

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2016**
2. SEC Identification number : **101**
3. BIR Tax Identification number : **000-160-247-000**
4. Exact name of registrant as specified in its charter

**LEPANTO CONSOLIDATED MINING COMPANY**

5. Province, country or other jurisdiction of incorporation or organization: **Manila, Philippines**
6. Industry Classification Code: (SEC Use Only)

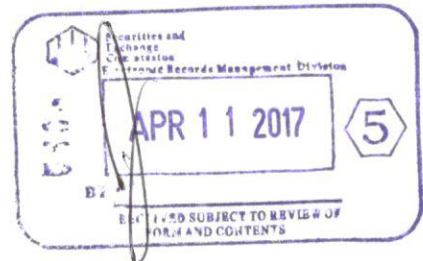
**Mining**

7. Address of registrant's principal office:

**21<sup>st</sup> Floor, Lepanto Building  
8747 Paseo de Roxas, Makati City, Philippines**

8. Registrant's telephone number, including area code:

**(632) – 815-9447**



9. Former name, former address and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 4 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of each Class:

Number of shares of common stock outstanding:

**Class "A"**  
**Class "B"**

**30,819,595,359**  
**20,546,369,194**

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

Yes [☒]

No [☐]

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

**Philippine Stock Exchange**

**Classes "A" & "B"**

The Company has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months. The Company has not been subject to such filing requirements for the past 90 days.

The aggregate market value of the voting stock held by non-affiliates of the Company as of December 31, 2016 was P10,149,914,529.16.

## **Business and General Information**

### **Business**

Lepanto was incorporated in 1936 and until 1997 was operating an enargite copper mine located in Mankayan, Benguet. Lepanto shifted to gold bullion production in 1997 through its Victoria Project. Lepanto continues to produce gold from its Victoria operations, located in Mankayan, Benguet.

The only raw material component of Lepanto's products is the ore that it mines. Its ore reserves, per the attached Certification as of January 1, 2017 (Exhibit "J"), consist of 206,000 oz. of gold from the Victoria and Teresa orebodies and 570,000 oz. of gold and 251.11 million lbs. of copper from the Enargite as certified by Engr. Robert F. Wagtingan, a Competent Person under the Philippine Mineral Reporting Code. Engr. Wagtingan, was a former employee but is no longer connected with the Company and has no shares of stock of the Company.

The Company's revenues (100%) from 2014-2016 came from its sales of gold/silver in bullion. Under the contract with Heraeus Ltd., the Company ships gold (dore) bars to the said buyer on a weekly basis. The contract has a term of two years which is regularly renewed, and has provisions regarding assay, manner of delivery, weighing and sampling, settlement/ payment, pricing and refining charges. There is no market competition in the industry. The gold and silver production of the Company are readily marketable. Metal prices are dictated by world market forces.

The following schedule indicates the percentage of Sales and Net Income contributed by foreign sales in the last three years:

#### **Percentage of Sales Contributed by Foreign Sales:**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Hongkong	100.00	100.00	100.00
Canada	-	-	-
Peru	-	-	-
China	-	-	-
Others	-	-	-
	-----	-----	-----
	100%	100%	100%

#### **Percentage of Net Income/Loss Contributed by Foreign Sales:**

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Hongkong	-103.31	-109.20	-102.99
Canada, Peru, China, etc.	-	-	-
Other Income	3.31	9.20	2.99
	-----	-----	-----
	100%	-100%	-100%

The Company has Environmental Compliance Certificates for its tailings storage facility 5A and for its mineral extraction and processing operations.

### **Subsidiaries**

SHIPSIDE, INC., based in San Fernando, La Union, was incorporated in 1958. It is engaged principally in the hauling business and supports the hauling requirements of the parent company, Lepanto. It has 2 flatbed trucks, and is a heavy user of diesel, gasoline and tires. It also has warehouses for lease located at Poro Point, San Fernando, La Union. Generally, Shipside is not dependent on any single supplier for its raw material requirements, i.e., fuel and tires, and these are readily available from a number of suppliers. Income from hauling and rentals businesses were P11 million and P19 million, respectively, of total revenues in 2016.

The DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP) was incorporated in 1971 and is in the business of providing diamond drilling services. It services mostly mining companies. DDCP has a ready market in Lepanto Consolidated Mining Company and affiliate Manila Mining Corporation.

LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC), incorporated in 1969, is in the insurance business. It owns 12.38% of Philippine Fire and Marine Insurance Corporation (Philfire) and 100% of DMTC, as discussed hereunder. Its income is principally in the form of commissions from Philfire on insurance policies of various clients, none of whom contributes more than 10% of total revenues.

Lepanto, through LIDC, owns 100% of DIAMANT MANUFACTURING AND TRADING CORPORATION (DMTC), a manufacturer of industrial diamond tools for mining exploration, marble cutting and the construction industry. Most of its raw materials are imported and are readily available. DMTC was incorporated in 1972.

