area of 7.5 square kilometers located 98 kilometers west of Bayanhongor in South West Mongolia. The project is under Erdeneminas LLC, a joint venture company owned 51% by Minas de Oro Mongol LLC, and 49% by Erdenejas LLC, a Mongolian exploration company. The project's mining license covers 795 hectares issued in April 2014, valid for 30 years. Minas de Oro Mongol LLC is a wholly-owned subsidiary of MOREI.

Gori Hills Exploration Project

A 90%-owned gold exploration and artisanal mining and gold trading project located in the southern Gori Hills in the Kaihalun District, Eastern Sierra Leone, West Africa. MOREI owns 90% of both Monte Oro Mining Co., Ltd, which holds the tenements for the project granted in September 2012, and More Minerals SL which engaged in artisanal mining and gold trading. The project was suspended in 2014 following the outbreak of the Ebola virus. In 2016, the crisis was declared contained, and renewal of the mining tenements is currently in process to resume activities in the area.

Paracale Mine

A gold-silver project under Paracale Gold Limited (PGL) (100% owned), an Isle of Man company. PGL owns two companies: Bulawan Mineral Resources Corp. (40% owned) which holds 15 mining tenements located in Jose Panganiban, Camarines Norte, covering an area of 9,620 hectares: and Coral Resources Philippines, Inc. (100% owned) which owns the CIP processing plant for the project. PGL has ten other tenements in Masbate, Isabela and Quezon covering 94,438 hectares.



Service Contract (SC) 72

SC 72 is a consortium for natural gas owned 30% by MOREI, and 70% by Forum (GSEC) 101 as operator. The service contract, with an area of 8,800 square kilometers located in offshore Northwest Palawan in the West Philippine Sea, covers the Sampaguita gas discovery which is estimated to contain 2.6 trillion cubic feet of in-place Contingent Resources, and 5.5 trillion cubic feet of in-place Prospective Resources as per assessment by Weatherford Petroleum Consultants.

In a decision released by the Permanent Court of Arbitration in the Hague on July 12, 2016 on the maritime case filed by the Philippines against China, the Tribunal ruled that the Reed Bank (Recto Bank) in the disputed area of the West Philippine Sea where SC 72 is located is within the Philippines' Exclusive Economic Zone (EEZ) as defined under the United Nation's Convention on the Law of the Sea (UNCLOS). Depending on the Philippine government's guidance on the matter, this development could possibly lead to the resumption of activities in SC 72.

Waste Management Project

A 52%-owned project under International Cleanvironment Systems, Inc. with a Build-Operate-Transfer Agreement with the Philippine Government through the Department of Environment and Natural Resources to manage, rehabilitate and introduce ecologically friendly technologies for waste disposal, recycling and energy generation. The contract was signed in 1997 for 25 years with the option to renew for another 25 years, but operations have not yet started.

Itogon-Suyoc Resources, Inc. is a 100%-owned subsidiary acquired by the Company in June 2015. ISRI is the assignee-company in 2002 of the mining assets of the former Itogon-Suyoc Mines, Inc. (ISMI), which consisted of the Sangilo Mine in Itogon and the Suyoc Mine in Mankayan, both located in Benguet Province, and the Benit Claim in Labo, Camarines Norte.

Both Sangilo and Suyoc mines have long histories of mining operations before and after the second world war. Post-war operations from 1951 to 1996 recorded a combined production of 1,285,242 ounces of gold and 728,063 ounces of silver from 8.2 million tonnes of ore mined, which was quite remarkable considering the less efficient mining and processing methods of the time as compared to present practices.

ISO Certification

The **Sangilo mine** is ISO 14001:2015 certified for environmental management system granted by TUV Rheinland in April 2017. The scope of the certification is for exploration, mining and mineral processing, valid until 2020.

The **Suyoc mine** is ISO 14001:2015 certified for environmental management system granted by TUV Rheinland in April 2017. The scope of the certification is for mining exploration and project development activities valid until 2020.

ISRI Sangilo Mine personnel celebrating their ISO certification.

Sangilo Mine

A two-stage development program for the Sangilo mine is underway. The first stage commenced in October 2015 is for the construction of a 400-tonnes per day plant capacity with interim phases to reach 75 tonnes per day while underground development is being pushed through in fresh and old headings. Incidental production in 2016 accounted for 1,547 ounces of gold valued at P P92.1 million. The second stage is a separate plant at 1,500 tonnes per day which will bring the mine's total installed capacity to 1,900 tonnes per day at the estimated total investment cost of $68.8 million.

Sangilo Resource and Reserve Estimates

		ISMI Reserves Report (1998)	Dalton Resource Estimate (2001)
Measured	Tonnage	1,303,555	4,703,828
	Grade (G/T)	3.87	4.48
	Ozs. Gold	151,073	664,318
Indicated	Tonnage	9,956,875	3,997,039
	Grade (G/T)	3.33	4.49
	Ozs. Gold	1,060,843	536,305
Inferred	Tonnage	2,490,267	3,229,211
	Grade (G/T)	3.03	4.01
	Ozs. Gold	240,436	392,631
Total	Tonnage	13,750,697	11,930,078
	Grade (G/T)	3.41	4.33
	Ozs. Gold	1,452,352	1,593,254

Notes

Cut off grade for both reports are 2.5 g/t Au covering all major veins inside APSA-103 from the surface to L-1300.

Reference for ISMI Reserve Report
Summary of Ore Reserve Estimate as of 01 Jan 1998
(Developed Blocks correspond to Measured category, Partly Developed to Indicated category, Mineable Blocks to Inferred category, Potential Reserves not included)

Reference for Dalton Resource Estimate
Results of the Data Review and Evaluation of Itogon-Suyoc Mines, Inc. (2001)

Suyoc Mine

The plan for the Suyoc mine is for a 300 tonnes per day operation, to commence plant construction and mine development work after the reserve validation of the mine now in progress is completed. Investment cost for the Suyoc mine is estimated to be $36.8 million.

Gold buttons from Sangilo incidental production.

Apex Mining Co., Inc. and Subsidiaries

Consolidated Financial Statements
as at December 31, 2016, and 2015
and for Each of the Three Years
in the Period Ended December 31, 2016

and

Independent Auditor's Report

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A member firm of Ernst & Young Global Limited

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Apex Mining Co., Inc. and Subsidiaries is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are from material misstatements, whether due to fraud or error.

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

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

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

Sycip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Ramon Y. Sy
Chairman of the Board

Walter W. Brown
President and Chief Executive Officer

Renato N. Migriño
Treasurer

Signed this 11th day of April 2017.

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Apex Mining Co., Inc.
3304B West Tower, PSE Centre, Exchange Road
Ortigas Center, Pasig City

Opinion

We have audited the consolidated financial statements of Apex Mining Co., Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Recoverability of Deferred Exploration and Mine Development Costs

The ability of the Group to recover its deferred exploration and mine development costs depends on the commercial viability of the mineral resources. The carrying values of deferred exploration and mine development costs amounted to ₱3.95 billion as at December 31, 2016, which is about 36% of the Group's consolidated total assets. The substantial amount of this account, the level of additions during the year and the significant management judgment required when performing an impairment review are key areas of focus in our audit (see Notes 10 and 11).

Audit Response

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

Estimation of Ore Reserves

The estimation of ore reserves involves significant management estimates and assumptions (i.e., metal price and other operating and economic parameters). Ore reserves are key inputs to depletion and depreciation calculations. As discussed in the Note 10 to the consolidated financial statements, the Group's mine and mining properties amounting to ₱2.80 billion as at December 31, 2016 are depleted using the units of production method. This matter is significant to our audit because the estimation of the mineable ore reserves requires significant estimation from management.

Audit Response

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

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Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jose Pepito E. Zabat III.

SYCIP GORRES VELAYO & CO.

Jose Pepito E. Zabat

Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-3 (Group A),
May 1, 2015, valid until April 30, 2018
Tax Identification No. 102-100-830
BIR Accreditation No. 08-001998-60-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5321714, January 4, 2016, Makati City

April 11, 2017

APEX MINING CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash (Note 5)	**₱237,508,978**	₱550,980,770
Trade and other receivables (Note 6)	**194,468,066**	107,497,333
Inventories - net realizable value (Note 7)	**773,320,136**	734,293,481
Advances to related parties (Note 15)	**2,507,262**	2,306,149
Prepayments and other current assets (Note 8)	**407,511,416**	451,949,200
Total Current Assets	**1,615,315,858**	1,847,026,933
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Note 9)	**344,640,000**	344,640,000
Property, plant and equipment (Note 10)	**6,323,823,868**	6,006,647,341
Deferred exploration costs (Note 11)	**2,310,047,312**	2,261,567,072
Intangible assets (Note 12)	**192,764,143**	193,359,873
Other noncurrent assets (Note 13)	**292,438,743**	306,801,809
Total Noncurrent Assets	**9,463,714,066**	9,113,016,095
TOTAL ASSETS	**₱11,079,029,924**	₱10,960,043,028
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	**₱1,465,453,445**	₱1,749,062,222
Advances from related parties (Note 15)	**978,230,761**	612,050,463
Loans payable (Note 18)	**3,121,667,433**	3,432,305,747
Income tax payable	**4,629,511**	5,372,921
Total Current Liabilities	**5,569,981,150**	5,798,791,353
Noncurrent Liabilities		
Provision for retirement benefits (Note 16)	**163,684,274**	147,645,231
Provision for mine rehabilitation and decommissioning (Note 17)	**42,837,160**	44,026,510
Deferred income tax liabilities (Note 27)	**303,576,822**	309,877,275
Total Noncurrent Liabilities	**510,098,256**	501,549,016
Total Liabilities	**6,080,079,406**	6,300,340,369
Equity Attributable to Equity Holders of the Parent Company		
Issued capital stock (Note 19)	**6,227,887,491**	6,227,887,491
Additional paid-in capital (Note 19)	**15,941,675**	3,027,029,976
Treasury shares (Notes 19)	**(2,117,737,909)**	(2,117,737,909)
Revaluation surplus on property, plant and equipment (Notes 2 and 10)	**262,063,873**	283,524,013
Remeasurement loss on retirement plan (Note 16)	**(7,686,433)**	(26,813,063)
Currency translation adjustment on foreign subsidiaries	**(2,185,644)**	(347,620)
Retained earnings (deficit) (Note 19)	**443,834,193**	(2,914,720,530)
	4,822,117,246	4,478,822,358
Non-controlling Interests (Note 19)	**176,833,272**	180,880,301
Total Equity	**4,998,950,518**	4,659,702,659
TOTAL LIABILITIES AND EQUITY	**₱11,079,029,924**	₱10,960,043,028

See accompanying Notes to Consolidated Financial Statements.

APEX MINING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2016	2015	2014
REVENUE			
Gold	**₱3,264,596,048**	₱2,270,473,543	₱1,598,452,935
Silver	**257,454,606**	159,623,786	132,288,632
	3,522,050,654	2,430,097,329	1,730,741,567
COST OF PRODUCTION (Note 21)	**(2,699,036,348)**	(2,014,031,718)	(1,872,112,864)
EXCISE TAXES	**(72,267,752)**	(48,601,947)	(34,578,395)
GENERAL AND ADMINISTRATIVE EXPENSES (Note 22)	**(225,983,326)**	(187,028,862)	(150,858,453)
FINANCE COSTS (Note 26)	**(163,352,707)**	(146,605,682)	(110,670,818)
OTHER INCOME (CHARGES) - net (Note 23)	**(28,781,663)**	23,060,560	60,406,210
INCOME (LOSS) BEFORE INCOME TAX	**332,628,858**	56,889,680	(377,072,753)
BENEFIT FROM (PROVISION FOR) INCOME TAX (Note 27)			
Current	**(16,970,058)**	(11,496,325)	(6,681,452)
Deferred	**6,300,453**	25,997,364	(6,103,846)
	(10,669,605)	14,501,039	(12,785,298)
NET INCOME (LOSS)	**₱321,959,253**	₱71,390,719	(₱389,858,051)
Net income (loss) attributable to:			
Equity holders of the Parent Company	**326,006,282**	₱78,402,528	(₱380,997,415)
Non-controlling interests	**(4,047,029)**	(7,011,809)	(8,860,636)
	₱321,959,253	₱71,390,719	(₱389,858,051)
BASIC/DILUTED EARNINGS (LOSS) PER SHARE (Note 20)	**₱0.06**	₱0.01	(₱0.12)

See accompanying Notes to Consolidated Financial Statements.

APEX MINING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
NET INCOME (LOSS)	**₱321,959,253**	₱71,390,719	(₱389,858,051)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX			
Items that will be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign subsidiaries	**(1,838,024)**	19,767,680	(208,345)
Revaluation surplus, net of tax (Note 10)	–	303,629,735	–
Item that will not be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on retirement plan (Note 16)	**19,126,630**	93,189,377	(95,824,336)
	17,288,606	416,586,792	(96,032,681)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱339,247,859**	₱487,977,511	(₱485,890,732)
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	**₱343,294,888**	₱494,989,320	(₱477,030,096)
Non-controlling interests	**(4,047,029)**	(7,011,809)	(8,860,636)
	₱339,247,859	₱487,977,511	(₱485,890,732)

See accompanying Notes to Consolidated Financial Statements.

APEX MINING CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Attributable to Equity Holders of the Parent Company									
	Capital stock (Note 19)	Deposit for future stock subscriptions (Note 19)	Additional paid-in capital (Note 19)	Revaluation surplus (Note 10)	Treasury shares (Note 19)	Remeasurement loss on retirement plan (Note 16)	Currency translation adjustment on foreign subsidiaries	Deficit	Non-controlling interests (Notes 4 and 19)	Total
Balances at December 31, 2013	₱1,868,639,664	₱–	₱3,098,234,838	₱13,387,441	₱–	(₱24,178,104)	₱–	(₱2,670,276,225)	₱–	₱2,285,807,614
Net loss, as restated	–	–	–	–	–		–	(380,997,415)	(8,860,636)	(389,858,051)
Other comprehensive loss	–	–	–	–	–	(95,824,336)	(208,345)	–	–	(96,032,681)
Total comprehensive loss, as restated	–	–	–	–	–	(95,824,336)	(208,345)	(380,997,415)	(8,860,636)	(485,890,732)
Deposit for future stock subscriptions (Note 19)	–	2,500,000,000	–	–	–	–	–	–	–	2,500,000,000
Transaction costs of share issuance (Notes 4 and 19)	–	–	(49,408,614)	–	–	–	–	–	–	(49,408,614)
Transfer of portion of revaluation surplus realized through depreciation, depletion and disposal, net of tax (Note 10)	–	–	–	(8,115,822)	–	–	–	8,115,822	–	–
Prior period adjustment as a result of final Purchase Price Allocation (PPA; Note 4)	–	–	–	–	–	–	–	65,231,245		65,231,245
Acquisition of Monte Oro Resources & Energy, Inc.	–	–	–	–	(2,412,407,370)	–	–	17,238,135	196,752,746	(2,198,416,489)
Balances at December 31, 2014	₱1,868,639,664	₱2,500,000,000	₱3,048,826,224	₱5,271,619	(₱2,412,407,370)	(₱120,002,440)	(₱208,345)	(₱2,960,688,438)	₱187,892,110	₱2,117,323,024

- 2 -

	Attributable to Equity Holders of the Parent Company									
	Capital stock (Note 19)	Deposit for future stock subscriptions (Note 19)	Additional paid-in capital (Note 19)	Revaluation surplus (Note 10)	Treasury shares (Note 19)	Remeasurement gain (loss) on retirement plan (Note 16)	Currency translation adjustment on foreign subsidiaries	(Deficit) (Note 19)	Non-controlling interests (Note 19)	Total
Balances at December 31, 2014	₱1,868,639,664	₱2,500,000,000	₱3,048,826,224	₱5,271,619	(₱2,412,407,370)	(₱120,002,440)	(₱208,345)	(₱2,960,688,438)	₱187,892,110	₱2,117,323,024
Net income (loss)	–	–	–	–	–		–	78,402,528	(7,011,809)	71,390,719
Other comprehensive income (loss)	–	–	–	303,629,735	–	93,189,377	(139,275)	–	–	396,679,837
Total comprehensive income (loss)	–	–	–	303,629,735	–	93,189,377	(139,275)	78,402,528	(7,011,809)	468,070,556
Issuance of shares (Note 19)	4,359,247,827	(2,500,000,000)	–	–	–	–	–	–	–	1,859,247,827
Transaction costs of share issuance (Notes 4 and 19)	–	–	(21,796,248)	–	–	–	–	–	–	(21,796,248)
Transfer of portion of revaluation surplus realized through depreciation, depletion and disposal, net of tax (Note 10)	–	–	–	(25,377,341)	–	–	–	25,377,341	–	–
Acquisition of Itogon-Suyoc Resources, Inc. (Note 4)	–	–	–	–	294,669,461	–	–	(57,811,961)	–	236,857,500
Balances at December 31, 2015	₱6,227,887,491	₱–	₱3,027,029,976	₱283,524,013	(₱2,117,737,909)	(₱26,813,063)	(₱347,620)	(₱2,914,720,530)	₱180,880,301	₱4,659,702,659

	Attributable to Equity Holders of the Parent Company									
	Capital stock (Note 19)	Deposit for future stock subscriptions (Note 19)	Additional paid-in capital (Note 19)	Revaluation surplus (Note 10)	Treasury shares (Note 19)	Remeasurement gain (loss) on retirement plan (Note 16)	Currency translation adjustment on foreign subsidiaries	Retained earnings (deficit) (Note 19)	Non-controlling interests (Note 19)	Total
Balances at December 31, 2015	**₱6,227,887,491**	**₱–**	**₱3,027,029,976**	**₱283,524,013**	**(₱2,117,737,909)**	**(₱26,813,063)**	**(₱347,620)**	**(₱2,914,720,530)**	**₱180,880,301**	**₱4,659,702,659**
Net income (loss)	–	–	–	–	–		–	326,006,282	(4,047,029)	321,959,253
Other comprehensive income (loss)	–	–	–	–	–	19,126,630	(1,838,024)	–	–	17,288,606
Total comprehensive income (loss)	–	–	–	–	–	19,126,630	(1,838,024)	326,006,282	(4,047,029)	339,247,859
Transfer of portion of revaluation surplus realized through depreciation, depletion and disposal, net of tax (Note 10)	–	–	–	(21,460,140)	–	–	–	21,460,140	–	–
Equity restructuring (Note 19)	–	–	(3,011,088,301)	–	–	–	–	3,011,088,301	–	–
Balances at December 31, 2016	**₱6,227,887,491**	**₱–**	**₱15,941,675**	**₱262,063,873**	**(₱2,117,737,909)**	**(₱7,686,433)**	**(₱2,185,644)**	**₱443,834,193**	**₱176,833,272**	**₱4,998,950,518**

See accompanying Notes to Consolidated Financial Statements.