Lepanto owns 60% of FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI), another mining company with resources in Mankayan, Benguet; the remaining 40% is owned by Gold Fields Switzerland Holding AG ("Gold Fields"). Incorporated in 1989, FSGRI is not yet in operation. On September 20, 2010, Lepanto entered into an Option and Shareholders' Agreement with Gold Fields which grants Gold Fields an option to subscribe to new shares of stock of FSGRI representing a 20% interest in FSGRI. If the option is exercised by Gold Fields, Lepanto's interest in FSGRI will be reduced from 60% to 40%.

### **Cost and Effects of Compliance with Environmental Laws/Governmental Approvals**

Lepanto complies with governmental regulations, particularly those of the Department of Environment and Natural Resources, with respect to mining methods, disposal of waste and tailings, rehabilitation of environment, etc. Lepanto has the approvals needed for its operations: Environmental Compliance Certificates from the DENR for the operation of its tailings dam and for mining and mineral processing. It has two Mineral Production Sharing Agreements, as discussed on page 4. True to the company's commitment, a total of P77.59 million was spent for Environmental Protection and Enhancement Program (AEPEP) in 2016. AEPEP includes treatment of mill tailings and wastewater, rehabilitation, reforestation and resource management. Also, P20.18 million went to Tailings Storage Facility maintenance and management.

### **Research and Development Activities**

During the last three years, Lepanto spent a total of P22.50 million for Research and Development, to wit: 2014: P6.82 million; 2015, P8.10 million; and 2016, P7.58 million.

### **Mining Claims**

The Company's mining properties are summarized as follows:

#### **Mineral Production and Sharing Agreements (MPSAs)**

Lepanto has two (2) Mineral Production Sharing Agreements (MPSAs), namely MPSA No. 001-90-CAR (948.9696 has.), where subsidiary FSGRI is a co-contractor, and MPSA No. 151-2000-CAR (1,829.3565 has.), approved on March 3, 1990 and March 9, 2000, respectively, each having a term of twenty-five (25) years, renewable for another 25 years. Mining claims subject of the said MPSAs are located in Mankayan, Benguet where commercial mining operations are presently undertaken. The reportorial requirements are regularly submitted by Lepanto to the Mines and Geosciences Bureau (MGB) of the DENR to preserve the Company's rights and privileges under the agreements.

LCMC and FSGRI applied in June 2014 for the renewal of MPSA No. 001-90-CAR. The renewal became subject of an arbitration case which was resolved in their favor in December 2015, but now subject of a Petition for Review with the Court of Appeals, as discussed on page 14 hereof.

#### **MPSA Applications**

Lepanto has two (2) MPSA Applications docketed as APSA No. 096 comprising of 1,057.1739 has. in Mankayan, Benguet and APSA No. 00004-VIII with a total area of 78.5220 has. in Villaba, Leyte. Said applications are still pending with the MGB.

#### **Patented Claims**

Lepanto has forty-six (46) patented mining claims, which was allowed under the Phil. Bill of 1902, with a total area of 335.5179 hectares, all situated in Mankayan, Benguet. Exploration works are ongoing in these areas.

#### **Operating Agreements**

- a. **APSA Nos. 063, 064 and 065** – On October 12, 1992, LCMC entered into separate Operating Agreements with Jaime Paul B. Panganiban, June Prill Brett and Heirs of James D. Brett, registered MPSA applicants of APSA Nos. 063, 064, and 065, respectively, all situated in Suyoc, Mankayan. The combined total area of the subject MPSA Applications is 343.86 hectares.
- b. **APSA No. 023** – an Operating Agreement was entered into between Lepanto and Montañosa Mining Exploration Company ("Montañosa") over mining tenements located in Bontoc, Mountain Province. On October 7, 1991, Lepanto, as mining operator of Montañosa, filed an MPSA Application (APSA No. 023) with the MGB-CAR. This was opposed by Mr. Delfin Comedis, et al. which opposition has been dismissed by the Mines Adjudication Board (MAB) of DENR. Evaluation of the application is ongoing.



- c. **Exploration Permit No. 2004-000003-VIII** –Lepanto has an Operating Agreement with the Philippine National Oil Company / Energy Development Corporation for the Leyte Geothermal Reservation. The corresponding application for the renewal of the pertinent exploration permit, which expired last March 19, 2006, is still pending approval by the MGB.

### **Employees**

Lepanto has 1,479 mine-based and 58 Makati-based employees. In the Lepanto Mine Division, there are 42 managerial employees; 272 Supervisory, of whom 164 are members of the Supervisors' Union (LLSU); 108 clerical and technical non-union members; 1,165 rank-and-file employees, of whom 656 are members of the Lepanto Local Employees' Union or LLEU. (The LLEU won over the KMU-affiliated Lepanto Employees Union in a certification election in October 2013). The 27<sup>th</sup> CBA of LLEU was executed on November 17, 2016 while the 11<sup>th</sup> CBA of LLSU is pending negotiation.

Of the 58 employees in Makati, 16 are members of the Lepanto Employees Union-Makati (LEUM) whose CBA was renewed on July 1, 2015 and will expire in June 30, 2017; 25 are managerial/supervisory employees (including officers); and 17 are clerical non-union members.

Lepanto provides health card benefits to its Makati employees. Mine-based employees get free housing and free hospitalization at the Lepanto Hospital.

Shipside has 25 employees, of whom 6 are administrative, 4 are clerical and 15 are involved in operations. They are not subject to any CBA. There is no plan to hire additional employees nor to reduce their number in the next twelve months.

DDCP has 51 employees, 29 of whom are in operations, 16 managerial and supervisor and 6 rank-and-file employees. The employees are not covered by any CBA.

DMTC has 17 permanent employees, comprising of 4 managerial, 1 supervisor and 12 rank and file employees. There is a plan to hire additional employees as the need arise in the next 12 months.

LIDC has no employees.

FSGRI has 22 employees, comprising of 4 managerial, 9 supervisors and 9 rank-and-file employees. The employees are not covered by any CBA.

### **Properties**

#### **Parent Company**

The Company owns about 2,030.2 has. of land in Mankayan, Benguet, where its plants and mining facilities are located. As discussed above, it has two (2) Mineral Production Agreements with the Government, namely: MPSA Nos. 001-90 (for which an application for renewal is pending with the MGB and subject of arbitration proceedings) and 151-2000-CAR.

The Roaster Plant, which the Company owns, sits on 4.7 hectares of land which the Company had been leasing from Mahler Holdings Corporation ("Mahler") and National Development Corporation ("NDC"). The area leased from Mahler, consisting of 3.1 hectares, was purchased by the Company on December 16, 2009. The rental on the NDC property is P100,935.38 per month.

Lepanto owns two storeys of the Lepanto Building in Paseo de Roxas, Makati City, where its principal offices are located. It also owns a 3,493 sq. meter residential property in Baguio City and 3.5 has. of commercial land in Poro Point, San Fernando, La Union. Lepanto leases a 1,789.65 sq. meter property in Malolos, Bulacan, used for its warehouse. The lease, at the rate of P140,000 per month, is good until 2018.

Its Machinery and Equipment located in Mankayan, Benguet, consist of the following:

- Tubo Shaft Complex
- Power House
- Machine Shop
- Sandfill Tramline
- Furniture and Fixtures
- Foundry Shop
- Assay Laboratory Equipment
- Mechanical equipment
- Internal Shaft at Nayak

Further, it has various automotive equipment/vehicles in Makati City, Benguet and Leyte.

Lepanto's infrastructure include roads, rails and bridges, twin declines, undergrounds shafts, river diversion and an airport, all located in Mankayan, Benguet. Its plants are located in Mankayan, Benguet (gold and copper mills).

Lepanto's assets directly utilized for the Victoria Project were mortgaged to Rothschild and Dresdner Banks in connection with a Loan and Hedging Facilities Agreement executed in 1998. These include the plants and other facilities used for the Victoria project. The real properties covered by the mortgage constitutes about 1.2% of the Company's landholdings in Mankayan, Benguet. The subject loan has been fully repaid. It is the Company's position that the hedging contracts with the said banks are null and void and therefore the mortgages are likewise not effective. In fact, the contracts with Rothschild are now subject of a case of declaration of nullity pending with the RTC Makati. Declaration of the hedging contracts as null and void would mean that Lepanto has no obligation to pay any losses to Rothschild.

No acquisition of any real property is intended within the next 12 months.

### **Subsidiaries**

Shipside has substantial properties in La Union. It owns about 19.78 hectares of land in Poro Point, San Fernando, La Union and in Bauang, La Union, used for its hauling, warehousing, beach resort and sawmilling businesses. It owns 2 flatbed trucks for its trucking/ hauling business.

DDCP leases a 18 sq. meter property at P24,640.00 per month in Parañaque City, adjacent to that leased by DMTC. The lease is good until 2018. It also owns about 16 units of drill rigs which are vital to its operations, and 5.6982 hectares of land in Tanquigan, La Union.

LIDC's properties consist of shares of stock in DBPI, Philfire and Manila Mining Corporation.

DMTC leases a 900 sq. meter property in Parañaque City where its offices and plant are located. The lease is good until April 2020 at the rate of P121,338 per year inclusive of vat and withholding tax and subject to annual escalation.

FSGRI is co-contractor of Lepanto in MPSA No. 001-90-CAR issued by the government on March 3, 1990. It also co-owns with Lepanto, on a 50/50 basis, Tailings Pond. No. 5A located in Mankayan, Benguet. FSGRI has applied for the partial conversion of MPSA No. 001-90-CAR into an FTAA. Please refer to the discussion of the arbitration concerning the renewal of the said MPSA on page 14.

## **Business Risks**

### **i) Volatility of Metal Prices**

The Company's revenues are directly affected by the prices of the metals it produces, which are gold and silver. These metal prices are influenced principally by demand factors in the world market. The prices of these metals are currently at historical highs but there is no assurance that the upward trend will continue.