APEX MINING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	**₱332,628,858**	₱56,889,680	(₱377,072,753)
Adjustments for:			
Depreciation, depletion and amortization (Note 24)	**651,525,508**	297,731,304	414,324,689
Interest and accretion expense (Note 26)	**155,350,336**	136,816,332	106,249,843
Movement in provision for retirement benefits (Note 16)	**35,165,673**	38,156,568	23,123,121
(Gain) loss on debt extinguishment (Note 23)	**(5,029,875)**	(56,655,246)	393,810
Interest income (Notes 5 and 23)	**(5,426,372)**	(5,850,334)	(1,550,835)
Unrealized foreign exchange losses (gains)	**(1,326,842)**	104,388,094	(70,093,528)
Loss on write-off of:			
Property, plant and equipment (Notes 10 and 23)	**4,980,679**	–	136,012,675
Other noncurrent assets (Notes 13 and 23)	**–**	6,000,000	–
Gain on disposal of equipment	**(96,026)**	(102,878)	–
Gain from acquisition (Notes 4 and 23)	**–**	(48,828,667)	(203,432,469)
Dividend income (Notes 9 and 23)	**–**	(1,024,931)	–
Operating income before working capital changes	**1,167,771,939**	527,519,922	27,954,553
Decrease (increase) in:			
Trade and other receivables	**(86,970,733)**	32,833,528	(273,777,819)
Prepayments and other current assets	**71,915,793**	(207,786,016)	65,721,756
Inventories	**434,490,523**	5,207,542	(76,783,955)
Advances to related parties	**(201,113)**	19,994,803	(1,613,450)
Increase (decrease) in:			
Trade and other payables	**(249,765,491)**	102,937,628	2,689,666,967
Advances from related parties	**366,180,298**	(1,469,219,105)	1,187,093,604
Net cash generated from (used in) operations	**1,703,421,216**	(988,511,698)	3,618,261,656
Interest paid	**(193,609,793)**	(162,502,345)	(142,509,091)
Income taxes paid	**(17,713,470)**	(8,134,184)	(4,670,674)
Interest received	**5,426,372**	5,850,334	1,550,835
Dividend received	**–**	1,024,931	–
Net cash flows from (used in) operating activities	**1,497,524,325**	(1,152,272,962)	3,472,632,726
CASH FLOWS USED IN INVESTING ACTIVITIES			
Acquisition of property, plant and equipment (Note 10)	**(1,429,048,905)**	(2,036,334,722)	(878,442,701)
Acquisition of intangible asset (Note 12)	**(18,200)**	–	–
Increase in:			
Deferred exploration costs (Note 11)	**(47,132,960)**	(310,266,468)	(40,880,844)
Other noncurrent assets	**(13,114,945)**	(111,790,721)	(242,147)
AFS financial assets	–	–	(344,640,000)
Proceeds from disposal	**220,821**	905,356	–
Acquisition of subsidiaries (Notes 1 and 4)	–	(31,154,515)	(4,914,578,393)
Cash flows used in investing activities	**(1,489,094,189)**	(2,488,641,070)	(6,178,784,085)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of loans (Note 18)	**(360,918,313)**	(502,891,539)	(402,643,589)
Availment of loans (Note 18)	**29,000,000**	2,614,500,000	839,815,447
Acquisition of non-controlling interests (Notes 1 and 4)	**(3,746,751)**	–	–
Net proceeds from subscriptions to shares of stock (Note 19)	**–**	1,859,247,827	–
Transaction costs on share issuance (Notes 4 and 19)	**–**	(21,796,248)	(49,408,614)
Deposit for future stock subscriptions (Note 19)	**–**	–	2,500,000,000
Net cash flows from (used in) financing activities	**(335,665,064)**	3,949,060,040	2,887,763,244
NET INCREASE (DECREASE) IN CASH	**(327,234,928)**	308,146,008	181,611,885
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**13,763,136**	35,135,258	(7,589,446)
CASH AT BEGINNING OF YEAR	**550,980,770**	207,699,504	33,677,065
CASH AT END OF YEAR (Note 5)	**₱237,508,978**	₱550,980,770	₱207,699,504

See accompanying Notes to Consolidated Financial Statement

APEX MINING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information, Status of Operations and Authorization to Issue the Consolidated Company Financial Statements**

Corporate Information
Apex Mining Co., Inc. (the "Parent 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 Parent Company currently operates the Maco Mines in Maco, Compostela Valley.

On March 7, 1974, the Parent Company listed its shares in the Philippine Stock Exchange (PSE) and attained the status of being a public company on the same date. The Parent 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 Parent 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, 2013	Issuance of additional shares	2.8 billion	75.56 million	3.70
July 13, 2013	Issuance of additional shares	2.8 billion	198.05 million	4.40
July 16, 2013	Debt-to-equity conversion transaction	2.8 billion	72.91 million	4.40
July 20, 2013	Debt-to-equity conversion transaction	2.8 billion	37.29 million	4.40
August 27, 2014	Issuance of additional shares	2.8 billion	93.87 million	2.79
September 20, 2014	Declassification of shares	2.8 billion	–	–
January 12, 2015	Increase in authorized capital stock	12.8 billion	–	–
February 3, 2015	Issuance of additional shares	12.8 billion	2.50 billion	1.00
March 12, 2015	Issuance of additional shares	12.8 billion	1.86 billion	1.00

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

As at December 31, 2016 and 2015, the Parent Company has 2,517 and 2,507 stockholders, respectively, each holding at least 100 shares.

The Parent Company's registered business and principal office address is 3304B West Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City, Philippines.

Acquisition of Itogon-Suyoc Resources, Inc. (ISRI)
On June 24, 2015, the Parent Company acquired 98% of the total outstanding capital stock of ISRI consisting of 24.50 billion shares, with par value of ₱0.01 per share, for a total consideration of ₱182.67 million consisting of ₱32.67 million cash and ₱150.00 million in the Parent Company's shares held by Monte Oro Resources Energy, Inc. (MORE) for a purchase price of ₱0.007456 per share (see Notes 4 and 19).

Also on the same date, the following transactions were made:

- Subscription of the Parent Company to 23.80 billion new shares in ISRI at par value of ₱0.01 each. The proceeds of this cash equity infusion shall be used by the latter to pay down its debts and to reopen its mines. ISRI also received the ₱238.00 million from the Parent Company as payment for its subscriptions. The shares covered by the said subscriptions were issued after ISRI's application for the increase in its authorized capital stock which was approved by the Philippine SEC on February 2, 2016 (see Note 4).
- Commitment by Parent Company to support ISRI by paying its advances from Sagitro, Inc. amounting to ₱50.00 million by transferring Parent Company's listed shares held by MORE (see Note 19).
- Incidental costs paid by the Parent Company related to the acquisition amounted to ₱1.82 million.

The Parent Company entered into several deeds of sale on August 26, 2016 to acquire the remaining 2% of the total outstanding capital stock of ISRI consisting of 500.00 million shares with par value of ₱0.01 per share, for a total consideration of ₱3.75 million of cash. ISRI became a wholly-owned subsidiary of the Parent Company (see Note 4).

Acquisition of MORE
On September 11, 2014, the Board of Directors (BOD) approved the Parent Company's purchase for cash of all the outstanding capital stock of MORE, consisting of 5.12 billion shares, with par value of ₱1.00 per share, for a total consideration of ₱5.12 billion, for a purchase price of ₱1.00 per share (see Note 4).

Also on the same date, the BOD approved the subscription of the shareholders of MORE to 2.50 billion new shares of the Parent Company, for a subscription price of ₱1.00 per share from the stockholders of MORE who agreed to sell all their shares in MORE to the Parent Company, which will result to the Parent Company owning 100% of the equity of MORE. In October 2014, the Parent Company received ₱2.50 billion from the stockholders of MORE as payment for their subscriptions.

The deeds of sales of shares between the Parent Company and the stockholders of MORE were signed and executed on October 10, 2014. As at December 31, 2015, the Parent Company had paid the total consideration of the purchase of all of MORE's outstanding shares.

On January 28, 2015, the BOD approved the subscription by Prime Metroline Holdings, Inc. (PMHI) to 1.86 billion shares for a subscription price of ₱1.00 per share. The agreement covering the said subscription was entered into by the Parent Company and PMHI on February 2, 2015. The shares covered by the subscription agreement were issued on March 12, 2015.

Amendments on Articles of Incorporation
On April 11, 2014 and May 2, 2014, the BOD approved the following amendments on the Parent Company's Articles of Incorporation:

- that the place where the principal office of the Parent Company will be established or located shall be in 3304B West Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City, Philippines; and
- that the authorized capital stock of the Parent Company shall be increased to ₱12.80 billion divided into 12.80 billion common shares with par value of ₱1.00 per share.

The said amendments was approved by the Company's stockholders owning or preparing at least two-thirds of the outstanding capital stock

On January 12, 2015, the Philippine SEC approved the aforementioned amendments in the Company's Articles of Incorporation

Equity Restructuring or Quasi-Reorganization
On October 6, 2016, the Philippine SEC approved the Parent Company's equity restructuring plan or quasi-reorganization earlier approved by the stockholders in the annual meeting on June 30, 2016 to eliminate the Parent Company's deficit against the additional paid-in capital (APIC) as at December 31, 2015 (see Note 19).

<u>Status of Operations</u>
Significant developments in the Parent Company's and its subsidiaries' (collectively referred to as, the "Group") operations are as follows:

a. Mining

Maco Mines
On December 22, 2005, the Mines and Geosciences Bureau (MGB) approved the Parent Company's application for a Mineral Production Sharing Agreement (MPSA) covering 679.02 hectares of land situated in Maco, Compostela Valley. On June 25, 2007, the MGB approved the Parent Company's second application for a MPSA covering an additional 1,558.50 hectares of land near the area covered by the first mineral permit.

As at December 31, 2016, the Parent Company holds MPSA Nos. 225-2005-XI and 234-2007-XI, which have terms of 25 years from the effective date. The said MPSAs are valid and subsisting.

ISO Certification
In a letter dated September 30, 2016, Certification International Philippines, Inc. awarded the Parent Company a Certificate of Registration to ISO 14001:2015 valid from with the following scope: "Exploration activities; underground mining; milling and recovery/smelting of gold and silver using carbon-in-pulp process; mine waste and mill trails management; and all support services." The certificate is valid for three years until September 29, 2019, subject to satisfactory results of annual surveillance audits. As a certified organization, the Parent Company is required to maintain its environmental management system and comply with the other conditions of the certification by Certification International.

Department of Environment and Natural Resources (DENR) Audit
On October 18, 2016 the Parent Company received a letter dated October 3, 2016 from the DENR furnishing a copy of the report on the mine audit conducted by the agency of the Parent Company's Maco mine in August 2016 pursuant to DENR Memorandum Order No. 2016-01 regarding "Audit of All Operating Mines and Moratorium on New Mining Projects" issued on July 8, 2016. Along with other minor findings, the report recommended to allow the continued operation of the mine which confirms the earlier press releases made by the DENR, the Parent Company's Maco mine can continue with its operations together with the other mines that have not been suspended.

The continuation of the Parent Company's operations was reaffirmed by the DENR in its press conference on February 2, 2017.

Itogon Mines
The rehabilitation of the Itogon mine of ISRI in Benguet is progressing with the mill about set to run at the initial rate of 75 tonnes per day by the end of the year.

Paracale Gold Project
A deed of sale was executed by MORE and Paracale Gold Limited (PGL), a British Virgin Islands (BVI) company, on June 25, 2014, whereby MORE purchased 100% of the outstanding capital stock of PGL, an entity incorporated in the Isle of Man and a wholly owned subsidiary of PGL-BVI, for and in

consideration of 235.85 million shares owned by MORE in the Parent Company under the terms and conditions specified on the agreement dated March 14, 2014.

The agreement provides that the transfer of shares shall be completed through the facilities of the PSE in a special block sale. Transfer price to PGL-BVI was set at ₱2.00 per share. As a security for payment to PGL-BVI, the contracting parties entered into a pledge agreement on June 25, 2014, whereby MORE shall deliver 235.85 million Parent Company's shares to PGL-BVI by way of pledge within five days.

PGL wholly owns Coral Resources Philippines, Inc. (CRPI) and has a 40% interest in Bulawan Mineral Resources Corporation (BMRC). PGL has advances to and an option to buy over the other 60% shareholdings in Bulawan. These include qualifying shares, which are recorded in the names of the nominee directors.

CRPI owns a fully operational mine processing plant located in Paracale, Jose Panganiban, Camarines Norte, Philippines. CRPI and BMRC have direct rights or legal agreements over nine applications for production sharing agreements (APSA), 13 exploration permits pending renewal and exploration permit applications, and two mining lease contracts.

On February 11, 2016, BMRC has obtained the Environmental Compliance Certificate (ECC) with No. ECC-R05-1510-0140 from Environmental Management Bureau (EMB), Region V. The ECC covers the proposed Bulawan Mineral Resources Gold Mining Project with an area of 24.5 hectares located at Barangay Sta. Rosa Norte, Jose Panganiban, Camarines Norte.

As at December 31, 2016, PGL currently holds 25 tenements in various stages of application. It is currently working on the processing and approval of pending applications, plus alternative options such as Special Mines Permits and ores from legal small scale mining operations.

Mongolia Project
The gold project is registered under the joint venture company Erdeneminas LLC, which is owned 51 % by Minas de Oro Mongol LLC (Minas), a subsidiary of MORE, and 49% by Erdenejas LLC, a Mongolian exploration company.

As at April 11, 2017, the project is currently under continued care and maintenance until such a time when the economic situation in Mongolia improves, that it can be presented to potential buyers.

Sierra Leone Project
The project is located in the Republic of Sierra Leone, in West Africa. MORE, through its subsidiary Monte Oro Mining Co., Ltd. (MOMCL), has been conducting mining and exploration activities since 2010.

As at April 11, 2017, the project's operations are still suspended due to the Ebola virus crisis. MOMCL plans to continue representation in Sierra Leone. Care and maintenance of the MOMCL's assets is being continued.

MORE Minerals SL
The project is engaged in mineral exploration activities, organized under the laws of Sierra Leonne. The Company owns 90% of MORE Minerals SL. The project's operations were suspended due to the Ebola virus crisis. MORE Minerals plans to continue its representation in Sierra Leone. Care and maintenance of MORE Mineral's assets is ongoing.

b. Oil and Gas

Service Contract (SC) 72
The Company has a 30% participating interest in SC 72, a service contract for gas in the offshore area called Sampaguita Fields of Palawan in the West Philippine Sea. Forum

(GSEC 101) Ltd.-Philippine Branch owns the remaining 70% participating interest and is the operator of the SC.

In February 2015, Forum Energy Plc (FEP) received a letter from the Department of Energy (DOE) confirming the suspension of offshore exploration activities in disputed areas of the West Philippine Sea while the arbitration case between the Philippines and China remains pending. The suspension became effective from December 15, 2014 until the date when the DOE notifies Forum to resume operations.

On October 5, 2015, the transfer of 30% participating interest in SC72 from GSEC 101 Ltd.-Philippine branch to MORE was approved and confirmed by the DOE (see Note 30).

On July 12, 2016, the United Nations Arbitral Tribunal ruled that Reed bank, where SC 72 is located, is within the Philippines' EEZ as defined under the UNCLOS.

On November 24, 2016, the DOE approved the Work Program and Budget for 2017 submitted by the Branch consisting of License Administration and the conduct of a geotechnical survey contingent on the lifting of the force majeure over SC 72. As at April 11, 2017, the DOE has not yet lifted the force majeure.

MORE also has oil exploration projects in Catanduanes and in Cagayan Valley under SC 48.

c. Solid Waste Management

On September 27, 1996, International Cleanvironment Systems, Inc. (ICSI) was registered with the Philippine SEC to manage, rehabilitate and introduce ecologically friendly technologies for waste disposal, recycling and energy generation. ICSI entered into a Build-Operate-Transfer Agreement with the Philippine government through the DENR for 25 years starting from the completion of the Philippine government of its deliverables to ICSI with the option to renew for another 25 years. As at April 11, 2017, ICSI has not yet started operations.

Authorization to issue the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group as at December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, were authorized for issuance by the Parent Company's BOD on April 11, 2017.

2. Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

Basis of Consolidation

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Parent Company's voting rights and potential voting rights

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, NCI and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.
The Parent Company's principal subsidiaries and their nature of business, country of incorporation and effective percentage of ownership are as follows:

			Effective percentage of ownership	
	Nature of business	Country of incorporation	**2016**	2015
ISRI	Mine exploration and development	Philippines	**100.00**	98.00
MORE	Mine and oil exploration and development	Philippines	**100.00**	100.00
MORE's Subsidiaries:				
Minas	Mine exploration and development, and gold trading	Mongolia	**100.00**	100.00
PGL	Mine exploration and development	Isle of Man	**100.00**	100.00
CRPI*	Mine exploration and development	Philippines	**100.00**	100.00
BMRC*	Mine exploration and development	Philippines	**100.00**	100.00
MORE Minerals SL (MMSL)	Mine exploration and development, and gold trading	Sierra Leone	**90.00**	90.00
MOMCL	Mine exploration and development, and gold trading	Sierra Leone	**90.00**	90.00
ICSI	Solid waste management	Philippines	**52.00**	52.00

**Indirect ownership through PGL*

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year for .the following new and amended PFRS, Philippine Accounting Standards (PAS), Philippine Interpretation based on International Financial Reporting Interpretation s Committee (IFRIC) and improvements to PFRS which were adopted as at January 1, 2016. The adoption of these amendments did not have any significant impact on the Group financial statements.

- Amendments to PAS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interest in Other Entities,* and PAS 28, *Investments in Associates and Joint Ventures, Investments Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Presentation of Financial Statements*, *Disclosure Initiative*
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, Agriculture*: Bearer Plants*
- Amendments to PAS 27*, Separate Financial Statements, Equity Method in Separate Financial Statements*

- Annual Improvements to PFRSs 2012-2014 Cycle
  - Amendment to PFRS 5, Non-current Assets Held for Sale and Discontinued Operations, *Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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

Effective beginning on or after January 1, 2017

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

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

  The Group will include the required disclosures in its 2017 consolidated financial statements.

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

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

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

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

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

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

  The amendment is not expected to have any impact to the Group.

Effective beginning on or after January 1, 2018

- Amendment to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendment to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments with PFRS 4*
- Amendment to PFRS 15,*Revenue from Contracts with Customers.*
- Amendment to PFRS 9, *Financial Instruments*
- Amendment to PAS 28, *Measuring an Associate or Joint Venture at Fair Value (*Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle*)*
- Amendment to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Considerations.*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Deferred effectivity

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

Summary of Significant Accounting Policies

Presentation of Consolidated Financial Statements

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

Foreign Currency-Denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange at reporting date. Foreign exchange differences between the rate at transaction date and rate at settlement date or reporting date are credited to or charged against current operations.

The financial statements of the foreign subsidiaries are translated at closing exchange rates with respect to the consolidated statement of financial position and the average exchange rates for the year with respect to the consolidated statement of income. Resulting translation differences are included in equity (under currency translation adjustment) and consolidated statement of comprehensive income. Upon disposal of the foreign subsidiaries, accumulated exchange differences are recognized in the consolidated statement of income as a component of the gain or loss on disposal.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial Recognition
The Group recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, loans and receivables or as hedging instrument in an effective hedge as appropriate. 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.

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 Group classifies its financial liabilities into financial liabilities at FVPL, loans and borrowings, trade and other payables or as derivative designated as hedging instrument in an effective hedge, as appropriate. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at each end of the reporting period.

The Group’s financial assets are in the nature of loans and receivables, and AFS financial assets while its financial liabilities are in the nature of trade and other payables, and loans and borrowings. As at December 31, 2016 and 2015, the Group has no financial assets classified as at FVPL, HTM financial assets and derivatives designated as hedging instruments in an effective hedge. Further the Group has no financial liabilities classified as at FVPL and derivatives designated as at hedging instrument in an effective hedge as at December 31, 2016 and 2015.

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 financial assets ” 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 consolidated statement of income.

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

The Group's cash, trade and other receivables (excluding advances to contractors and suppliers), advances to related parties, deposits under "Prepayments and other current assets" and mine rehabilitation fund (MRF) under "Other noncurrent assets" are classified as loans and receivables (see Notes 5, 6, 8, 13 and 15).

AFS Financial Assets
AFS financial assets are non-derivative financial assets that are designated in this category or not classified in any of the other categories of financial assets. After initial measurement, AFS financial assets for which no reliable basis of fair value measurement is available, these are carried at cost less any impairment in value.

The Group evaluated its AFS financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the HTM category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

Trade and Other Payables
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g., accounts payable, accrued liabilities). Payables are included in current liabilities if maturity is within 12 months from the end of the financial reporting period or within the Group's normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent liabilities.

Payables are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This accounting policy relates to the Group's trade and accrued expenses under "Trade and other payables" (see Note 14).

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. The EIR amortization is included under finance costs in the consolidated statement of income. Gains and losses are recognized in "Other income (charges)" in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

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

The Group's loans and borrowings pertain to loans payable and advances from related parties (see Notes 15 and 18).

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 Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash 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.

Where the Group 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 Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. In that case, the Group 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 Group 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 consolidated statement of income.

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 Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as customer type, past due status and term.

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

With respect to receivables, the Group 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 consolidated statement of income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Fair Value Measurement
An analysis of fair values of financial instruments and further details as to how they are measured are provided in Notes 9 and 29.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

Business Combinations using the Acquisition Method
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. As part of a business combination, the Group assesses whether there are any operating lease contracts of the acquiree that may be onerous that is, where the lease premiums being paid on that contract exceed the current market rate for such lease arrangements. Those mineral reserves, resources and exploration potential that can be reliably measured are recognized separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognized separately, but instead are subsumed in goodwill.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition-date fair value, and any resulting gain or loss is recognized in the consolidated statement of income. It is then considered in the determination of goodwill or gain from acquisition.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 *Financial Instruments: Recognition and Measurement* is measured at fair value, with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured, and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

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

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

Inventories
Inventories, which consist of gold and silver bullions, metal in-circuit, ore stockpile, and materials and supplies used in the Group'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.

Mine Products Inventory
Mine products inventory, which pertains to bullions and ore stockpile, containing gold and silver, are stated at lower of cost and NRV.

NRV for mine products inventory is the selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Materials and Supplies
Materials and supplies are valued at lower of cost and NRV. It comprises all costs of purchase and other costs incurred in bringing the materials and supplies to their present location and condition. The purchase cost is determined on a moving average basis.

A regular review is undertaken to determine the extent of any provision for losses and obsolescence.

Prepayments and Other Current Assets
Prepayments
Prepayments are expenses paid in advance and recorded as asset, before these 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
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 consolidated statement of financial position. Input VAT on capitalized assets subject to amortization is presented as "Deferred Input VAT" in the consolidated statement of financial position. This may either be applied against future output tax liabilities or claimed for tax credit or refund. The consolidated conducts regular assessment on the recoverability of the account balance depending on how this is 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 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.

Creditable Withholding Taxes (CWTs) and Tax Credit Certificates (TCCs)
CWTs are withheld from income subject to expanded withholding taxes, while TCCs are input VAT applied for by the Group and approved as tax credits by the Bureau of Internal Revenue (BIR). CWTs and TCCs can be utilized as payment for income taxes provided that these are properly supported by certificates of CWT withheld at source and TCCs subject to the rules of Philippine income taxation. CWTs and TCCs are expected to be utilized as payment for income taxes within 12 months and are classified as current assets.

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

The initial cost of property, plant and equipment comprises the 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, if the recognition criteria are met. All other repairs and maintenance are charged to current operations during the financial period in which these 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 OCI, 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 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 Group transfers, from the 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 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.

Gain and loss on disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in 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 Group'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
Buildings and improvements	5 to 33
Mining and milling equipment	5 to 20
Power equipment	10 to 13
Roads and bridges, and land improvements	2 to 19
Exploration equipment and others	3 to 15

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

Property, plant and equipment are depreciated or depleted from the moment the assets are available for use and after the risks and rewards are transferred to the Group. 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.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each end of the reporting period.

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.

Development Cost and Mine and Mining Properties
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 Group 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 phases.

Upon start of commercial operations, mine development costs are transferred as part of mine and mining properties. 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 rehabilitation and decommissioning.

Development costs, including construction in- progress incurred from 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.

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

The Group 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.

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 said software. These costs are amortized on a straight-line basis over their estimated useful lives of three years.

Intangible assets of the Group also include franchise cost for the implementation of the solid waste management project and a computer software.

Other Noncurrent Assets
Other noncurrent assets include noncurrent portion of deferred input VAT, deposits, mine rehabilitation funds, national transmission lines, and advances for royalties of the Group. These are carried at historical cost and classified as noncurrent since the Group expects to utilize the assets beyond 12 months from the end of the reporting period.

Impairment of Nonfinancial Assets
Advances to Suppliers and Contractors, and Prepayments and Other Current Assets
At each end of the reporting period, these assets are reviewed to determine whether there is any indication that those assets have suffered impairment loss. If there is an indication of possible impairment, the recoverable amount of assets are estimated and compared with their carrying amounts. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in the consolidated statement of income.

Property, Plant and Equipment, Intangible Assets, and Other Nonfinancial Noncurrent Assets
The Group assesses at each reporting date whether there is an indication that property, plant and equipment, intangible assets, and other nonfinancial noncurrent assets may be impaired when events or changes in circumstances indicate that the carrying values of the said assets may not be recoverable. If any such indication exists and if the carrying value exceeds the estimated recoverable amount, the assets or CGUs are written down to their recoverable amounts. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its
value-in-use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing VIU, 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 consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each end of the reporting period 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, depletion and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of 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.

The Group also provides allowance for impairment losses on mine and mining properties when these can no longer be realized. A valuation allowance is provided for unrecoverable costs of mine and mining properties based on the Group's assessment of the future prospects of a project. Full provision is made for the impairment unless it is probable that such costs are expected to be recouped through successful mine operations of the area of interest, or alternatively, by its sale. If the project does not prove to be viable or is abandoned, all revocable costs associated with the project and the related impairment provisions are written off.

Deferred Exploration 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 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 exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation 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.

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 finance cost in the consolidated statement of income. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented on the consolidated statement of income, net of any reimbursement.

Provision for Mine Rehabilitation and Decommissioning

The Group 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 consolidated statement of income as 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 these occur.

Retirement Benefits Costs

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

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

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit liability or asset

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements recognized in OCI after the initial adoption of Revised PAS 19 are not closed to any other equity account.

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

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

<u>Equity</u>
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 APIC. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When the retained earnings account has a debit balance, it is called "deficit." A deficit is not an asset but a deduction from equity. Dividends are recognized as a liability and deducted from equity when these are approved by the BOD. Dividends for the period that are approved after the end of the reporting period are dealt with as an event after the reporting period.

<u>Deposit for Future Stock Subscriptions</u>
This pertains to the amount of cash received as payment for future issuance of stocks. This is classified as an equity instrument when the Group will deliver a fixed number of its own equity instruments in exchange for a fixed amount of cash or another financial asset. Otherwise, it is classified under liabilities.

In instances where the Group does not have sufficient unissued authorized capital stock, the following elements should be present as at the balance sheet date in order for the deposits for future subscriptions to qualify as equity:

- the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the Philippine SEC.

<u>Treasury Shares</u>
Where the Parent Company purchases its own shares (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

Earnings (Loss) Per Share

Basic

Basic earnings (loss) per share is calculated by dividing the consolidated net income (loss) attributable to ordinary stockholders of the Parent Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Parent 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 potentially 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 Group and the revenue can be reliably measured. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

Revenue from Mine Products

Revenue from mine products is recognized at completion of production. It is measured based on the metal shipment's value price, which is based on quoted metal prices in the London Bullion Market Association, and weight and assay content as adjusted at a later period, net of marketing charges, to reflect the NRV of mine products inventory at the end of the reporting period. Contract terms for the Parent Company's sale of metals (i.e., gold and silver) in bullion provide for price adjustment based on the final assay to determine the metal content.

The terms of the sales contract contain provisional arrangements whereby the selling price for the metals can be based on prevailing spot prices after shipment to the refiner. Smelting, freight and interest are deducted from the proceeds received by the Parent Company.

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 depletions 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 the consolidated statement of income in the period these are incurred.

Cost of Production

Cost of production is recognized when incurred in the normal course of business. It is comprised mainly of mining and milling costs, contracted services, depreciation, depletion and amortization, personnel costs, power and utilities, rentals, marketing and others, which are provided in the period when the goods are delivered.

Excise Taxes

Excise taxes pertain to the taxes due from the Group for its legal obligation arising from its mine products. Excise taxes are expensed as incurred.

General and Administrative Expenses

General and administrative expenses pertain to costs associated in the general administration of day-to-day operations of the Group. These are generally recognized when incurred.

Other Income (Charges)

Other income and charges of the Group include incidental income earned and expenses incurred arising from activities of the Group, which are not directly related to the ordinary course of business. Other income and charges are recognized when earned and incurred, respectively.

Borrowing Costs

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Capitalization of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its estimated recoverable amount, an impairment loss is recorded.

When funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. When surplus funds are temporarily invested, the income generated from such temporary investment is deducted from the total capitalized borrowing costs.

When the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. All other borrowing costs are recognized in the consolidated statement of income in the period in which 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 Leases

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 consolidated statement of 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 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, carry-forward benefits of unused net operating loss carry-over (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, unused NOLCO and excess of MCIT over RCIT can be utilized.

The carrying amount of deferred income tax assets is reviewed at each end of the reporting period 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 end of the reporting period and are recognized to the extent that it has become probable that the sufficient future taxable income will allow the deferred tax assets 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.

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

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

Operating Segments

The Group's operating businesses are recognized and managed according to the nature of the products or services offered, with each segment representing a strategic business unit that serves different markets.

Segment assets include operating assets used by a segment and consist principally of operating cash, trade and other receivables, deferred exploration cost, and property, plant and equipment, net of allowances and provisions.

Segment liabilities include all operating liabilities and consist principally of trade and other payables and accrued expenses.

Segment revenue, expenses and profit include transfers between business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in the consolidation.

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 President and Chief Executive Officer (CEO) of the Parent Company who makes strategic decisions.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are, however, disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed in the notes to consolidated 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 Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures. 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 consolidated 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.

Judgments

In the process of applying the Group'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 consolidated financial statements.

Determination of the Parent Company's Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. In making this judgment, the Parent Company considered the following:

a. The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales price for its financial instruments and services are denominated and settled.);
b. The currency in which funds from financing activities are generated; and
c. The currency in which receipts from operating activities are usually retained.

The Philippine peso is the currency of the primary economic environment in which the Parent Company operates.

Determination of Control

The Parent Company determines control when it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Parent Company controls an entity if and only if the Parent Company has all of the following:

a. Power over the entity;
b. Exposure, or rights, to variable returns from its involvement with the entity; and
c. The ability to use its power over the entity to affect the amount of the Parent Company's returns.

As at December 31, 2016, the Parent Company assessed that it has control over MORE and ISRI and has accounted for the investments as investments in subsidiaries.

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 Group are retained by the lessor and therefore accounts for such lease as operating lease.

Operating Lease - Group as a Lessee

The Group 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 due to the following:

a. The ownership of the asset does not transfer at the end of the lease term;
b. The Group has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date of the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
c. The lease term is not for the major part of the economic life of the asset even if title is not transferred; and
d. At the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair values of the leased assets.

Operating leases of the Group are related to leases of mining and milling equipment, transportation vehicles and others.

Assessment of the Production Start Date
The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the unique nature of each mine development project. The Group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase. Some of the criteria include, but are not limited to the following:

- the level of capital expenditure compared to construction cost estimates
- completion of a reasonable period of testing of the property, plant and equipment
- ability to produce ore in saleable form and
- ability to sustain ongoing production of ore

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalizable costs related to mining asset additions or improvements, mine development or mineable reserve development. It is also at this point that depreciation and depletion commences.

Classification of Financial Instruments
The Group exercises judgments in classifying a financial instrument on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm’s length basis.

The Group has no intention of selling its investments in stocks in the near term. These are being held indefinitely and may be sold in response to liquidity requirements or changes in market condition. The Group has no plan to dispose its AFS financial assets within 12 months from the end of the reporting period. The Group determines the classification at initial recognition and
re-evaluates this classification, where allowed and appropriate, at every reporting date.

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 consolidated financial statements within the next financial year are discussed below.

Assessment of the Recoverability of Deferred Exploration and Mine Development Costs
The application of the Group’s accounting policy for deferred exploration and mine development costs requires judgment in determining whether future economic benefits are likely, either from future exploitation or sale, or where activities have reached a stage, that permits a reasonable assessment of the existence of ore resource and/or reserves. The determination of a resource is itself an estimation process that has varying degrees of uncertainty depending on a number of factors, which estimate directly impacts the determination of whether ore reserves could eventually be developed to justify capitalization of exploration and mine development expenditures. The capitalization policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether economically viable extraction operations can be established. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available. Deferred exploration costs amounted to ₱2.31 billion and ₱2.26 billion as at December 31, 2016 and 2015, respectively. Capitalized mine development costs classified under property, plant and equipment amounted to ₱1.64 billion and ₱1.65 billion as at December 31, 2016 and 2015, respectively (see Notes 10 and 11).

Estimation of Ore Reserves
Recoverable ore reserves are determined using various factors that affect the viability of mining operations such as the ore resource, the market price of metals and other operating and economic parameters. The computed recoverable reserve is used in the calculation of depletion rate and, when needed, in the testing of the overall recoverability of the mining assets. Mine and mining properties, net of accumulated depletion, amounted to ₱2.80 billion and ₱2.49 million as at December 31, 2016 and 2015, respectively (see Note 10).

Estimation of Impairment of Nonfinancial Assets, including Property, Plant and Equipment, Intangible Assets, and Other Noncurrent Assets
The Group evaluates whether property, plant and equipment, intangible assets, and nonfinancial 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 VIU or fair value, if said information is readily available.

Estimation of VIU requires the use of estimates on cost projections, gold and silver prices, foreign exchange rates and mineral reserves, which are determined based on an 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 Group. 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, intangible assets and nonfinancial other noncurrent assets amounted to ₱7.16 billion and ₱7.12 billion as at December 31, 2016, and 2015 respectively (see Notes 10, 12 and 13).
These are subjected to impairment testing when impairment indicators are present. Write-off of property, plant and equipment, intangible assets, and other noncurrent assets were recognized in 2016, 2015, and 2014 amounting to ₱4.98 million, ₱6.00 million and ₱136.01 million, respectively (see Note 23).

Estimation of Allowance for Doubtful Accounts on Trade and Other Receivables, and Advances to Related Parties
If the Group assessed that there is objective evidence that an impairment loss has been incurred on its trade and other receivables, and advances to related parties, the Group 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 Group 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 trade and other receivables, and advances to related parties to amounts that the Group 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, 2016 and 2015 represents the amounts estimated to be uncollectible amounting to ₱1.70 million and ₱1.77 million, respectively. The group write off an allowance amounting to ₱0.06 million and ₱0.56 million, respectively
(see Note 6). No provision for impairment losses were made in 2016, 2015 and 2014 on advances to related parties as management believes that these will be recovered within the terms established with the debtors.

As at December 31, 2016 and 2015, the carrying values of trade and other receivables, and advances to related parties amounted to ₱194.47 million and ₱107.50 million, respectively, and ₱2.51 million and ₱2.31 million, respectively (see Notes 6 and 15).

Estimation of Allowance for Inventory Losses and Obsolescence
The Group maintains an 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.

The Group recorded reversal of provision for inventory losses and obsolescence amounting to nil and ₱12.96 million and provided an additional provision amounting to ₱18.56 million and nil in 2016 and 2015, respectively (see Notes 7 and 23). As at December 31, 2016 and 2015, the carrying amounts of inventories amounted to ₱773.32 million and ₱734.29 million, respectively, net of allowance for inventory losses and obsolescence of ₱86.15 million and ₱67.59 million as at those dates (see Note 7).

Assessment of the Realizability of Nonfinancial Prepayments and Other Current Assets
A review to determine the realizability of the asset is made by the Group on a continuing basis yearly. The assessment as to the realizability of the nonfinancial other current assets is based on how the Group can utilize these assets.