### **ii) Competition/ Market for Lepanto's Products**

The gold bullion sold by Lepanto is readily marketable. The gold is sold to Heraeus Metals of Hongkong. The Company may however sell its gold to other refiners such as Johnson Matthey. Because of the high demand for metals, there is virtually no competition in the industry and gold producers may easily sell any gold produce.

### **iii) Appreciation of the Peso vis-a-vis the US Dollar**

Being a 100% exporter, the Company's revenues are directly impacted by the appreciation of the Philippine Peso against the US dollar. Although it has dollar denominated costs, most of the Company's costs and expenses are, such as labor and power, in Pesos.

### **iv) Risk on Environmental Legislation**

Mining activities in the Philippines are monitored and highly regulated by the DENR. New government regulations could affect the Company's exploration or mining activities and entail additional costs. (Please see discussion of the Order of Suspension on page 14.)

### **(v) Fuel Prices**

A subsidiary, Shipside Incorporated, is in the hauling business and its revenues are affected by fuel prices. Hauling rates are adjusted to cushion the impact of price changes.

## **Market for Registrant's Common Equity and Related Matters**

Lepanto's shares of stock are listed on the Philippine Stock Exchange. Following are the quarterly prices of Lepanto securities for 2015-2016 and as of April 10, 2017:

**Lepanto "A" (P/share)**

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	10 April 2017
Low	0.228	0.221	0.179	0.172	0.27	0.242	0.188	0.195	0.180
High	0.23	0.223	0.18	0.175	0.28	0.246	0.192	0.196	0.182

**Lepanto "B" (P/share)**

	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	10 April 2017
Low	0.238	0.226	0.195	0.202	0.290	0.250	0.193	0.199	0.194
High	0.238	0.228	0.195	0.202	0.295	0.255	0.195	0.200	0.194

**Securities, Shareholders and Public Ownership**

As of December 31, 2016, there were a total of 27,920 shareholders; 22,674 shareholders holding Common "A" shares, or 85% of total shareholders; and 5,246 shareholders with Common "B" shares, or 15% of total. As of the same date, Total Public Ownership constituted 81.49% of the outstanding shares.

**Top 20 "A" and "B" Stockholders of the Company (as of March 31, 2017)**

Name of Stockholder	Class "A"	%
1 F. Yap Securities, Inc.	7,527,838,780	24.43
2 First Metro Investment Corp.	2,550,682,926	8.28
3 Philex Mining Corporation	2,164,240,810	7.02
4 F. Yap Sec., Inc. A/C #CPHC-2	362,240,169	1.18
5 F. Yap Sec., Inc. A/C #CPHC-3	337,989,616	1.10
6 Felcris Hotels & Resorts	310,000,000	1.01
7 F. Yap Sec., Inc. A/C #CPHC-1	301,859,763	0.98
8 Coronet Property Holdings Corp	277,556,566	0.90
9 Emma Yap	242,838,706	0.79
10 Bryan Yap	175,915,571	0.57
11 First Metro Investment Corp.	169,762,500	0.55
12 Paulino Yap	155,062,032	0.50
13 Pacita K. Yap	117,176,650	0.38
14 Christine Yap	116,620,522	0.38
15 Felipe U. Yap	86,063,611	0.28
16 Manila Mining Corporation	65,870,000	0.21
17 CP Equities Corporation	58,000,000	0.19
18 Fausto R. Preysler, Jr.	38,222,363	0.12
19 F. Yap Securities, Inc. A/C No. PKY-89	30,942,477	0.10
20 Felipe Yap	28,874,960	0.08

<u>Name of Stockholder</u>	<u>Class "B"</u>	<u>%</u>
1 F. Yap Securities, Inc.	6,984,331,914	33.99
2 F. Yap Securities, Inc.	2,362,701,203	11.50
3 F. Yap Securities, Inc. A/C 1411	1,129,238,161	5.50
4 F. Yap Securities, Inc. A/C 5219	1,020,000,000	4.96
5 F. Yap Securities, Inc. A/C 5217	1,020,000,000	4.96
6 First Metro Investment Corp.	799,642,268	3.89
7 F. Yap Securities, Inc. A/C 5218	669,905,750	3.41
8 Coronet Property Holdings Corp	447,665,860	2.18
9 F. Yap Securities, Inc. A/C 521	323,773,000	1.58
10 F. Yap Securities A. S	218,404,905	1.06
11 YHS Holdings Corporation	87,758,339	0.43
12 Felipe U. Yap	54,643,386	0.27
13 Chase Leonard So Yap	50,000,000	0.24
14 David Go Securities Corp.	45,604,103	0.22
15 Luis L. and Teresa M. Oh, Trustees Luis Oh and Teresa Oh Trust Oh	24,365,714	0.12
16 Emma Yap	24,313,091	0.12
17 F. Yap Sec., Inc. A/C No. 87-EU	23,014,545	0.11
18 Kathy Sue Trout	22,619,631	0.11
19 F. Yap Sec., Inc. A/C #PKY-89	20,577,792	0.10
20 F. Yap Sec., Inc. A/C #BSUY	20,302,971	0.10

#### **Submission of Matters to a Vote of Security Holders**

No matter was submitted during the fourth quarter of 2016 to a vote of security holders.

#### **Recent Sales of Unregistered or Exempt Securities**

The SEC on November 18, 2010 approved as an exempt transaction the issuance of additional stock option shares under the 17th Stock option Award pursuant to the 1:3.3 stock rights offering of the Company. Additional shares granted totaled 22,409,662 "A" and 22,273,108 "B" shares. A total of 71,607,322 "A" and 47,738,207 "B" shares were exercised by optionees under the 17th Stock Option Award in 2011. A total of 71,607,283 "A" and 47,738,189 "B" shares were exercised by optionees in 2012. The 17th Stock Option Award expired on January 30, 2013.

On September 15, 2014, the parent company's Board of Directors approved the offer of 4,471,476,209 Class "A" shares and 3,160,979,876 Class "B" shares, or 1 share for every 5.5 shares held by shareholders as at November 12, 2014 from the parent company's unissued capital stock at the offer price of P=0.20 per share. The offer of shares was exempt from registration. A total of 7,902,456,085 shares were sold during the Offer Period, December 10 to 16, 2014, in connection with the said offer.

On January 25, 2017, the Board of Directors approved a private placement of 3,350,000,000 common shares of stock of the corporation ("Private Placement Shares") at a price of P0.15 per share or a total of P502,500,000. The Private Placement Shares are subject to a two-year lock-up period. The amount raised will be used towards further exploration and initial development of the Copper/Gold Project and settlement of outstanding debt.



### **Dividends Policy**

Dividends may be declared out of the unrestricted retained earnings of the Company, which may be in the form of cash or stock to all stockholders on the basis of outstanding shares held by them as of the record date fixed by the Company in accordance with existing laws and rules. Any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while stock dividends shall be withheld from the delinquent stockholder until his unpaid subscription is fully paid: Provided, That no stock dividends shall be issued without the approval of stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose. (Section 43, Corporation Code).

### **Independent Public Accountant**

In October 2006, Sycip Gorres Velayo & Co. ("SGV") was designated by the Board as the Company's independent public accountant. There has not been any disagreement between the Company and said accounting firm with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure. Mr. Jaime F. del Rosario was the certifying partner from 2007 to 2011. In compliance with SRC Rule 68(30) (b) (iv), Ms. Eleanore A. Layug took over as certifying partner in 2012 and 2013. Mr. Jaime F. del Rosario is the certifying partner for the 2014 to 2016 audited financial statements.

Representatives of SGV will be present at the Annual Meeting on April 17, 2017 to give statements in response to queries on issues they can shed light on.

SGV is being recommended for re-appointment as external auditor of the Company.

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

For the audit of the financial statements for the year 2015, SGV & Co. billed the Company the sum of P2,100,000. The amount was increased to P2,350,000 for the audit of the 2016 financial statements.

SGV & Co. also reviewed the utilization of the proceeds of the Company's 1:5.5 SRO pursuant to the PSE's conditions for listing, for which the Company paid the amount of P160,000 based on a contract dated January 2015.

### **Audit Committee's Approval Policies and Procedures**

Prior to the commencement of audit services, the external auditors submit their Audit Plan to the Audit Committee, indicating the applicable accounting standards, audit objectives, scope, approvals, methodology, needs and expectations and timetable, among others. A presentation on the same Plan is made by the external auditors before all the members of the Committee. All the items in the Plan are considered by the Committee, along with industry standards, in approving the services and fees of the external auditors. The Audit Committee is composed of: Atty. Ray C. Espinosa, Committee Chairman and an independent director; and Atty. Ethelwoldo E. Fernandez and Atty. Jose G. Cervantes, members.

The Committee revised its charter in 2012 to conform to SEC Memorandum Circular No. 4, Series of 2012.

### **Directors and Executive Officers of the Company**

<u>Directors (with term of office of one year)</u>	<u>Age</u>	<u>Citizenship</u>	<u>Period Served</u>
FELIPE U. YAP	80	Filipino	Since 1975
BRYAN U. YAP	44	-do-	Since 1997
JOSE G. CERVANTES	82	-do-	Since 2006
RAY C. ESPINOSA (Independent)	60	-do-	Since 2005
MARILYN V. AQUINO	61	-do-	Since 2012
ETHELWOLDO E. FERNANDEZ	89	-do-	Since 2007
REGIS V. PUNO	59	-do-	Since 2016
VAL ANTONIO B. SUAREZ (Independent)	58	-do-	Since 2011
CRESENCIO C. YAP	71	-do-	2000-2004; 2006 to present