No impairment loss and allowance for impairment loss has been recognized as at December 31, 2016 and 2015 as the management believes it will realize its value through continuing use. The aggregate carrying value of nonfinancial prepayments and other current assets amounted to ₱398.15 million and ₱445.26 million as at December 31, 2016 and 2015, respectively, and are included under "Prepayments and other current assets" caption in the consolidated statements of financial position (see Note 8).

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

Estimation of Fair Value, Useful Lives and Residual Values of Property, Plant and Equipment
The Group 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, 2016 and 2015 to materially vary in the succeeding year as the most recent revaluation adjustment was only recognized during the year based on appraisal report dated April 17, 2015 covering certain items of the Company's property, plant and equipment. Changes in fair values and useful lives of property, plant and equipment are effected in 2015.

There were no changes in the estimated fair values, useful lives and residual values of property, plant and equipment in 2016. Remaining property, plant and equipment as at December 31, 2016 and 2015 are expected to be realized through continued use under the current mining plan with none identified subject for sale or disposal.

Property, plant and equipment at fair value as at December 31, 2016 and 2015 has net book values amounting to ₱6.32 billion and ₱6.01 billion, respectively, while property, plant and equipment at cost as at December 31, 2016 and 2015 amounted to ₱5.95 billion and ₱5.60 billion, respectively (see Note 10). The estimated useful lives are disclosed in Note 2 to the consolidated financial statements. In 2016, there was a decrease in depreciation amounting to ₱116.11 million as a result of changed in the estimated fair values, useful lives of property, plant and equipment in 2015.

Estimation of Depletion Rate
Depletion rates used to amortize mine and mining properties are annually assessed based on a latest estimate of recoverable ore reserves. The Group estimates its ore reserves in accordance with local regulatory guidelines provided under the Philippine Mineral Reporting Code, duly reviewed and certified by a Competent Person.

Depletion rates used to amortize mine and mining properties in 2016, 2015 and 2014 were 10%, 22%, and 24%, respectively. Depletion costs amounted to ₱259.98 million, ₱118.96 million and ₱134.39 million in 2016, 2015 and 2014, respectively. Mine and mining properties, net of accumulated depletion, amounted to ₱2.80 billion and ₱2.49 million as at December 31, 2016 and 2015, respectively (see Note 10).

Estimation of Provision for Mine Rehabilitation and Decommissioning
The Group 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, which uncertainties may result in future actual expenditure differing from the amounts currently provided. Changes to estimated future costs are recognized in the consolidated statement of financial position by adjusting the rehabilitation asset against the corresponding liability. 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.

Accretion expense amounted to ₱0.74 million, ₱0.61 million and ₱0.29 million in 2016, 2015 and 2014, respectively (see Note 26). As at December 31, 2016 and 2015, the provision for mine rehabilitation and decommissioning amounted to ₱42.84 million and ₱44.03 million, respectively (see Note 17).

Estimation of Retirement Benefits
The costs of defined benefit retirement as well as the present value of the provision for retirement benefits are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, retirement benefit liability is highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period.

Retirement benefits costs amounted to ₱38.08 million, ₱38.16 million and ₱23.12 million in 2016, 2015 and 2014, respectively. Provision for retirement benefits amounted to ₱163.68 million and ₱147.65 million as at December 31, 2016 and 2015, respectively. Benefits paid in 2016 amounted to ₱2.91 million (see Note 16).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit retirement liability.

Further details about the assumptions used are provided in Note 16.

Assessment on Provisions and Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with in-house and outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently assessed that these proceedings will not have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 30).

Estimation of Impairment of AFS Financial Assets Carried at Cost
If there is objective evidence that an impairment loss on an unquoted equity instrument, that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return of a similar financial asset. No impairment loss was recognized in 2016, 2015 and 2014 as the Group has not identified objective evidence of impairment during these periods. As at December 31, 2016 and 2015, the carrying value of AFS financial assets amounted to ₱344.64 million (see Note 9).

Assessment of Realizability of Deferred Income Tax Assets
The Group 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 profit will be available to allow all or part of the deferred income tax assets to be utilized. Accordingly, the Group did not recognize deferred tax assets in respect of deductible temporary differences and unused tax losses. As at December 31, 2016 and 2015, unrecognized deferred income tax assets amounted to ₱1.18 billion and ₱1.55 billion, respectively (see Note 27).

Estimation of Legal Contingencies
The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsel believe that the Group 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 consolidated financial statements. No provision for probable losses arising from these cases was recognized in the consolidated financial statements as at December 31, 2016 and 2015 (see Note 30).

4. Business Combination

Acquisition of ISRI
On May 27, 2015, the BOD approved the Parent Company's acquisition of ISRI, and the deeds of sale covering the acquisition of ISRI shares were signed and executed on June 24, 2015. The remaining 2% of the total outstanding capital stock of ISRI was acquired by Parent Company on August 26, 2016, which resulted to the Parent Company owning 100% of ISRI's equity. Additional acquisition cost amounted to ₱3.75 million (see Note 1).

ISRI, an entity incorporated in the Philippines, is a holder of four (4) Patented Mineral Claims, MPSA No. 152-2000-CAR, pending application for the 3rd renewal of its Exploration Permit, APSA No. 0103-CAR, APSA No. 0067-CAR, EXPA No. 031, EXPA No. 030, and EXPA-000048-V. Also, ISRI owns mill and production facilities in Sangilo, Itogon, Benguet.

The acquisition of ISRI is in line with the Parent Company's plan to actively pursue and develop prospects to help sustain long-term profitability and viability of its operations.

<u>Assets acquired and liabilities assumed</u>
The identifiable assets and liabilities of ISRI as at acquisition date, June 24, 2015, are as follows:

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary	Fair Value Increment
Assets			
Cash	₱241,306,860	₱241,306,860	₱–
Trade and other receivables	174,954	174,954	–
Inventories	6,472,882	6,472,882	–
Other current assets	423,411	423,411	–
Property, plant and equipment (Note10)	49,602,194	49,602,194	–
Deferred exploration costs (Note 11)	550,544,189	222,578,326	327,965,863
Other noncurrent assets	16,312,783	16,312,783	–
	864,837,273	536,871,410	327,965,863
Liabilities			
Trade and other payables	147,627,472	147,627,472	–
Loan payable	147,500,000	147,500,000	–
Deferred tax liability	98,389,759	–	98,389,759
	393,517,231	295,127,472	98,389,759
Total identifiable net assets of ISRI	471,320,042	₱241,743,938	₱229,576,104
Purchase consideration transferred (Note 1)	(422,491,375)		
Gain from acquisition (Note 23)	₱48,828,667		

	2015
Consideration transferred for acquisition	₱272,461,375
Cash of acquired subsidiary	(241,306,860)
Cash outflow on acquisition – ISRI	₱31,154,515

The fair value of the ₱550.54 million deferred exploration costs pertains to the final valuation of Itogon and Suyoc mines. The final valuation was based on its discounted cash flow which involves significant judgments on variables that were reasonably assumed at reporting date. As a result, an increase in carrying amount of exploration assets by ₱327.97 million has been recognized.

In business combinations, the identifiable assets acquired and liabilities assumed are recognized at their fair values at the acquisition date. Deferred income tax liabilities are provided on temporary differences that arise when the tax bases of the identifiable assets acquired and liabilities assumed are not affected by the business combination or are affected differently. As at December 31, 2015, the Group recognized a deferred tax liability of ₱98.39 million due to the increase in the fair value of the exploration assets.

The fair value of the receivables of ISRI amounted to ₱0.17 million. None of the trade and other receivables has been impaired as at June 24, 2015, and it is expected that the full contractual amounts can be collected.

The attributable costs of the issuance of the shares of ₱21.80 million have been charged directly to equity as a reduction in share premium (see Note 19).

The total loss incurred by ISRI amounted to ₱13.64 million from the acquisition date to December 31, 2015. Consolidated net income of the Group had the business combination occurred on January 1, 2015 would be lower by ₱21.69 million.

Acquisition of MORE
On September 11, 2014, the BOD approved the Parent Company's acquisition of MORE, and the deeds of sale covering the acquisition of MORE shares were signed and executed on October 10, 2014. This resulted to Parent Company owning 100% of MORE's equity (see Note 1). MORE, an entity incorporated in the Philippines, is primarily engaged in prospecting, exploration, mining, operating, milling, concentrating, converting, smelting, treating, refining, processing, preparing for market, manufacturing, buying, selling, exchanging and otherwise producing and dealing in all other kinds of ores, metals and minerals.

The primary reason for the business combination is the expansion of the mining business of the Parent Company by taking over the mining business under MORE which includes mining interests in Mongolia, Sierra Leone and Myanmar, as well as in oil exploration by having a 30% participation in SC72. MORE is also the owner of PGL that owns a mineral processing plant and tenements in Camarines, Norte.

The net assets recognized in the December 31, 2014 financial statements were based on a provisional assessment of their fair values. The valuation had not been completed by the date the 2014 financial statements were approved for issue by management. The 2014 comparative information was restated to reflect the adjustment to the provisional amounts.

Assets acquired and liabilities assumed
The identifiable assets and liabilities of MORE as at acquisition date, October 10, 2014, are as follows:

	Fair Value Recognized on Acquisition, as restated	Previous Carrying Value in the Subsidiary	Fair Value Increment
Assets			
Cash	₱207,582,703	₱207,582,703	₱–
Receivables	1,203,631,595	1,203,631,595	–
Other current assets	80,228,438	80,228,438	–
Property, plant and equipment (Note 10)	357,958,261	357,958,261	–
AFS financial assets	2,757,047,370	1,474,991,390	1,282,055,980
Deferred exploration costs (Note 11)	985,290,642	985,290,642	–
Intangible assets (Note 12)	192,202,964	192,202,964	–
Other noncurrent assets	148,306,304	148,306,304	–
	5,932,248,277	4,650,192,297	1,282,055,980
Liabilities			
Trade and other payables	₱312,109,653	₱312,109,653	₱–
Deferred tax liability	97,238,272	97,238,272	–
Other noncurrent liabilities	554,041	554,041	–
	409,901,966	409,901,966	–
Total identifiable net assets of MORE	5,522,346,311	₱4,240,290,331	₱1,282,055,980
Purchase consideration transferred (Note 1)	(5,122,161,096)		
Noncontrolling interest	(196,752,746)		
Gain from acquisition (Note 23)	₱203,432,469		

	Amount
Consideration transferred for acquisition	₱5,122,161,096
Cash of acquired subsidiary	(207,582,703)
Cash outflow on acquisition – MORE	**₱4,914,578,393**

MORE held AFS financial assets pertaining to its ownership of Parent Company's shares. These shares were revalued in 2015. As a result of this valuation, an increase of ₱1.28 billion in 2015 against the goodwill of ₱925.63 million recognized in 2014 was recorded as part of the assets acquired.

The fair value of the receivables of MORE amounted to ₱1.20 billion. None of the trade and other receivables has been impaired as at October 10, 2014, and it is expected that the full contractual amounts can be collected.

The Parent Company also acquired, as part of the business combination, material investments and deferred exploration costs. These investments pertain to MORE's interests in its wholly and partially-owned subsidiaries, which primarily engage in mine and oil and gas exploration activities.

The attributable costs of the issuance of the shares of ₱49.41 million have been charged directly to equity as a reduction in share premium (see Note 19).

The total loss incurred by MORE amounted to ₱49.66 million from the acquisition date to December 31, 2014. Consolidated net loss of the Group had the business combination occurred on January 1, 2014 would be lower by ₱283.61 million.

The business combinations of ISRI and MORE resulted to a gain from acquisition in the amount of ₱48.83 million and ₱203.43 million in 2015 and 2014, respectively on their calculated fair values which were higher than their book values at the time of acquisition. The amounts were recognized under "Other income (charges)" in the consolidated statements of income in 2015 and 2014, respectively (see Note 23).

5. Cash

	2016	2015
Cash on hand	**₱1,675,330**	₱2,478,117
Cash in banks	**235,833,648**	548,502,653
	₱237,508,978	₱550,980,770

Cash in bank earns interest at the respective bank deposit rates.

Interest income, net of final tax, arising from cash in bank amounted to ₱5.43 million, ₱5.85 million and ₱1.55 million in 2016, 2015 and 2014, respectively (see Note 23).

The Group has foreign currency-denominated cash amounting to US$0.23 million and US$2.63 million as at December 31, 2016 and 2015, respectively (see Note 28).

6. Trade and Other Receivables

	2016	2015
Trade	**₱99,978,358**	₱7,578,310
Nontrade	**71,722,485**	70,743,050
Advances to officers and employees	**4,334,547**	5,559,836
Others	**20,135,354**	25,381,837
	196,170,744	109,263,033
Less allowance for doubtful accounts	**1,702,678**	1,765,700
	₱194,468,066	₱107,497,333

Trade receivables are non-interest bearing and are generally on less than 15 days' terms while nontrade receivables are cash advances that are granted to third parties. These are related to gold delivery agreements entered into by the Group with Heraeus Limited (Heraeus), a refining company based in Hong Kong (see Note 30).

Advances to officers and employees pertain to cash advances that are subject to liquidation within 10 to 30 days.

Other receivables comprise of advances for social security claims and medical benefits of employees. These said advances will be settled by the employees once their claims or benefits have been received from the related agency.

The Group'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 Group recognized allowance for impairment losses on the receivables that are considered individually impaired amounting to ₱1.70 million and
₱1.77 million as at December 31, 2016 and 2015, respectively. The Group wrote off allowance for doubtful accounts amounting to ₱0.06 million and ₱0.56 million in 2016 and 2015, respectively.

The Group has foreign currency-denominated trade and other receivables amounting to US$2.01 million and US$0.16 million as at December 31, 2016 and 2015, respectively (see Note 28).

7. **Inventories** - NRV

	2016	2015
Gold and silver bullions	**₱227,894,846**	₱149,992,570
Ore stockpile	**155,925,348**	189,190,287
	383,820,194	339,182,857
Materials and supplies	**475,651,354**	462,705,569
Less allowance for inventory losses and obsolescence	**86,151,412**	67,594,945
	389,499,942	395,110,624
	₱773,320,136	₱734,293,481

Cost of inventories recognized as part of cost of production amounted to ₱828.14 million, ₱672.58 million and ₱634.28 million in 2016, 2015 and 2014, respectively (see Note 21).

Cost of materials and supplies recognized as part of general and administrative expenses in 2016, 2015 and 2014 amounted to ₱2.59 million, ₱4.82 million and ₱2.47 million, respectively (see Note 22).

The Parent Company recognized ₱6.24 million of the prior year capitalized depreciation, depletion and amortization on inventories. (see Note 24).

Movements in allowance for inventory losses and obsolescence are as follows:

	2016	2015
Beginning balances	**₱67,594,945**	₱80,550,746
Provision (Note 23)	**18,556,467**	–
Reversal (Note 23)	**–**	(12,955,801)
Ending balances	**₱86,151,412**	₱67,594,945

The Company recorded an additional provision for inventory losses and obsolescence amounting to ₱18.56 million in 2016 while reversed a provision amounting to ₱12.96 million in 2015 (see Note 23).

The Group has written off materials and supplies amounting to ₱1.87 million, ₱0.06 million and nil in 2016, 2015 and 2014, respectively. However, the Group recovered materials and supplies previously written-off of nil, nil and ₱5.90 million in 2016, 2015 and 2014, respectively (see Note 23).

8. **Prepayments and Other Current Assets**

	2016	2015
Input VAT	**₱221,381,012**	₱171,021,939
Advances to suppliers and contractors	**70,338,025**	209,824,827
Current portion of deferred input VAT	**39,182,769**	37,529,895
TCCs	**30,543,782**	1,588,122
Prepayments	**15,879,531**	10,637,449
CWT	**1,776,502**	1,776,502
Others	**28,409,795**	19,570,466
	₱407,511,416	₱451,949,200

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. The Parent Company applied for the conversion of the unused input VAT into a TCC which the Parent Company used to pay for its excise taxes. TCCs are previously recognized input VAT that were approved by regulatory agencies to be converted to TCCs. These can be utilized through application against national taxes such as income, excise, etc.

The Group has written off input VAT amounting to ₱1.76 million, ₱0.75 million and nil in 2016, 2015 and 2014, respectively (see Note 23).

Advances to suppliers and contractors comprise mainly of advance payments made by the Group relating to the services, materials and supplies necessary in the operations. These are non-interest bearing and will be realized through offsetting against future billings from suppliers and contractors.

Deferred input VAT pertains to input VAT on purchases or importation of capital goods exceeding ₱1.00 million in a calendar month. The current portion pertains to input VAT, which are amortized within 12 months from the end of the reporting period.

Prepayments include licenses and premiums on insurance policies covering the Group's vehicles and employees.

CWTs pertains to amount 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.

Others pertain to deposits made by the Group to non-bank entities including service professionals.

9. AFS Financial Assets

Unquoted AFS financial assets pertain to MORE's investment in a private foreign entity in which the Group holds a 3.92% ownership interest. The AFS financial assets are carried at cost since the shares do not have a quoted market price in an active market and the fair value cannot be measured reliably. As at December 31, 2016, the Group has no intention to dispose its unquoted shares. The aggregate cost of this investment amounted to ₱344.64 million as at December 31, 2016 and 2015. Dividend income of nil and ₱1.02 million was recognized in 2016 and 2015, respectively (see Note 23).

10. **Property, Plant and Equipment**

	2016							
	Buildings and improvements	Mining and milling equipment	Power equipment	Roads and bridges, and land improvements	Exploration equipment and others	Mine and mining properties	Construction in-progress	Total
At revalued amounts:								
Balances at beginning of year	₱199,193,324	₱3,734,966,988	₱468,053,066	₱662,218,009	₱232,475,404	₱3,648,114,896	₱1,391,323,596	₱10,336,345,283
Additions	293,900	259,169,411	32,222,787	–	4,584,089	510,697,451	622,081,267	1,429,048,905
Capitalized borrowing cost (Note 18)	–	–	–	–	–	15,440,324	4,155,455	19,595,779
Capitalized depreciation (Note 24)					–	44,139,166	–	44,139,166
Change in estimate of provision for mine rehabilitation and decommissioning (Note 17)	–	–	–	–	–	(1,933,925)	–	(1,933,925)
Reclassifications/transfers	1,213,646	(30,485,421)	(9,273)	(420,581)	2,788,848	3,350,034	(455,228,718)	(478,791,465)
Reclassifications to (from) construction in-progress	11,939,702	468,955,520	44,930,373	9,975,415	–	–	(535,801,010)	–
Disposals and write-offs		(4,980,679)	–	–	(2,204,074)	–	–	(7,184,753)
Balances at end of year	212,640,572	4,427,625,819	545,196,953	671,772,843	237,644,267	4,219,807,946	1,026,530,590	11,341,218,990
Accumulated depreciation and amortization:								
Balances at beginning of year	118,796,815	2,096,441,679	355,962,426	275,278,664	160,611,699	1,159,932,448	–	4,167,023,731
Depreciation and depletion	8,715,206	298,799,480	20,137,969	41,865,733	15,157,485	259,977,033	–	644,652,906
Capitalized depreciation (Note 24)	–	44,139,166	–	–	–	–	–	44,139,166
Reclassifications/transfers	181,209	(1,254,530)	–	(126,175)	994,134	1,189,748	–	984,386
Disposal and-write offs	–	–	–	–	(2,079,278)	–	–	(2,079,278)
Balances at end of year	127,693,230	2,438,125,795	376,100,395	317,018,222	174,684,040	1,421,099,229	–	4,854,720,911
Allowance for impairment:								
Balances at beginning and end of year	126,037	3,318,744	–	159,229,430	–	–	–	162,674,211
Net book values	₱84,821,305	₱1,986,181,280	₱169,096,558	₱195,525,191	₱62,960,227	₱2,798,708,717	₱1,026,530,590	₱6,323,823,868

	2015							
	Buildings and improvements	Mining and milling equipment	Power equipment	Roads and bridges, and land improvements	Exploration equipment and others	Mine and mining properties	Construction in-progress	Total
At revalued amounts:								
Balances at beginning of year	₱166,991,882	₱2,739,755,443	₱404,201,086	₱574,960,242	₱628,017,750	₱2,780,353,885	₱960,106,333	₱8,254,386,621
Additions	3,872,091	607,928,254	58,387,340	–	13,794,198	791,234,329	561,118,510	2,036,334,722
Capitalized borrowing cost (Note 18)	–	–	–	–	–	24,649,746	6,863,032	31,512,778
Capitalized depreciation (Note 24)	–	–	–	–	–	57,876,936	–	57,876,936
Revaluation	23,329,863	130,206,845	(8,309,645)	(46,645,716)	(97,884,510)	–	–	696,837
Change in estimate of provision for mine rehabilitation and decommissioning (Note 17)	(1,357,267)	–	–	–	–	–	–	(1,357,267)
Reclassifications/transfers	3,522,516	(2,785,300)	(6,200,997)	–	(309,157,998)	(6,000,000)	210,715,457	(109,906,322)
Reclassifications to (from) construction in-progress	2,792,924	192,383,508	19,975,282	131,749,953	–	–	(346,901,667)	–
Disposals and write-offs	–	–	–	(405,264)	(2,699,777)	–	(578,069)	(3,683,110)
Acquired through business combination (Note 4)	41,315	67,478,238	–	2,558,794	405,741	–	–	70,484,088
Balances at end of year	199,193,324	3,734,966,988	468,053,066	662,218,009	232,475,404	3,648,114,896	1,391,323,596	10,336,345,283
Accumulated depreciation and amortization:								
Balances at beginning of year	123,162,734	2,061,420,466	359,292,756	323,899,360	269,083,917	1,040,972,503	–	4,177,831,736
Depreciation and depletion	11,517,351	98,846,156	11,260,651	36,360,115	20,052,439	118,959,945	–	296,996,657
Capitalized depreciation (Note 24)	–	70,994,586	–	–	–	–	–	70,994,586
Revaluation	(17,616,986)	(203,358,000)	(13,018,652)	(85,599,186)	(113,467,103)	–	–	(433,059,927)
Reclassifications/transfers	1,692,401	48,722,008	(1,167,065)	–	(13,565,997)	–	–	35,681,347
Disposal and-write offs	–	–	(405,264)	–	(1,897,298)	–	–	(2,302,562)
Acquired through business combination (Note 4)	41,315	19,816,463	–	618,375	405,741	–	–	20,881,894
Balances at end of year	118,796,815	2,096,441,679	355,962,426	275,278,664	160,611,699	1,159,932,448	–	4,167,023,731
Allowance for impairment:								
Balances at beginning and end of year	126,037	3,318,744	–	159,229,430	–	–	–	162,674,211
Net book values	₱80,270,472	₱1,635,206,565	₱112,090,640	₱227,709,915	₱71,863,705	₱2,488,182,448	₱1,391,323,596	₱6,006,647,341

During 2015, the Parent Company revalued its property, plant and equipment based on estimated fair values as indicated in the independent appraiser's report dated April 17, 2015. The assigned value was estimated using the cost approach method, which is based on economic principle that a buyer will pay no more for an asset that the cost to obtain an asset of equal utility, whether by purchase or by construction. The cost approach involves the appraiser coming up with the replacement cost less an allowance for accrued depreciation as evidenced by the observed condition in comparison with new units of like kind with consideration to physical deterioration and functional/economic factors.

As at April 17, 2015, the management assessed that the highest and best use of buildings and improvements, mining and milling equipment, power equipment, roads bridges and land improvements and exploration equipment and others assumes its current use which amounted to ₱2.4 billion.

Accordingly, as of the date of the revaluation, the Group recognized a net increase of ₱303.93 million which was directly credited to the revaluation surplus, net of deferred taxes amounting to ₱ 130.13 million. In addition, the Group did not recognize impairment loss because there was no impairment indicators identified.

Construction in-progress consists mainly of expenditures and other construction projects at different stages of completion as at December 31, 2016 and 2015, respectively.

Movement in revaluation surplus in equity is as follows:

	2016	2015
Balances at beginning of year	**₱283,524,013**	₱5,271,619
Realized portion through depreciation, net of tax (Note 19)	**(21,460,140)**	(25,377,341)
Appraisal increase, net of tax	–	303,629,735
Balance at end of year	**₱262,063,873**	₱283,524,013

Total revaluation surplus is not available for distribution to stockholders until this is realized through depreciation.

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

	2016							
	Buildings and improvements	**Mining and milling equipment**	**Power equipment**	**Roads and bridges and land improvements**	**Exploration equipment, and others**	**Mine and mining properties**	**Construction in-progress**	**Total**
At cost:								
Balances at end of year	**₱189,368,571**	**₱4,297,361,113**	**₱553,101,334**	**₱718,823,824**	**₱332,690,335**	**₱4,214,257,721**	**₱1,026,530,590**	**₱ 11,332,133,488**
Accumulated depreciation and amortization:								
Balances at end of year	**140,759,531**	**2,599,083,702**	**388,524,677**	**395,021,783**	**275,523,449**	**1,421,099,229**	**–**	**5,220,012,371**
Allowance for impairment:								
Balances at beginning and end of year	**126,037**	**3,318,744**	**–**	**159,229,430**	**–**	**–**	**–**	**162,674,211**
Net book values	**₱48,483,003**	**₱1,694,958,667**	**₱164,576,657**	**₱164,572,611**	**₱57,166,886**	**₱2,793,158,492**	**₱1,026,530,590**	**₱5,949,446,906**

	2015							
	Buildings and improvements	Mining and milling equipment	Power equipment	Roads and bridges and land improvements	Exploration equipment, and others	Mine and mining properties	Construction in-progress	Total
At cost:								
Balances at end of year	₱175,921,323	₱3,604,702,283	₱475,957,447	₱709,268,990	₱329,219,199	₱3,648,114,896	₱1,391,323,596	₱ 10,334,507,734
Accumulated depreciation and amortization:								
Balances at end of year	134,567,803	2,233,471,360	368,741,685	357,728,444	315,778,746	1,159,932,448	–	4,570,220,486
Allowance for impairment:								
Balances at beginning and end of year	126,037	3,318,744	–	159,229,430	–	–	–	162,674,211
Net book values	₱41,227,483	₱1,367,912,179	₱107,215,762	₱192,311,116	₱13,440,453	₱2,488,182,448	₱1,391,323,596	₱5,601,613,037

The cost of fully depreciated property, plant and equipment that are still being used amounted to ₱2.99 billion and ₱2.84 billion as at December 31, 2016 and 2015, respectively.

Certain items of property, plant and equipment amounting to nil and ₱583.41 million, respectively, under the mining and milling equipment category, are used as collateral to the various financing agreements entered into by the Parent Company as at December 31, 2016 and 2015, respectively (see Note 18).

The Group capitalized borrowing cost amounting to ₱4.15 million and ₱6.86 million for construction in progress and ₱15.44 million and ₱24.65 million for mine development in 2016 and 2015, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 5.43% and 5.82% in 2016 and 2015, respectively (see Note 18).

	2016				
	Mine and mining properties	**Mine development cost**	**Mine rehabilitation asset**	**Mine rehabilitation asset - PPE**	**Total**
Cost:					
Balances at beginning of year	**₱1,971,447,103**	**₱1,652,783,952**	**₱23,883,841**	**₱–**	**₱3,648,114,896**
Additions	**–**	**510,697,451**	**–**	**–**	**510,697,451**
Capitalized borrowing cost (Note 18)	**–**	**15,440,324**	**–**	**–**	**15,440,324**
Capitalized depreciation (Note 24)	**–**	**44,139,166**	**–**	**–**	**44,139,166**
Change in estimate	**–**	**–**	**(374,660)**	**(1,559,265)**	**(1,933,925)**
Reclassifications/transfers	**–**	**–**	**–**	**3,350,034**	**3,350,034**
Reclassification from deferred exploration and mine development costs	**582,225,284**	**(582,225,284)**	**–**	**–**	**–**
Balances at end of year	**2,553,672,387**	**1,640,835,609**	**23,509,181**	**1,790,769**	**4,219,807,946**
Accumulated depletion:					
Balances at beginning of year	**1,136,567,681**	**–**	**23,364,767**	**–**	**1,159,932,448**
Reclassification/transfer	**–**	**–**	**–**	**1,189,748**	**1,189,748**
Depletion (Note 24)	**259,231,598**	**–**	**144,414**	**601,021**	**259,977,033**
Balances at end of year	**1,395,799,279**	**–**	**23,509,181**	**1,790,769**	**1,421,099,229**
Net book values	**₱1,157,873,108**	**₱1,640,835,609**	**₱–**	**₱–**	**₱2,798,708,717**

	2015			
	Mine and mining properties	Mine development cost	Mine rehabilitation asset	Total
Cost:				
Balances at beginning of year	₱1,568,985,563	₱1,187,484,481	₱23,883,841	₱2,780,353,885
Additions	–	791,234,329	–	791,234,329
Capitalized borrowing cost (Note 18)	–	24,649,746	–	24,649,746
Capitalized depreciation (Note 24)	–	57,876,936	–	57,876,936
Reclassifications/transfers (Forward)	–	(6,000,000)	–	(6,000,000)
Reclassification from deferred exploration and mine development costs	402,461,540	(402,461,540)	–	–
Balances at end of year	1,971,447,103	1,652,783,952	23,883,841	3,648,114,896
Accumulated depletion:				
Balances at beginning of year	1,017,750,364	–	23,222,139	1,040,972,503
Depletion (Note 24)	118,817,317	–	142,628	118,959,945
Balances at end of year	1,136,567,681	–	23,364,767	1,159,932,448
Net book values	₱834,879,422	₱1,652,783,952	₱519,074	2,488,182,448

11. Deferred Exploration Costs

	2016	2015
Balances at beginning of year	**₱2,261,567,072**	₱1,621,333,348
Additions	**47,132,960**	87,688,142
Capitalized borrowing cost (Note 18)	**1,347,280**	2,001,393
Acquired through business combination (Note 4)	**–**	550,544,189
Balances at end of year	**₱2,310,047,312**	₱2,261,567,072

Deferred exploration costs consist of expenditures related to the exploration activities covered by the Group's mining tenements. Additions to deferred exploration costs include those incurred on service contracts for the exploration of the mines, drilling activities, and other direct costs related to exploration activities. There were no reclassifications to mine development costs under mine and mining properties during the year. The recovery of these costs depends upon the success of the exploration activities, the future development of the corresponding mining properties and the extraction of mineral products as these properties shift into commercial operations.

The Company capitalized borrowing costs amounting to ₱1.35 million and ₱2.0 million relating to expenditures for deferred exploration in 2016 and 2015, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 5.43% and 5.82% in 2016 and 2015, respectively (see Note 18).

12. Intangible Assets

	2016		
	Franchise	**Computer software**	**Total**
Cost:			
Balances at beginning of year	**₱192,202,964**	**₱41,267,187**	**₱233,470,151**
Additions	**–**	**18,200**	**18,200**
Reclassifications	**–**	**32,500**	**32,500**
Balances at end of year	**192,202,964**	**41,317,887**	**233,520,851**
Accumulated amortization:			
Balances at beginning of year	**–**	**40,110,278**	**40,110,278**
Reclassifications	**–**	**9,749**	**9,749**
Amortization (Note 24)	**–**	**636,681**	**636,681**
Balances at end of year	**–**	**40,756,708**	**40,756,708**
Net book values	**₱192,202,964**	**₱561,179**	**₱192,764,143**

	2015		
	Franchise	Computer software	Total
Cost:			
Balances at beginning of year	₱192,202,964	₱41,267,187	₱233,470,151
Additions	–	–	–
Balances at end of year	192,202,964	41,267,187	233,470,151
Accumulated amortization:			
Balances at beginning of year	–	39,375,631	39,375,631
Amortization (Note 24)	–	734,647	734,647
Balances at end of year	–	40,110,278	40,110,278
Net book values	₱192,202,964	₱1,156,909	₱193,359,873

Franchise pertains to ICSI's cost of franchise for the implementation of the Solid Waste Management Project. The subsidiary's management has assessed that the subsidiary can fully recover the cost of the franchise upon commencement of operations based on its financial projections.

Computer software includes workbooks used for exploration activities and accounting process of the Group.

13. **Other Noncurrent Assets**

	2016	2015
Receivable from Gold Mine of Uganda Ltd. (GMU)	**₱100,683,000**	₱90,274,500
Advances for acquisition of land	**93,530,149**	93,530,149
Deferred input VAT - noncurrent	**53,664,385**	81,142,393
MRF	**14,796,724**	12,054,978
Deposits	**13,845,193**	13,845,195
National transmission lines	**2,949,236**	2,949,236
Advances for royalties	**2,084,893**	2,084,893
Others	**10,885,163**	10,920,465
	₱292,438,743	₱306,801,809

Receivable from GMU pertain to the advances made by MORE which are expected to be collected beyond 12 months.

Advances for acquisition of land pertain to the advance payments for the purchase of land to be used in ICSI's project to construct and operate a sanitary landfill. The advances are covered by Memorandum of Agreements pending transfer of title of the land to ICSI.

As at December 31, 2016 and 2015, the Group maintains mine rehabilitation funds consisting of monitoring trust, rehabilitation cash, environmental trust and final rehabilitation and decommission funds as provided in its agreements entered into with the provincial government and the MGB. The funds are to be used for the 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.*

Deposits, which pertain to security deposits on leases of equipment and office space rentals, will be recovered through application against final billings from lessors. The Group has written off deposits amounting to nil an d ₱6.00 million in 2016 and 2015, respectively (see Note 23).

National transmission lines pertain to the national transmission line for the warehouse, which will be recovered through application against final electricity billings.

Advances for royalties arose due to the agreement entered into by BMRC which requires the latter to pay in advance the royalties accruing for a particular mining property.

Others pertain to deposits made by the Group to non-bank entities including service professionals.

14. Trade and Other Payables

	2016	2015
Trade	**₱670,659,805**	₱939,831,341
Nontrade	**340,336,435**	446,717,765
Accrued expenses	**298,523,859**	152,284,282
Payables to employees	**43,805,286**	31,997,173
Payables to government agencies	**42,381,076**	20,314,080
Retention fees	**11,013,674**	7,296,764
Others	**58,733,310**	150,620,817
	₱1,465,453,445	₱1,749,062,222

Trade payables, accrued liabilities and other payables are non-interest bearing. Trade payables are payable on demand while accrued liabilities are generally settled in 30 to 60 days terms. Payable to supplier amounting to ₱5.03 million and nil was extinguished on 2016 and 2015, respectively. (see Note 23).

Nontrade payable includes royalties and surface rights based on the memorandum of agreement with the indigenous peoples of Barangay Masara, Maco, Compostela Valley
(see Note 30), and other payables that are incurred outside the Group's trading operations.
The Group extinguished nontrade payables amounting to nil and ₱56.66 million in 2016 and 2015, respectively (see Note 23).

Accrued expenses include billings for hired services, project suppliers, professional fees, utilities and other expenses related to the operations.

Payables to employees pertain to accrued leave benefits that are monetized and given to employees and unclaimed salaries and wages as at each end of the reporting period.

Payables to government agencies are normally remitted to various regulatory bodies within 10 days from the close of taxable month.

Retention fees pertain to withheld payment for services availed or product purchases incurred pending the completion of some specified conditions such as successful construction and installation. Settlement may vary depending on the remaining estimated time to complete the conditions. Retention fees are non-interest bearing.

Other payables pertain to short-term cash advances by the Group necessary to support its operations.

15. Related Party Disclosures

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity 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 non-interest bearing and short-term cash advances for working capital requirements of the Group, which are due and demandable.

Category	Relationship	Year	Volume/ Amount	Outstanding balance	Terms	Conditions
Advances to related parties						
MORE Coal	With common stockholders	**2016**	**₱69,569**	**₱1,110,675**	Due and demandable	Unsecured,
		2015	₱1,041,106	₱1,041,106	cash settled	Unguaranteed
MORE Oil & Gas	With common stockholders	**2016**	**71,536**	**527,209**	Due and demandable	Unsecured
		2015	455,673	455,673	cash settled	
MORE Reedbank	With common stockholders	**2016**	**69,401**	**438,473**	Due and demandable	Unsecured
		2015	369,072	369,072	cash settled	
MORE Minerals	With common stockholders	**2016**	**69,420**	**430,905**	Due and demandable	Unsecured
		2015	361,485	361,485	cash settled	
PMHI	Stockholder	**2016**	**(78,813)**	**–**	Due and demandable	Unsecured
		2015	78,813	78,813	cash settled	
2016			**₱201,113**	**₱2,507,262**		
2015			₱2,306,149	₱2,306,149		

Category	Relationship	Year	Volume/ Amount	Outstanding balance	Terms	Conditions
Advances from related parties						
PMHI	Stockholder	**2016**	**₱376,012,000**	**₱976,012,000**	Due and demandable	Unsecured
		2015	₱600,000,000	₱600,000,000	cash settled	
Other stockholder		**2016**	**(9,831,702)**	**2,218,761**	Due and demandable	Unsecured
		2015	12,050,463	12,050,463	cash settled	
2016			**₱366,180,298**	**₱978,230,761**		
2015			₱612,050,463	₱612,050,463		

a. The Group's advances to related parties are receivables from entities whose directors and officers are common with MORE.

b. Advances from PMHI pertain to advances obtained by the Parent Company for its working capital requirements.