<u>Executive Officers</u>	<u>Citizenship</u>	<u>Position</u>
FELIPE U. YAP	Filipino	Chairman of the Board and Chief Executive Officer since 1988
BRYAN U. YAP	-do-	President/Chief Operating Officer since March 2003
RAMON T. DIOKNO	-do-	Chief Finance Officer since April 2008
MA. LOURDES B. TUASON	-do-	Vice President/Treasurer since 1995
ETHELWOLDO E. FERNANDEZ	-do-	Corporate Secretary since 2000
RENE F. CHANYUNGCO	-do-	Vice President since 1997
ABIGAIL K. YAP	-do-	Vice President-Tech. & Planning since 1999
ODETTE A. JAVIER	-do-	Vice President since Feb. 20, 2006/ Asst. Corp. Secretary since 1993
PABLO T. AYSON, JR.	-do-	Vice President-Mining Claims since Dec.18, 2006
THOMAS S. CONSOLACION	-do-	Vice President and Resident Manager since August 1, 2014
KNESTOR JOSE Y. GODINO	-do-	Vice President for Human Resource since June 2015
CHERRY H. TAN	-do-	Asst. Vice President-Purchasing since July 1, 2004
VLADIMIR B. BUMATAY	-do-	Asst. Vice President- Legal since May 2016

### **Business Experience in the Last Five (5) Years**

Mr. Felipe U. Yap became the Chairman of the Company in 1988. He is likewise the Chairman and Chief Executive Officer of Manila Mining Corporation and of Far Southeast Gold Resources, Inc. He is the Chairman of the Board of Zeus Holdings, Inc. and Vice Chairman of Prime Orion Philippines, Inc. Mr. Yap is a director of, among others, Manila Peninsula Hotel, Inc., Philippine Associated Smelting and Refining Corp. (PASAR), and FLT Prime Insurance Corporation. Mr. Yap was the Chairman of the Board of the Philippine Stock Exchange from March 2000 to March 2002.

Mr. Bryan U. Yap has been the President and COO of the Company since 2003 and of Manila Mining Corporation since 2011. He is also the President of Kalayaan Copper-Gold Resources, Inc.;

Lepanto Investment and Development Corporation (LIDC); Shipline, Inc.; Diamond Drilling Corporation of the Philippines and Diamant Manufacturing and Trading Corporation (DMTC). He is also a director of Far Southeast Gold Resources, Inc.

Atty. Jose G. Cervantes was the Senior Vice President of the Philippine Stock Exchange from March 2000 to November 30, 2005. He has been a member of the Board of Zeus Holdings, Inc. since 2008.

Atty. Ray C. Espinosa is a Director of Philippine Long Distance Telephone Company ("PLDT"), Meralco, PowerGen Corporation, Manila Electric Company ("MERALCO"), and Metro Pacific Investment Corporation, Media5 Marketing Corporation, Mediascape, Inc. ("Signal") and Roxas Holdings, Inc. He is also the President and Director of Mediaquest Holdings, Inc. He is the vice chairman and a trustee of the Beneficial Trust Fund of PLDT and the General Counsel of MERALCO.

Atty. Ethelwoldo E. Fernandez rejoined the Company as Corporate Secretary in 2001, the same year he was reappointed Corporate Secretary and elected director of Manila Mining Corporation. He is also a director of Far Southeast Gold Resources, Inc. Atty. Fernandez is the Senior Vice President-Legal and Corporate Secretary of Oriental Petroleum & Mineral Resources Corporation.

Atty. Marilyn V. Aquino has been a member of the board of Philex Mining Corporation since December 2009. She was a partner of the law firm Sycip Salazar Hernandez & Gatmaitan until June 2012 when she joined First Pacific Co. Ltd. as Assistant Director.

Atty. Regis V. Puno is a Senior Partner of Puno & Puno Law Offices. He is currently the Vice Chairman of Metrobank Card Corporation. He was a Director of Philippine Savings Bank until 2010. Atty. Puno was formerly an Undersecretary of the Department of Justice.

Atty. Val Antonio B. Suarez is the Managing Partner of Suarez and Reyes Law Offices. He also serves as independent director of Filinvest Development Corporation and Filinvest Land, Inc. Atty. Suarez was the President and Chief Executive Officer of the Philippine Stock Exchange (PSE) and the Securities Clearing Corporation of the Philippines in 2010.

Mr. Cresencio C. Yap is the Chairman of the Rural Bank of Tagum (Davao del Norte) and General Manager of the Felcris Supermarket and Central Warehouse Club in Davao City, positions he has been holding for over five years already.

Mr. Ramon T. Diokno rejoined the Company as CFO effective April 1, 2008. He held that same position from 1985 to 1996. Mr. Diokno is a member of the Board of Directors of Alcantara Consolidated Resources, Inc. He is also the CFO of the Diamond Drilling Corporation of the Philippines (DDCP), LIDC and DMTC.

Ms. Ma. Lourdes B. Tuason is also the Assistant Treasurer of Manila Mining Corporation and of Far Southeast Gold Resources, Inc. and Treasurer of Shipline, Inc., DDCP and LIDC. She is a Vice President and director of DMTC, Inc. and is a director also of LIDC and Shipline, Inc.