<u>Trustee Bank</u>
The Group's retirement fund pertains only to the Parent Company's retirement fund that is being held by a trustee bank. The carrying amounts of the Parent Company's retirement fund amounted to ₱14.57 million and ₱15.63 million, respectively, while the fair values amounted to and ₱14.36 million and ₱15.71 million, respectively, as at as at December 31, 2016 and 2015 (see Note 16).

As at December 31, 2016 and 2015, the retirement fund consists of investments in government bonds, cash and short-term deposits, equity instruments and others which accounts for 74.17% and 66.81%, 26.41% and 22.36%, 10.44% and 9.55% and (11.02%) and 1.28% respectively, of its composition (see Note 16).

The Parent Company made no contributions to the fund in 2016 and 2015. There were no transactions made between the Parent Company and the retirement fund in both years.

Compensation of Key Management Personnel

The Group considers as key management personnel all employees holding executive positions up to the Chairman of the Board. There were no stock options or other long-term benefits granted to key management personnel in 2016, 2015 and 2014. The following are the components of the compensation of the Group's key management personnel in 2016, 2015 and 2014:

	2016	2015	2014
Salaries and short-term benefits	**₱108,571,857**	₱102,402,817	₱80,772,791
Post-retirement benefits	**–**	–	2,021,390
	₱108,571,857	₱102,402,817	₱82,794,181

16. Provision for Retirement Benefits

The Group's retirement fund pertains to the Parent Company which has a multi-employer retirement plan, a funded, noncontributory defined benefit retirement plan. It accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan.

The following tables summarize the components of retirement benefits costs and liability recognized in the parent company statements of comprehensive income and parent company statements of financial position, respectively.

The details of retirement benefits costs follow:

	2016	2015	2014
Current service cost (Note 25)	**₱30,073,030**	₱28,367,218	₱18,702,146
Interest cost - net (Note 26)	**8,002,371**	9,789,350	4,420,975
	₱38,075,401	₱38,156,568	₱23,123,121

Changes in defined benefits liability and fair value of plan assets in 2016 and 2015 are as follows:

2016	**Defined benefits liability**	**Fair value of plan assets**	**Net defined benefit liability**
At January 1	**₱163,353,731**	**₱15,708,500**	**₱147,645,231**
Net interest (Note 26)	**8,853,772**	**851,401**	**8,002,371**
Current service cost (Note 25)	**30,073,030**	**–**	**30,073,030**
Benefits paid directly from book reserve	**(2,909,728)**	**–**	**(2,909,728)**
Remeasurement of actuarial losses (gains):			
Experience	**(11,880,674)**	**–**	**(11,880,674)**
Changes in financial assumptions	**(9,441,626)**	**–**	**(9,441,626)**
Remeasurement loss - return on plan assets	**–**	**(2,195,670)**	**2,195,670**
	(21,322,300)	**(2,195,670)**	**(19,126,630)**
At December 31	**₱178,048,505**	**₱14,364,231**	**₱163,684,274**

2015	Defined benefits liability	Fair value of plan assets	Net defined benefit liability
At January 1	₱218,080,928	₱15,402,888	₱202,678,040
Net interest (Note 26)	10,533,309	743,959	9,789,350
Current service cost (Note 25)	28,367,218	–	28,367,218
Remeasurement of actuarial losses (gains):			
Changes in financial assumptions	(79,678,262)	–	(79,678,262)
Experience	(13,949,462)	–	(13,949,462)
Remeasurement loss - return on plan assets	–	(438,347)	438,347
	(93,627,724)	(438,347)	(93,189,377)
At December 31	₱163,353,731	₱15,708,500	₱147,645,231

Changes in defined benefits cost recognized in other comprehensive income in 2016 and 2015 are as follows:

	2016	2015
At January 1	**₱26,813,063**	₱120,002,440
Actuarial gains - defined benefit obligation	**(21,322,300)**	(93,627,724)
Remeasurement loss - plant asset	**2,195,670**	438,347
At December 31	**₱7,686,433**	₱26,813,063

The major categories of the Company's plan assets as a percentage of the fair value of total plan assets are as follows:

	2016	2015
Cash and short-term deposits	**26.41%**	22.36%
Debt instruments - government bonds	**74.17%**	66.81%
Equity Instruments	**10.44%**	9.55%
Others	**-11.02%**	1.28%
	100.00%	100.00%

The cost of defined retirement benefits plan, as well as the present value of the retirement benefits liability are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining retirement benefits liability for the defined retirement plan are shown below:

	2016	2015
Discount rate	**5.86%**	5.42%
Salary increase rate	**5.00%**	5.00%
Expected average remaining life	**22.6**	23.3
Mortality rate	**The 2001 CSO Table – Generational**	The 2001 CSO Table - Generational
Disability rate	**The Disability Study, Period 2, Benefit 5**	The Disability Study, Period 2, Benefit 5

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

	Increase (decrease)	**2016**
Discount rates	**(10.50%)**	**₱18,630,168**
	12.80%	**(22,750,044)**

	Increase (decrease)	2015
Discount rates	7.7%	(₱12,492,471)
	(6.8%)	11,092,489

	Increase (decrease)	**2016**
Salary increase rate	**12.2%**	**₱21,730,409**
	(10.2%)	**(18,199,097)**

	Increase (decrease)	2015
Salary increase rate	6.8%	₱11,123,680
	(6.2%)	(10,132,950)

The latest available actuarial valuation report of the Parent Company was obtained in March 2017 representing information as at December 31, 2016.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2016 and 2015:

	2016	2015
Less than one year	**₱41,668,172**	₱16,591,748
More than one year to five years	**54,678,783**	42,220,100
More than five years to 10 years	**92,513,250**	86,275,393
	₱188,860,205	₱145,087,241

17. Provision for Mine Rehabilitation and Decommissioning

	2016	2015
Balance at beginning of year	**₱44,026,510**	₱44,769,638
Accretion (Note 26)	**744,575**	614,139
Effect of change in estimate (Note 10)	**(1,933,925)**	(1,357,267)
Balance at end of year	**₱42,837,160**	₱44,026,510

The Group makes a full provision for the future costs of rehabilitating of the mine 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 Parent Company's FMRDP on its existing MPSAs was approved by the MGB on August 9, 2010. These provisions have been created based on the Parent Company's internal estimates. Assumptions based on the current economic environment have been made, which management believes are reasonable bases 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.

18. Loans Payable

	2016	2015
Banco de Oro Unibank, Inc. (BDO)	**₱2,250,000,000**	₱2,250,000,000
Rizal Commercial Banking Corporation (RCBC)	**450,000,000**	450,000,000
Unionbank of the Philippines (UBP)	**397,760,000**	376,480,000
Atlas Copco Rock Drills (Atlas Copco)	**23,907,433**	98,059,822
Bank of the Philippine Islands (BPI)	**–**	147,500,000
Sandvik Mining and Construction (Sandvik Mining)	**–**	109,291,679
Planters Bank	**–**	974,246
Philippine National Bank (PNB)	**–**	–
	3,121,667,433	3,432,305,747
Less current portion	**3,121,667,433**	3,432,305,747
Noncurrent portion	**₱–**	₱–

UBP
The Parent Company issued two promissory notes to UBP on July 22, 2014 and August 1, 2014 for US$4.00 million each. The notes bear an interest rate of 5% per annum with 180 days term.

The Parent Company has two outstanding $4.00 million promissory notes amounting to US$8.00 million equivalent to ₱397.76 million and ₱376.48 million as at December 31, 2016 and 2015, respectively, maturing on January 11 and 22, 2017, respectively.

Upon maturity on January 11 and 22, 2017, UBP granted the Parent Company rollover of its two US$4.00 million promissory notes maturing on September 22, 2017 at the same interest rate of 5% per annum.

RCBC
On August 5, 2014, the Parent Company issued a non-negotiable promissory note to RCBC for ₱450.00 million maturing on February 1, 2015. The note bears an interest rate of 6.5% per annum with 180 days term.

The Parent Company has outstanding promissory notes amounting to ₱450.00 million as at December 31, 2016 and 2015.

Upon maturity on January 21, 2017, RCBC granted the Parent Company rollover of its maturing outstanding promissory note with new maturity date of April 21, 2017 at a lower 6.25% interest rate per annum.

Philippine Business Bank (PBB)
On January 7, 2015, PBB agreed to grant the Company a three-year term loan amounting to ₱42.0 million. The term loan bears an interest rate of 8% per annum with principal and interest payments due to quarterly up to January 8, 2018. The proceeds of the loan was used for acquisition of heavy equipment. On June 10, 2015, the Company paid the full amount of the loan.

BDO
On March 20, 2015, BDO approved a one- year, short term ₱2.25 billion loan to the Parent Company for cash requirements and capital expenditures maturing on March 30, 2016. Interest shall be based on the prevailing market rates at the time of drawdown which was 5.50% per annum.

The Parent Company has an outstanding obligation amounting to ₱2.25 billion as at December 31, 2016 and 2015.

On March 24, 2017, the Parent Company was able to renew its ₱2.25 billion loan with BDO that was set to mature on March 24, 2017. The new maturity date of the fully-drawn loan is on March 24, 2018 bearing the same interest rate of 5.50%.

PNB
PNB granted the Parent Company the following facilities:

- On November 26, 2016, Credit Facilities consisting of Letters of Credit (LC), Trust Receipts and Settlement Risk Lines totaling ₱500.00 million expiring on July 31, 2017; and

- On November 28, 2016, a Term Loan Facility of up to ₱500.00 million with tenor of three years with equal quarterly principal repayment plus interest. Interest rates shall be fixed for three years based on a three-year Philippine Dealing System Treasury (PDST) plus a 2% spread, or 5%, whichever is higher.

Subject to certain conditions precedent to drawdown such as the execution of the Loan Agreement for the Term Loan Facility which was signed by the parties on January 10, 2017, on January 27, 2017, the Parent Company drew on the Term Loan Facility for the full amount with the interest rate set at 5.45% per annum for the three-year term. The first principal repayment plus interest will begin on April 27, 2017 and every quarter thereafter up to January 27, 2020.

As at April 11, 2017, the Parent Company has utilized ₱60.16 million (US$1.20 million) worth of LC for its importation of machinery and equipment using the standard credit terms with the supplier of 90 to180 days.

<u>Equipment Financing</u>
In 2013, the Parent Company entered into various financing agreements to fund the purchase of machinery and equipment.

Atlas Copco
In June 2013, the Parent Company entered into Purchase Agreements with Atlas Copco for the acquisition of mining-related machinery and equipment. The Parent Company also signed Supplier Credit Arrangements with Customer Finance AB, which makes available to the Parent Company credit lines to be used in financing the Purchase Agreements. The said Credit Agreements are payable in three years and bear an interest rate of 8.00% per annum.

On December 12, 2014, the Parent Company and Atlas Copco signed an amendment to the purchase agreements wherein the terms provided for a new monthly payment schedule starting February 28, 2015 up to December 31, 2016.

Certain items of property, plant and equipment under the mining and milling category amounting to nil and ₱262.43 million are used as collateral to the said purchase agreements as at December 31, 2016 and 2015, respectively.

The Parent Company has an outstanding balance of $0.48 million and $2.08 million equivalent to ₱23.91 million and ₱98.06 million to Atlas Copco as at December 31, 2016 and 2015, respectively.

Sandvik Mining
In June 2013, the Parent Company entered into several Sale and Purchase Agreements with Sandvik Mining covering purchases of equipment to be used in its expansion program. Settlement of the said purchases on behalf of the Parent Company was covered by financing agreements entered into with Sandvik Mining. The said agreements due to Sandvik Mining are payable in three years and bear an interest rate of 10.00% per annum.

On December 29, 2014, the Company and Sandvik Mining signed an amendment to the purchase agreements wherein, the amended terms provided for a new 7 to 8 quarterly payment schedules starting January 20, 2015, consisting of the principal payments and interest up to October 20, 2016. During 2016, the Parent Company paid the full amount of the loan and terminated their financing agreements with Sandvik.

Planters Bank
In March 2013, the Parent Company obtained promissory notes from Planters Bank which were used to finance the purchase of transportation equipment to be used in the mine site. The said promissory notes are payable in three years and bear an interest rate of 8.58% per annum. These are secured by chattel mortgages on the purchased transportation equipment totaling nil and ₱17.38 million as at December 31, 2016 and 2015, respectively. The Parent Company has an outstanding balance of nil and ₱0.97 million as at December 31, 2016 and 2015, respectively.

The Group's availment and payment of loans and equipment financing as at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Availment	**Payment**	Availment	Payment
BPI	**₱–**	**₱147,500,000**	₱147,500,000	₱–
Sandvik Mining	**–**	**109,291,679**	–	₱108,194,812
Atlas Copco	**–**	**74,152,388**	–	70,859,789
RCBC	**29,000,000**	**29,000,000**	175,000,000	175,000,000
Planters Bank	**–**	**974,246**	–	6,216,938
BDO	**–**	**–**	2,250,000,000	–
PBB	**–**	**–**	42,000,000	42,000,000
HSBC/BDO-net	**–**	**–**	–	100,620,000
	₱29,000,000	**₱360,918,313**	₱2,614,500,000	₱502,891,539

Interest expenses incurred in 2016 and 2015 in relation to the availed loans are as follows:

	2016	2015
BDO	**₱122,959,375**	₱84,140,072
RCBC	**26,067,040**	30,024,985
UBP	**19,307,191**	18,822,921
Sandvik Mining	**2,356,490**	16,436,155
Atlas Copco	**3,548,021**	11,242,019
BPI	**235,288**	3,493,316
HSBC/BDO-net	**–**	3,687,531
PBB	**–**	1,398,823
Planters Bank	**–**	348,510
	174,473,405	169,594,332
Capitalized borrowing costs (Note 10 and 11)	**20,943,059**	33,514,171
Interest on loans payable (Note 26)	**₱153,530,346**	₱136,080,161

The Company capitalized borrowing costs amounting to ₱20.94 million and ₱33.51 million relating to expenditures for deferred exploration cost, mine development and construction in progress in 2016 and 2015, respectively. The rate used to determine the amount of borrowing costs eligible for capitalization was 5.43% and 5.82% in 2016 and 2015, respectively
(see Notes 10 and 11).

All loan covenants are complied with as at December 31, 2016.

19. Equity

Capital stock
The Parent Company has authorized capital stock of ₱12.80 billion, divided into a single class of common shares, with a par value of ₱1.00 per share as at December 31, 2016.

Movements in the subscribed, issued and outstanding capital are as follows:

	2016		2015	
	Shares	**Amount**	Shares	Amount
Issued and subscribed shares at beginning of year	**6,227,887,491**	**₱6,227,887,491**	6,227,887,491	₱6,227,887,491
Issued shares at end of year	**6,227,887,491**	**₱6,227,887,491**	6,227,887,491	₱6,227,887,491
Less treasury shares	**(564,730,109)**	**(2,117,737,909)**	(564,730,109)	(2,117,737,909)
Outstanding shares at end of year	**5,663,157,382**	**₱4,110,149,582**	5,663,157,382	₱4,110,149,582

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

a. On August 26, 2016, the Parent Company acquired the remaining 2% of the total outstanding capital stock of ISRI consisting of 500 million shares with par value of ₱0.01 per share, for a total consideration of ₱3.75 million of cash. ISRI has become a wholly-owned subsidiary of the Parent Company.

b. On June 24, 2015, the Parent Company used its shares held by MORE for the following transactions:
   - 51,546,392 shares as part of payment of the purchase price for the acquisition of ISRI amounting to ₱150.00 million (see Note 1).
   - 17,182,131 shares as advances to ISRI to pay its advances from previous stockholder amounting to ₱50.00 million (see Note 1).

c. On March 12, 2015, the Parent Company issued 1.86 billion shares to PMHI out of unissued capital stock at an issue price equivalent to its par value of ₱1.00 per share.

d. On February 3, 2015, the Parent Company issued 2.50 billion shares out of the unissued capital stock at an issue price equivalent to its par value of ₱1.00 per share corresponding to the deposit for future stock subscriptions of ₱2.5 billion as at December 31, 2014.

e. On January 12, 2015, the Parent Company's application for the increase in its authorized capital stock was duly approved by the Philippine SEC.

f. On December 29, 2014, the Parent Company filed with the SEC an application for the increase in authorized capital stock from ₱2.80 billion divided into 2.80 billion shares, with par value of ₱1.00 per share, to ₱12.80 billion divided into 12.80 billion shares, with par value of ₱1.00 per share.

g. On October 10, 2014, through the execution of the subscription agreements between the Parent Company and stockholders of MORE, the Parent Company recorded as part of its equity deposit for future stock subscriptions amounting to ₱2.50 billion.

h. On April 16, 2014, MORE purchased from Mapula Creek Gold Corporation (MCGC) 644.68 million shares of the Parent Company.

<u>APIC</u>
Movements in the APIC are as follows:

	2016	2015
Balance at beginning of year	**₱3,027,029,976**	₱3,048,826,224
Equity restructuring	**(3,011,088,301)**	–
Transaction costs of share issuances (Note 4)	–	(21,796,248)
Balance at end of year	**₱15,941,675**	₱3,027,029,976

Retained earnings (deficit)
Movement in the retained earnings (deficit) is as follows:

	2016	2015
Balance at beginning of year	**(₱2,914,720,530)**	(₱2,960,688,438)
Equity restructuring	**3,011,088,301**	–
Net income (loss) attributable to the equity holders of the Parent Company	**326,006,282**	78,402,528
Realization of revaluation surplus (Note 10)	**21,460,140**	25,377,341
Acquisition of ISRI (Note 4)	–	(57,811,961)
Balance at end of year	**₱443,834,193**	(₱2,914,720,530)

The APIC of ₱3.01 billion as at December 31, 2015 was decreased to ₱15.94 million as at January 1, 2016 and the deficit of ₱2.9 billion as at December 31, 2015 was increased to ₱96.3 million positive retained earnings as at January 1, 2016 after reflecting the equity restructuring.

NCI
NCI consists of the following:

	2016	2015
NCI on net assets of:		
ICSI	**₱201,870,891**	₱205,388,626
Minas	**(22,949,969)**	(22,949,969)
MMSL	**(2,789,401)**	(2,260,107)
MOMCL	**701,751**	701,751
	₱176,833,272	₱180,880,301

The summarized financial information of ICSI (material NCI) is provided below:
Statements of comprehensive income for the years ended December 31, 2016 and 2015:

	2016	2015
General and administrative expenses	**₱11,813,598**	₱15,022,883
Other income	**4,484,982**	5,476,318
Loss before tax	**7,328,616**	9,546,565
Provision for income tax	–	96,480
Net loss	**₱7,328,616**	₱9,643,045
Attributable to:		
Equity holders of the Parent Company	**₱3,810,881**	₱5,014,383
Non-controlling interests	**3,517,735**	4,628,662

Statements of financial position as at December 31, 2016 and 2015:

	2016	2015
Current assets	**₱135,458,321**	₱152,631,471
Noncurrent assets	**285,733,113**	285,733,113
Current liabilities	**(627,078)**	(803,647)
Noncurrent liabilities	**(1,012,495)**	(1,012,495)
Total equity	**₱419,551,861**	₱436,548,442
Attributable to:		
Equity holders of the Parent Company	**₱217,680,970**	₱231,159,816
Non-controlling interests	**201,870,891**	205,388,626

Statements of cash flows as at December 31, 2016 and 2015:

	2016	2015
Net cash used in operating activities	**(₱72,008,103)**	(₱11,003,869)
Net cash provided by investing activities	–	38,000
Net decrease in cash and cash equivalents	**(₱72,008,103)**	(₱10,965,869)

20. Basic/Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) attributable to stockholders of the Parent Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Parent Company and held as treasury shares. Estimation of earnings (loss) per share for the three years ended December 31, 2016, 2015 and 2014 when there were no potentially dilutive common shares during the respective periods are as follows:

	2016	2015	2014
Net income (loss) attributable to the equity holders of the Parent Company	**₱326,006,282**	₱78,402,528	(₱380,997,415)
Weighted average number of common shares for basic and diluted earnings per share	**5,663,157,382**	5,236,524,773	3,238,288,274
Basic and diluted earnings (loss) per share	**₱0.06**	₱0.01	(₱0.12)

21. Cost of Production

	2016	2015	2014
Materials and supplies (Note 7)	**₱828,138,203**	₱672,578,194	₱634,284,369
Depreciation, depletion and amortization (Note 24)	**632,235,533**	290,917,457	402,056,618
Personnel costs (Note 25)	**509,649,984**	455,491,924	334,643,252
Utilities	**248,138,874**	190,836,451	97,498,227
Contracted services	**232,647,814**	159,743,036	116,620,334
Taxes and licenses	**44,854,540**	39,941,450	44,035,261
Royalties (Note 30)	**35,220,506**	24,300,973	1,772,380
Surface rights (Note 30)	**35,220,506**	24,300,973	16,077,705
Marketing	**32,589,515**	23,957,772	15,877,963
Community development expenses	**22,854,015**	15,336,632	32,123,410
Professional fees	**17,115,680**	16,972,581	12,867,920
Rent (Note 30)	**14,040,301**	50,378,367	96,796,464
Others	**46,330,877**	49,275,908	67,458,961
	₱2,699,036,348	₱2,014,031,718	₱1,872,112,864

Consolidated costs of production pertains to the Parent Company's cost of production.

IP surface rights and fees pertain to expenses incurred for amounts due to IPs near the Company's mining tenements. Other costs of production include costs of assay testing and contracted labor for the Company's operations.

The amounts were distributed as follows:

	2016	2015	2014
Mining	**₱860,819,520**	₱668,619,602	₱932,689,359
Milling	**532,733,500**	444,645,939	375,390,967
Compliance	**182,920,256**	173,141,210	113,564,794
Mine overhead	**1,122,563,072**	727,624,967	450,467,744
	₱2,699,036,348	₱2,014,031,718	₱1,872,112,864

22. General and Administrative Expenses

	2016	2015	2014
Personnel costs (Note 25)	**₱106,003,858**	₱98,012,110	₱78,874,828
Professional fees	**26,398,281**	13,165,257	8,867,002
Taxes, licenses and permits	**23,969,712**	9,802,249	4,669,251
Depreciation and amortization (Note 24)	**19,289,975**	6,813,847	12,268,071
Transportation and accommodation	**7,777,075**	6,893,920	3,917,784
Representation and entertainment	**7,536,904**	7,953,333	5,539,087
Rent (Note 30)	**5,619,790**	8,138,672	3,316,462
Repairs and maintenance	**5,013,796**	2,191,519	62,717
Materials and supplies (Note 7)	**2,588,374**	4,816,814	2,469,749
Insurance	**1,761,911**	1,673,862	265,336
Utilities	**1,123,930**	1,949,563	1,034,681
Others	**18,899,720**	25,617,716	29,573,485
	₱225,983,326	₱187,028,862	₱150,858,453

Other expenses pertain to freight and handling, bank charges, laboratory expenses and miscellaneous expenses.

23. Other Income (Charges)

	2016	2015	2014
Reversal of (provision for) inventory losses and obsolescence (Note 7)	**(₱18,556,467)**	₱12,955,801	(₱65,378,154)
Foreign exchange gains (losses) - net	**(8,144,987)**	(75,557,157)	53,540,453
Interest income (Note 5)	**5,426,372**	5,850,334	1,550,835
Gain (loss) on debt extinguishment (Note 14)	**5,029,875**	56,655,246	(393,810)
Loss on write-off of:			
Property, plant and equipment (Note 10)	**(4,980,679)**	–	(136,012,675)
Inventory (Note 7)	**(1,867,310)**	(59,692)	–
Input VAT (Note 8)	**(1,759,915)**	(750,678)	–
Other noncurrent assets (Note 13)	**–**	(6,000,000)	–
Provision for impairment losses on receivables	**(3,870,160)**	–	–
Dividend income (Note 9)	**–**	1,024,931	–
Gain from acquisition (Note 4)	**–**	48,828,667	203,432,469
Recovery of inventory previously written-off (Note 7)	**–**	–	5,895,920
Miscellaneous	**(58,392)**	(19,886,892)	(2,228,828)
	(₱28,781,663)	₱23,060,560	₱60,406,210

On April 10, 2014, armed men attacked three working installations and burned certain mining equipment and service vehicles at the Maco mine. The carrying values of the burned equipment, vehicles and idle assets amounted to ₱136.01 million. There were no reported casualties from this incident.

Miscellaneous expenses pertain to bank charges, administrative penalties and other expenses that are considered individually immaterial.

24. Depreciation, Depletion and Amortization

	2016	2015	2014
Property, plant and equipment (Note 10)	**₱644,652,906**	₱296,996,657	₱403,456,008
Inventory (Note 7)	**6,235,921**	–	–
Intangible asset (Note 12)	**636,681**	734,647	10,868,681
	₱651,525,508	₱297,731,304	₱414,324,689

The amounts were distributed as follows:

	2016	2015	2014
Cost of production (Note 21)	**₱632,235,533**	₱290,917,457	₱402,056,618
General and administrative expenses (Note 22)	**19,289,975**	6,813,847	12,268,071
	₱651,525,508	₱297,731,304	₱414,324,689

In 2016 and 2015, the Parent Company capitalized depreciation, depletion and amortization costs amounting to nil and ₱13.12 million as part of inventories and ₱44.14 million and ₱57.88 million as part of deferred exploration and mine development costs in 2016 and 2015, respectively.

The Parent Company recognized ₱6.24 million of the prior year capitalized depreciation, depletion and amortization on inventories (see Note 7).

25. Personnel Costs

	2016	2015	2014
Salaries and wages	**₱442,331,866**	₱463,602,423	₱342,668,972
Other employee benefits	**143,248,946**	61,534,393	52,146,962
Retirement benefits cost (Note 16)	**30,073,030**	28,367,218	18,702,146
	₱615,653,842	₱553,504,034	₱413,518,080

The amounts were distributed as follows:

	2016	2015	2014
Cost of production (Note 21)	**₱509,649,984**	₱455,491,924	₱334,643,252
General and administrative expenses (Note 22)	**106,003,858**	98,012,110	78,874,828
	₱615,653,842	₱553,504,034	₱413,518,080

26. **Finance Costs**

	2016	2015	2014
Interest on loans payable (Note 18)	**₱153,530,346**	₱136,080,161	₱102,402,732
Net interest cost on retirement benefits (Note 16)	**8,002,371**	9,789,350	4,420,975
Accretion expense (Note 17)	**744,575**	614,139	290,246
Others - net	**1,075,415**	122,032	3,556,865
	₱163,352,707	₱146,605,682	₱110,670,818

Interest expense under others pertains to the availment of the price setting agreement with Metalor Technologies S.A. subject to the leasing rates for the number of days of the early pricing.

27. **Income Tax**

The Group's benefit from (provision for) income tax in 2016, 2015 and 2014 are presented below. Provision for current income tax in 2016, 2015 and 2014 pertains to MCIT.

	2016	2015	2014
Current	**(₱16,970,058)**	(₱11,496,325)	(₱6,681,452)
Deferred	**6,300,453**	25,997,364	(6,103,846)
	(₱10,669,605)	₱14,501,039	(₱12,785,298)

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

	2016	2015	2014
Benefit from (provision for) income tax computed at statutory income tax rate	**(₱99,788,657)**	(₱17,066,904)	₱113,121,826
Add (deduct) tax effects of:			
Changes in unrecognized deferred income tax assets	**129,845,728**	95,933,100	(220,962,691)
Expired NOLCO	**(23,161,156)**	(69,290,784)	(18,050,507)
Nondeductible expense	**(11,081,250)**	–	–
Various nondeductible expenses	**(3,436,085)**	(10,231,369)	(47,876,745)
Expired MCIT	**(3,337,360)**	(85,347)	(201,826)
Interest income subjected to final tax	**289,175**	576,838	368,430
Nontaxable income	**–**	14,665,505	61,153,583
Reversal of inventory previously write-off	**–**	–	1,795,776
Realization of revaluation surplus	**–**	–	97,866,856
Benefit from (provision for) income tax	**(₱10,669,605)**	₱14,501,039	(₱12,785,298)

Details of deductible temporary differences, unused tax credit and NOLCO as at December 31, 2016 and 2015, for which no deferred income tax assets were recognized in the consolidated statements of financial position, are as follows:

	2016	2015
NOLCO	**₱642,798,220**	₱983,680,462
Provision for retirement benefits	**163,684,274**	147,645,231
MCIT	**35,280,664**	21,513,720
Unrealized foreign exchange losses	**45,514,785**	119,301,984
Provision for mine rehabilitation and decommissioning	**42,837,160**	44,026,510
Allowance for impairment losses on:		
Property, plant and equipment	**162,674,211**	162,674,211
Inventory losses and obsolescence	**86,151,412**	67,594,945
Receivables	**1,702,678**	1,765,700
Others	**971,966**	–
	₱1,181,615,370	₱1,548,202,763

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

The Group's deferred income tax liabilities as at December 31, 2016 and 2015 pertain to the following:

	2016	2015
Fair value increment on deferred exploration cost	**₱186,155,338**	₱186,155,338
Revaluation surplus on property, plant and equipment	**112,313,089**	121,510,291
Unrealized foreign exchange gains	**3,122,779**	2,399
Asset retirement obligation	**₱1,985,616**	₱2,209,247
	₱303,576,822	₱309,877,275

The Group has NOLCO and MCIT that can be claimed as deduction from future taxable income and future RCIT due as follows:

Year incurred	Year of expiration	NOLCO	MCIT
2014	2017	₱322,999,878	₱6,680,035
2015	2018	96,079,878	11,496,325
2016	2019	223,718,464	17,104,304
		₱642,798,220	₱35,280,664

The movements of NOLCO are as follows:

	2016	2015
Balance at the beginning of the year	**₱983,680,462**	₱1,317,159,409
Additions	**223,718,464**	74,377,117
Expirations	**(77,203,854)**	(230,969,280)
Application	**(487,396,852)**	(323,862,770)
Acquired through business combination	**–**	146,975,986
Balance at the end of the year	**₱642,798,220**	₱983,680,462

The movements of the Group's MCIT are as follows:

	2016	2015
Balance at the beginning of the year	**₱21,513,720**	₱10,102,742
Additions	**17,104,304**	11,496,325
Expirations	**(3,337,360)**	(85,347)
Balance at the end of the year	**₱35,280,664**	₱21,513,720

The Group did not avail of the Optional Standard Deduction in 2016 and 2015.

28. Financial Risk Management Objectives and Policies, and Capital Management

Financial Risk Management Objectives and Policies

The Group's financial instruments consist mainly of cash and cash equivalents, receivables, trade and other payables, which arise directly from its operations, advances to and from stockholders and related parties, AFS financial assets and loans payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and foreign currency risk and commodity price risk. The BOD reviews and approves policies for managing each of these risks and these 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 Group has a concentration of credit risk on its trade receivables, included as part of receivables, as it has only one 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 Parent Company's gold and silver bullion are considered a highly traded commodity that have readily available markets.

The maximum exposure to credit risk of the Group's financial assets (cash in banks, cash equivalents, trade receivables and other receivables, and AFS financial assets) is equal to the carrying amounts of the financial assets, as at December 31, 2016 and 2015.

Aging analysis of the Group's financial assets classified as loans and receivables and AFS financial assets as at December 31, 2016 and 2015 are as follows:

	December 31, 2016					
		Neither past due	Past due but not impaired			
	Total	nor impaired	1-30 Days	31-60 Days	Over 60 Days	Impaired
Cash in banks	**₱235,833,648**	**₱235,833,648**	**₱–**	**₱–**	**₱–**	**₱–**
Trade and other receivables						
Trade	**99,978,358**	**99,978,358**	**–**	**–**	**–**	**–**
Nontrade	**71,722,485**	**71,722,485**	**–**	**–**	**–**	**–**
Advances to officers and employees	**4,334,547**	**2,631,869**	**–**	**–**	**–**	**1,702,678**
Others	**20,135,354**	**18,087,416**	**–**	**–**	**2,047,938**	**–**
Advances to related parties	**2,507,262**	**2,507,262**	**–**	**–**	**–**	**–**

(Forward)

	December 31, 2016					
		Neither	Past due but not impaired			
		past due			Over 60	
	Total	**nor impaired**	**1-30 Days**	**31-60 Days**	**Days**	**Impaired**
Deposit classified under "Prepayments and other current assets"	**₱7,163,478**	**₱7,163,478**	**₱–**	**₱–**	**₱–**	**p –**
MRF classified under "Other noncurrent assets"	**14,796,724**	**14,796,724**	**–**	**–**	**–**	**–**
AFS financial assets	**344,640,000**	**344,640,000**	**–**	**–**	**–**	**–**
	₱801,111,856	**₱797,361,240**	**₱–**	**₱–**	**₱2,047,938**	**₱1,702,678**

	December 31, 2015					
		Neither past due	Past due but not impaired			
	Total	nor impaired	1-30 Days	31-60 Days	Over 60 Days	Impaired
Cash in banks	₱548,502,653	₱548,502,653	₱–	₱–	₱–	₱–
Trade and other receivables						
Trade	7,578,310	7,578,310	–	–	–	–
Nontrade	70,743,050	70,743,050	–	–	–	–
Advances to officers and employees	5,559,836	3,794,136	–	–	–	1,765,700
Others	25,381,837	21,176,861	–	–	4,204,976	–
Advances to related parties	2,306,149	2,306,149	–	–	–	–
Deposit classified under "Prepayments and other current assets"	13,845,195	13,845,195	–	–	–	–
MRF classified under "Other noncurrent assets"	12,054,978	12,054,978	–	–	–	–
AFS financial assets	344,640,000	344,640,000	–	–	–	–
	₱1,030,612,008	₱1,024,641,332	₱–	₱–	₱4,204,976	₱1,765,700

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

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

a. Cash in banks and mine rehabilitation funds were assessed as high grade since these are deposited in reputable banks, which have a low probability of insolvency.
b. Trade and other receivables, advances to related parties and deposits were assessed as high grade since these have a high probability of collection and currently have no history of default.
c. AFS financial assets are equity instruments classified as high grade since these instruments are from companies with good financial capacity, financial conditions and operates in an industry which has potential growth. Management assesses the quality of its unquoted equity instruments as standard grade.

<u>Liquidity Risk</u>
Liquidity risk is the risk that Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group manages its liquidity based on business needs, tax, capital or regulatory considerations, if applicable, in order to maintain flexibility.

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

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments and financial assets used to manage liquidity risk as at December 31, 2016 and 2015.