Mr. Rene F. Chanyungco is also a director of Manila Mining Corporation, of Far Southeast Gold Resources, Inc. and of Kalayaan Copper Gold Resources, Inc. He is the Senior Vice President-Treasurer of Manila Mining Corporation and Vice President of LIDC.

Ms. Abigail Y. Ang, Vice President for Technology and Planning, is also the Chief Executive Officer of Yapster e-Conglomerate, Inc.

Atty. Odette A. Javier has been the Company's Assistant Corporate Secretary since 1993. She was promoted to Vice President-Assistant Corporate Secretary on February 20, 2006. She is also the Company's Chief Information Officer and the Assistant Corporate Secretary of Manila Mining Corporation and Far Southeast Gold Resources, Inc. She is a Director of LIDC, DMTC and Zeus Holdings, Inc..

Atty. Pablo T. Ayson, Jr. was appointed Vice President in December 2006. He is also a vice president of Manila Mining Corporation and Far Southeast Gold Resources, Inc. and a director of Kalayaan Copper-Gold Resources, Inc. and Zeus Holdings, Inc.

Engr. Thomas S. Consolacion, a licensed mining engineer, joined the Company in August 1, 2014 as Vice President and Resident Manager of Lepanto Mine Division. He served as General Manager of Atlas Copco (Philippines), Inc. from 1999 to 2014. He is also a Director of the DDCP.

Mr. Knestor Jose Y. Godino joined the company as Group Manager for Administrative Services of the Lepanto Mine Division in 2006. He was promoted to Asst. Vice President for Human Resource and Administration in 2011, and to Vice President for Human Resource and Administration in 2015. He is also the Asst. Vice President for Human Resource of Manila Mining Corporation.

Ms. Cherry H. Tan joined the Company as Purchasing Manager in 1998. She was promoted to Assistant Vice President in 2004.

Atty. Vladimir B. Bumatay joined the Company as Legal Manager in 2011. He was promoted to Assistant Vice President in May 2016.

### **Significant Employees**

There are no significant employees expected to contribute significantly to the business other than the executive officers.

### **Family Relationships**

Mr. Bryan U. Yap, Director and President, is the son of the Chairman and Chief Executive Officer, Mr. Felipe U. Yap. Mr. Cresencio C. Yap is a brother of the Chairman while Ms. Abigail Y. Ang is his niece.

### **Involvement of the Company or its Directors and Officers in Certain Legal Proceedings**

None of the directors and officers were involved during the past five (5) years in any bankruptcy petition. Neither has any director or officer been convicted by final judgment in any criminal proceeding, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative bodies to have violated a Securities or Commodities law.

There are pending material legal proceedings involving the Company, to wit:

Lepanto vs. NM Rothschild & Sons (Australia) Ltd. (Civil Case No. 05-782)

The Company initiated in 2005 a case for the declaration of nullity of forward gold contracts with Rothschild to sell 97,476 ounces of gold on the ground that they are considered as wagering transactions under Philippine law. The case is now pending with the Regional Trial Court ("RTC") of Makati City. The petition filed by Rothschild with the Supreme Court (G.R. No. 175799) questioning the denial by the RTC and the Court of Appeals of its Motion to Dismiss was dismissed by the Supreme Court in a Resolution dated November 28, 2011. The Company has completed its presentation of evidence.

Declaration of the hedging contracts as wagering contracts and therefore null and void would mean that Lepanto has no obligation to pay any losses to Rothschild. However, if the Company should lose the case, it may have to settle hedging losses amounting to \$14 million.

In re an Arbitration between Lepanto Consolidated Mining Company (LCMC) and Far Southeast Gold Resources, Inc. (FSGRI) and the Republic of the Philippines, represented by the Department of Environment and Natural Resources (DENR)

LCMC and FSGRI applied in June 2014 for the renewal of MPSA No. 001-90-CAR. An issue arose as to the applicability of certain provisions of the Indigenous Peoples' Rights Act to such renewal, which issue has been submitted to arbitration. Pending and in connection with the arbitration proceedings, LCMC and FSGRI (Petitioners) filed a petition for interim reliefs with the Regional Trial Court. On 18 March 2015, the court issued a writ of preliminary injunction, enjoining the respondents DENR, MGB, NCIP and the NCIP Regional Hearing Office- CAR from performing any acts that would (a) disrupt, disturb or impede the operations of Petitioners in the area covered by the MPSA; and acts that would (b) hinder, prevent or delay the Petitioners from exercising their rights and/or from discharging their obligations under the MPSA in any manner whatsoever, until such time that a final and executory award is issued with respect to the arbitration proceedings commenced by the Petitioners; and directing the respondents to perform all acts necessary and proper to maintain and protect the validity and/or enforceability of the Petitioners' vested rights under the MPSA during the pendency of the arbitration proceedings. In a final award dated November 27, 2015, the Arbitral Tribunal ruled that the Free and Prior Informed Consent (FPIC) and Certification Precondition may not be validly imposed as requirements for the renewal of MPSA 001-90, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. In January 2016, the Republic filed with the Regional Trial Court a Petition to vacate the said award. The matter has been elevated to the Court of Appeals.