2016	**On demand**	**Less than three months**	**Three to 12 months**	**More than 12 months**	**Total**
Trade and other payables					
Trade	**₱233,582,688**	**₱105,793,447**	**₱329,658,212**	**₱1,625,458**	**₱670,659,805**
Nontrade	**64,217,285**	**–**	**–**	**276,119,150**	**340,336,435**
Accrued expenses	**186,791,291**	**43,574,424**	**57,878,223**	**10,279,921**	**298,523,859**
Payables to employees	**24,338,527**	**–**	**19,466,759**	**–**	**43,805,286**
Retention fees	**11,013,674**	**–**	**–**	**–**	**11,013,674**
Others	**58,733,310**	**–**	**–**	**–**	**58,733,310**
Advances from related parties	**978,230,761**	**–**	**–**	**–**	**978,230,761**
Loans payable	**23,907,433**	**2,647,760,000**	**450,000,000**	**–**	**3,121,667,433**
	₱1,580,814,969	**₱2,797,127,871**	**₱857,003,194**	**₱288,024,529**	**₱5,522,970,563**

2016	**On demand**	**Less than three months**	**Three to 12 months**	**More than 12 months**	**Impaired**	**Total**
Cash in banks	**₱235,833,648**	**₱–**	**₱–**	**₱–**	**₱–**	**235,833,648**
Trade and other receivables						
Trade	**99,978,358**	**–**	**–**	**–**	**–**	**99,978,358**
Nontrade	**71,722,485**	**–**	**–**	**–**	**–**	**71,722,485**
Advances to officers and employees	**2,631,869**	**–**	**–**	**–**	**1,702,678**	**4,334,547**
Others	**20,135,354**	**–**	**–**	**–**	**–**	**20,135,354**
Advances to related parties	**2,507,262**	**–**	**–**	**–**	**–**	**2,507,262**
Deposit classified under "Prepayments and other current assets"	**–**	**–**	**7,163,478**	**–**	**–**	**7,163,478**
Mine rehabilitation funds classified under "Other noncurrent assets"	**–**	**–**	**–**	**14,796,724**	**–**	**14,796,724**
AFS financial assets	**–**	**–**	**–**	**344,640,000**	**–**	**344,640,000**
	₱432,808,976	**₱–**	**₱7,163,478**	**₱359,436,724**	**₱1,702,678**	**₱801,111,856**

2015	On demand	Less than three months	Three to 12 months	More than 12 months	Total
Trade and other payables					
Trade	₱254,089,299	₱134,473,536	₱176,504,004	₱374,764,502	₱939,831,341
Nontrade	147,467,574	–	–	319,250,191	466,717,765
Accrued expenses	79,498,964	38,822,388	33,962,930	–	152,284,282
Payables to employees	6,147,910	3,857,426	21,991,837	–	31,997,173
Retention fees	7,296,764	–	–	–	7,296,764
Others	150,620,817	–	–	–	150,620,817
Advances from related parties	612,050,463	–	–	–	612,050,463
Loans payable	–	3,291,150,941	141,154,806	–	3,432,305,747
	₱1,257,171,791	₱3,468,304,291	₱373,613,577	₱694,014,693	₱5,793,104,352

2015	On demand	Less than three months	Three to 12 months	More than 12 months	Impaired	Total
Cash in banks	₱548,502,653	₱–	₱–	₱–	₱–	₱548,502,653
Trade and other receivables						
Trade	7,578,310	–	–	–	–	7,578,310
Nontrade	70,743,050	–	–	–	–	70,743,050
Advances to officers and employees	3,794,136				1,765,700	5,559,836
Others	25,381,837	–	–	–	–	25,381,837
Advances to related parties	2,306,149	–	–	–	–	2,306,149
Deposit classified under "Prepayments and other current assets"	–	–	13,845,195	–	–	13,845,195
Mine rehabilitation funds classified under "Other noncurrent assets"	–	–	–	12,054,978	–	12,054,978
AFS financial assets	–	–	–	344,640,000	–	344,640,000
	₱658,306,135	₱–	₱13,845,195	₱356,694,978	₱1,765,700	₱1,030,612,008

Foreign Currency Risk
The Group is exposed to currency risk arising from the effect of fluctuations in foreign currency exchange rates which arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Group's functional currency.

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

The Group foreign currency-denominated financial instruments as at December 31, 2016 and 2015 are as follows:

	2016		2015	
	US$	**Php**	US$	Php
Financial Assets				
Cash	**$232,494**	**₱11,559,602**	$2,634,704	₱123,989,170
Trade receivables	**2,010,828**	**99,978,368**	161,035	7,578,310
	$2,243,322	**111,537,970**	$2,795,739	131,567,480
Financial Liability				
Trade payables	**3,081,942**	**153,234,156**	3,786,258	178,181,301
Loans payable	**8,480,841**	**421,667,415**	12,406,109	583,831,490
	$11,562,783	**₱574,901,571**	16,192,367	762,012,791
Net financial liability	**($9,319,461)**	**(₱463,363,601)**	($13,396,628)	(₱630,445,311)

As at December 31, 2016 and 2015, the exchange rate based on Philippine Dealing and Exchange of the Philippine peso to US$1.00 was ₱49.72 and ₱47.06, respectively.

The sensitivity to a reasonable possible change in the US$ exchange rate, with all other variables held constant, of the Group's income (loss) before income tax (due to changes in fair value of monetary assets and liabilities) as at December 31, 2016 and 2015 are as follows:

		Change in foreign exchange rates	Effect in income (loss) before tax
US$	**2016**	**₱0.98**	**(₱9,133,072)**
		(0.74)	**6,896,401**
	2015	₱0.50	(₱94,494,450)
		(0.13)	24,3088,557

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

Commodity Price Risk
The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mineral products it produces. The Group's policy to minimize the risk is by closely monitoring regularly the movement in metal prices and by selling on spot price basis or by the AM or PM fix as the price trend may indicate as more favorable to the Group.

Assuming all other variables remain constant, the impact of the change in metal prices is relative to the consolidated financial statements, for 2016 and 2015 as follows:

	Change in gold metal price	Effect on income (loss) before tax
2016	**Increase by 10%**	**₱306,872,023**
	Decrease by 10%	**(₱306,872,023)**
2015	Increase by 10%	₱213,487,822
	Decrease by 10%	(₱213,487,822)

Capital Management
The primary objective of the Group's 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 Group'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 Group to continuously benefit from tax and other incentives provided by its registration with BOI. Moreover, the Group 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 stockholder.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015.

The Group considers the following as its core economic capital:

	2016	2015
Issued capital stock	**₱6,227,887,491**	₱6,227,887,491
APIC	**15,941,675**	3,027,029,976
Treasury shares	**(2,117,737,909)**	(2,117,737,909)
	₱4,126,091,257	₱7,137,179,558

The Group has no externally imposed capital requirements.

29. **Fair Value Measurements**

AFS financial assets
The fair value of unquoted AFS equity investments cannot be reliably measured and accordingly measured at cost, net of impairment.

Property and Equipment
The fair value of property and equipment is calculated using the direct income capitalization method, which results in measurements being classified as Level 3 in the fair value hierarchy.

Cash, Trade and Other Receivables, Advances to Related Parties, Deposits under "Prepayment and Other Current Assets", MRF, Trade and Other Payables, Accrued Liabilities, Payable to Employees, Retention Payable, Advances from Stockholder

The carrying amounts of these financial instruments approximate their fair value due to the short-term nature and maturity.

Loans Payable
The carrying amounts of these financial instruments approximate their fair values due to their short-term nature and maturities.

The Group has no financial instruments measured at fair value under Levels 1, 2 and 3 of the fair value hierarchy. There were no transfers between levels in 2016 and 2015.

30. **Significant Agreements and Contingencies**

Parent Company

a. Agreement with Indigenous Cultural Communities (ICC) and National Commission on Indigenous Peoples (NCIP) pursuant to Republic Act 8371
On June 16, 2004, the Parent Company, together with the Indigenous Cultural Communities (ICC) of Maco, Compostela Valley and the National Commission on Indigenous Peoples (NCIP), entered into an agreement pursuant to Republic Act (8371 and its implementing rules. The agreement calls for the compliance of the Parent Company with regard to providing scholarships, health and welfare programs, payment of surface rights and royalties to the ICCs. The payment of surface rights is at 1% percent of the gross production of the Parent Company derived from mining activities within the area of claims. The royalty is based on 1% of the gross income, wherein 30% is to be deposited in the account of the ICCs for the funding of the agreed programs.

In 2016 and 2015 royalties and surface rights recognized under "Cost of Production" both amounted to ₱35.22 million and ₱24.30 million, respectively (See Note 21).

On December 13, 2012, a case denominated as NCIP Case No. R-XI-0037-12 entitled Maco Ancestral Domain, Inc. (MADCI) vs. Apex Mining Co., Inc. was filed and is still pending as at December 31, 2015 before the Regional Hearing Office of the National Commission on Indigenous Peoples - Region XI, Davao City. Aside from MADCI, the following Indigenous Peoples Organization (IPO) of Maco joined the case as intervenor-complainants:

a. Mantakadong Mansaka Indigenous Peoples Ancestral Domain, Inc.
b. Sumpaw ng Inangsabong Mansaka, Inc. (SIMI)

The Parent Company made an initial payment of ₱7.00 million in January 2016 to the account of SIMI and has provided ₱3.00 million every month thereafter.

b. Executive Order (EO) 79
On July 12, 2012, EO 79 was issued 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 impact on the Group's current operations since its mining properties are covered by existing mineral permits and agreements 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 Group's mineral properties covered by Exploration Permits (EPs), Exploration Permit Applications (EPAs) or APSAs given the provision of the EO declaring a 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.
On March 7, 2013, the MGB recommended to the DENR the lifting of DENR Memorandum Order No. 2011-01 on the suspension of acceptance of all types of mining applications. Effective March 18, 2013, the MGB has started accepting mining applications for EPs and Financial Technical Agreement Assistance pursuant to DENR Administrative Order No. 2014-11. To date, however, the moratorium on the acceptance and processing of mineral agreements is still in effect.

c. *Tax Assessment*
The Parent Company was assessed by the BIR covering tax deficiencies for the taxable year 2011. On July 28, 2015, the Parent Company received a Final Assessment Notice (FAN) amounting to ₱34.96 million for tax deficiencies, interest, surcharges and compromise penalties. The Company disagreed with the said assessment and on August 27, 2015, filed a Protest to the FAN requesting for reinvestigation on the findings, as the management found the said assessment as baseless and devoid of merit.

On May 11, 2016, the Parent Company received a Final Decision on Disputed Assessment (FDDA) and amounting to ₱37.67 million for withholding taxes, value added taxes, documentary taxes and excise taxes. The Parent Company reiterate that the disputed assessment is patently unjust and excessive having been based on clear and manifest errors in fact and law. On June 10, 2016, the Parent Company filed for a Motion for Reconsideration (MR). As of April 11, 2017, the Parent Company has not received any reply from the BIR with regard to its MR.

d. *Operating Lease Agreement*
The Parent Company entered into several lease agreements covering various machinery and equipment used in the mining operations. Total rent expense recognized on these lease agreements amounted to ₱14.04 million, ₱50.38 million and ₱96.80 million in 2016, 2015 and 2014, respectively (see Note 21).

e. *Refining and Transportation Agreement with Heraeus*
On January 1, 2015, the Parent Company entered into Refining and Transportation Agreement of gold and silver bullion with Heraeus, a refining company based in Hong Kong.

Heraeus shall settle the metal payables initially at ninety-five percent (95%) of the provisional values while the remaining balance shall be paid after determining the final assayed gold and silver contents of refined material for each shipment less refining and transportation charges.

The prices for all sales are either spot prices or London Bullion Market Association fixings of gold and silver at the discretion of the Parent Company.

MORE

a. *Heads of Agreement with GSEC 101 Ltd.-Philippine Branch*
In 2007, MORE entered into a Heads of Agreement with GSEC 101 Ltd.-Philippine Branch to execute a joint operating agreement (JOA) on SC 72 upon the DOE's consent to the assignment, transfer and conveyance of 30% participating interest in GSEC 101 Ltd.-Philippine Branch, now converted to SC 72. It has been agreed that MORE shall pay 30% of all costs and expenses (on an accrual basis) of joint operations pursuant to the JOA.

On October 5, 2015, the transfer of 30% participating interest in SC72 from GSEC 101 Ltd.-Philippine branch to MORE was approved and confirmed by the DOE.

b. *Operating lease agreement*
MORE entered into a lease agreement for its office for a period of three years, subject to renewal upon mutual agreement with the lessor. This agreement will expire on May 31, 2016. The lease contract provides for payment of security deposits and advance rental. Total security deposits and advance rental related to the lease commitment amounted to ₱0.70 million, equivalent to three months' rent and shall be applied only to the last three months of the term of the contract from April 1, 2015 to May 31,

2016. Rent expense incurred amounted to ₱5.62 million, ₱8.14 million and ₱3.32 million in 2016, 2015 and 2014, respectively (see Note 22).

31. Operating Segments

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

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on core and net income (loss) for the year, EBITDA, exploration results, or project potential, among others.

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

Management evaluates its computation of EBITDA to exclude the effects of non-recurring items. Management believes that this computation of EBITDA is more useful in making decisions about resource allocation and performance assessment of its reportable segments.

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

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

	2016				
	Mining	Oil and gas	Solid waste Management	Eliminations	Total
Revenue					
External customer	₱3,522,050,654	₱–	₱–	₱–	₱3,522,050,654
Inter-segment	–	–	–	–	–
Consolidated revenue	₱3,522,050,654	₱–	₱–	₱–	₱3,522,050,654
Results					
EBITDA	₱1,185,364,916	₱2,737,418	(₱11,813,598)	₱–	₱1,176,288,736
Interest income (expense) - net	(167,913,129)	75,440	4,484,982	–	(163,352,707)
Income tax expense	(7,547,929)	(3,121,676)	–	–	(10,669,605)
Depreciation and depletion	(650,617,479)	(908,029)	–	–	(651,525,508)
Non-recurring items	(18,360,928)	(10,420,735)	–	–	(28,781,663)
Consolidated net income (loss)	₱340,925,451	(₱11,637,582)	(₱7,328,616)	₱–	₱321,959,253
Core net income (loss)	₱359,286,379	(₱1,216,847)	(₱7,328,616)	₱–	₱350,740,916
Consolidated total assets	₱5,500,601,905	₱5,157,236,585	₱421,191,434	₱–	₱11,079,029,924
Consolidated total liabilities	₱6,010,209,001	₱1,639,573	₱68,230,832	₱–	₱6,080,079,406

2015					
	Mining	Oil and gas	Solid waste management	Eliminations	Total
Revenue					
External customer	₱2,430,097,329	₱–	₱–	₱–	₱2,430,097,329
Inter-segment	–	–	–	–	–
Consolidated revenue	₱2,430,097,329	₱–	₱–	₱–	₱2,430,097,329
Results					
EBITDA	₱570,233,592	(₱49,355,482)	(₱13,709,926)	₱–	₱507,168,184
Interest income (expense) - net	(151,222,117)	66,082	4,550,353	–	(146,605,682)
Income tax expense	(14,391,973)	(26,122)	(82,944)	–	(14,501,039)
Depreciation and depletion	(296,732,203)	(999,101)	–	–	(297,731,304)
Non-recurring items	53,888,792	–	(425,448)	(30,402,784)	23,060,560
Consolidated net income (loss)	₱161,776,091	(₱50,314,623)	(₱9,667,965)	(₱30,402,784)	₱71,390,719
Core net income (loss)	₱107,887,299	(₱50,314,623)	(₱9,242,517)	₱–	₱48,330,159
Consolidated total assets	₱5,863,435,409	₱4,668,062,188	₱428,545,431	₱–	₱10,960,043,028
Consolidated total liabilities	₱6,285,907,872	₱12,767,542	₱1,664,955	₱–	₱6,300,340,369

The total revenue from an external customer, attributable to the Philippines, which is the Group's country of domicile, amounted to ₱3.52 billion and ₱2.43 billion as at December 31, 2016 and 2015, respectively arising from the sale of gold and silver bullion.

The following table shows the Group's reconciliation of core net income to the consolidated net income for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Core net income (loss)	**₱350,740,916**	₱48,330,159	(₱450,264,261)
Non-recurring gains (losses):			
Reversal of (provision for) inventory losses and obsolescence	**(18,556,467)**	12,955,801	(65,378,154)
Net foreign exchange gains (losses)	**(8,144,987)**	(75,557,157)	53,540,453
Interest income	**5,426,372**	5,850,334	1,550,835
Gain on extinguishment of loan	**5,029,875**	56,655,246	(393,810)
Provision for impairment losses on receivables	**(3,870,160)**	–	–
Loss on write-off of:			
Property, plant and equipment	**(4,980,679)**	–	(136,012,675)
Other noncurrent assets	**–**	(6,000,000)	–
Inventory	**(1,867,310)**	(59,692)	–
Input VAT	**(1,759,915)**	(750,678)	–
Miscellaneous	**(58,392)**	(18,861,961)	(2,318,828)
Recovery of assets written-off	**–**	–	5,985,920
Gain from acquisition of MORE and ISRI	**–**	48,828,667	203,432,469
Consolidated net income (loss)	**₱321,959,253**	₱71,390,719	(₱389,858,051)
Net income (loss) attributable to equity holders of the Parent Company	**₱326,006,282**	₱78,402,528	(₱380,997,415)
Net loss attributable to NCI	**(4,047,029)**	(7,011,809)	(8,860,636)
Consolidated net income (loss)	**₱321,959,253**	₱71,390,719	(₱389,858,051)

32. **Events After the Reporting Period**

DENR Issues on Mining Operations
On February 27, 2017, ISRI received show cause letter (Letter) from the DENR directing ISRI to explain why the MPSA No. 152-00-CAR should not be cancelled for being located within watershed areas.

On March 6, 2017, the management of ISRI responded to the Letter stating that there is no legal nor factual basis for the cancellation of the MPSA since the contract area covered by the MPSA is not located within proclaimed watershed forest reserves where mining is prohibited. ISRI informs DENR that the arbitrary cancellation of their MPSA will cause irreparable injury and to communicate in writing to discuss the matter.

PNB Loan Drawdown
On January 27, 2017, the Parent Company executed a Loan Agreement with PNB for the amount of ₱500.00 million (see Note 18).

33. **Other Matters**

Supplemental Disclosure to Consolidated Statements of Cash Flows
The Group had the following non-cash investing and financing activities in 2016 and 2015, which were considered in the preparation of the consolidated statements of cash flows as follows:

	2016	2015
Addition (reduction) to property, plant and equipment pertaining to capitalized mine rehabilitation cost (Note 10)	**(₱1,933,925)**	(₱1,357,267)

Reclassification
Certain 2015 and 2014 financial statements accounts have been reclassified to conform to the 2016 financial statement presentation.

BOARD OF DIRECTORS AND OFFICERS

Ramon Y. Sy
Director
Chairman of the Board

Walter W. Brown
Director
President & CEO

Dennis A. Uy
Independent Director

Joselito H. Sibayan
Independent Director

Graciano P. Yumul, Jr.
Director
EVP-Geology, Exploration, & Operations

Noel V. Tanglao*
Director
EVP-Corporate Services

Modesto B. Bermudez
Director
SVP-Projects & Development

Silverio Benny J. Tan**
Corporate Secretary

Gil A. Marvilla
SVP-Resident Manager

Rodolfo C. Ramos
VP-Assistant Resident Manager for Operations

Rosemarie F. Padilla
VP-Assistant Resident Manager for Finance

Renato N. Migriño**
Treasurer & Compliance Officer

Rosanna A. Parica**
Corporate Secretary & Compliance Officer

(*) Until March 31, 2017
(**) Rosanna A. Parica resigned on November 9, 2016. Effective on the same date, Silverio Benny J. Tan took over as Corporate Secretary, while Renato N. Migriño as Compliance Officer.

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BANKERS
Banco De Oro Unibank, Inc.
Philippine National Bank
Rizal Commercial Banking Corporation
Union Bank of the Philippines

APEX MINING CO., INC.

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