Should the case be finally resolved in favor of LCMC and FSGRI, then the renewed MPSA shall be issued by the DENR. Otherwise, LCMC and FSGRI will have to seek the FPIC and Certification Precondition from the IPs/National Commission on Indigenous Peoples.

Lepanto vs. Regina Paz L. Lopez in her capacity as DENR Secretary

Lepanto received on February 14, 2017 an Order of Suspension from Secretary Lopez alleging that Lepanto had violated "certain provisions" of the EIS Law, the Philippine Mining Act, DAO No. 2010-21, and DAO No. 2000-98. On the same date, Lepanto filed a Notice of Appeal with the Office of the President pursuant to Administrative Order No. 22, Series of 2011, which filing effectively stayed the execution of the Order. On March 15, 2017, Lepanto filed its Memorandum on Appeal with the Office of the President, praying for the reversal of the Order and that the same be declared null and void on the following grounds: i) the DENR Secretary is without authority or power to issue the Order; ii) assuming without admitting that the DENR Secretary has the power to issue the Order, her imposition of



the penalty of suspension upon Lepanto is without basis in fact and in law; and iii) the DENR Secretary violated the Parent Company's right to due process of law when she issued the Order.

### **Related Party Transactions**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.

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

2016				
	Amount/ Volume	Outstandin g Balance	Terms	Conditions
<b>Subsidiaries</b>				
<b>Receivables</b>				
DDCP	₱394,093	₱141,865	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	150	88,905	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	1,946	2,364	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	8,815	827	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SSI	21,445	—	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Advances</b>				
FSGRI	—	94,140	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Payables</b>				
DDCP	365,683	138,495	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SSI	128,193	151,233	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
	Amount/ Volume	Outstandin g Balance	Terms	Conditions
<b>Rental</b>				
SSI	₱437	₱—	Non-interest bearing and normally	Unsecured, no

			settled on 30-day term	impairment, no guarantee
<i>Services</i>				
DDCP	374,686	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
SSI	8,455	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<i>Revenue</i>				
DMTC	475	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<i>Other Expense</i>				
SSI	2,667	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	67	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DDCP	812	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
2015				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Subsidiaries Receivables</i>				
DDCP	₱97,545	₱142,283	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	200	88,755	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	6,068	1,954	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	7,123	1,321	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
<i>Advances</i>				
FSGRI	–	94,140	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
<i>Payables</i>				
SSI	11,476	44,486	On demand; noninterest-bearing and are normally settled in cash	Unsecured, no guarantee
<i>Rental</i>				
SSI	301	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<i>Services</i>				

DDCP	213,670	– Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
SSI	10,087	– Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<i>Sales</i>			
DMTC	198	– Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<i>Other Expense</i>			
SSI	2,984	– Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	470	– Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties. The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2016 and 2015 are as follows:

2016				
	Amount/ Volume	Outstandi ng Balance	Terms	Conditions
<b>Associate</b>				
<i>Receivable:</i>				
			Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
MMC (Note 11)	₱757	₱2,240		
<b>Stockholders:</b>				
<i>Payables:</i>				
			Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no guarantee
Various (Note 13)		56,084		
2015				
	Amount/ Volume	Outstandin g Balance	Terms	Conditions
<b>Associate</b>				
<i>Receivable:</i>				
			Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
MMC (Note 11)	₱1,259	₱1,483		
<b>Stockholders:</b>				
<i>Payables:</i>				
			On demand; noninterest- bearing and collectible in cash	Unsecured, no guarantee
Various (Note 13)	–	56,084		

b. On April 17, 2000, the Parent Company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the Parent Company's retirement fund.

On March 31, 2003, the Parent Company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the Plans and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The Parent Company has decided to terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

The carrying amount and fair value of the retirement fund amounted to P227,057 and P159,309 as at December 31, 2016 and 2015, respectively (see Note 16).

The retirement fund consists of cash and cash equivalents, investments in quoted and unquoted equity securities which accounts for 1.14% and 98.79% and 0.07% of the trust fund, respectively (see Note 16).

The voting rights on the shares of stock rest on the trustees of the retirement fund, who are also the key management personnel of the Parent Company.

The Group made contributions to the trust fund amounting to P84,447 and P139,233 in 2016 and 2015, respectively (see Note 16).

c. Compensation of key management personnel are as follows:

	2016	2015	2014
Short-term benefits	<b>₱49,100</b>	₱51,400	₱48,200
Post-employment benefits	<b>10,100</b>	10,100	10,100
	<b>₱59,200</b>	₱61,500	₱58,300

#### Summary Compensation Table

	2015 Total (All Cash)	Basic Salary	Bonus (13 <sup>th</sup> month in the case of executive officers)	Others
Felipe U. Yap, Chairman ) Bryan U. Yap, President ) Ramon T. Diokno, CFO ) Thomas S. Consolacion, VP & ) Resident Manager ) Ma. Lourdes B. Tuason, Vice ) Pres./Treasurer )	P33.6 million	P31 million	P2.6 million	-0-
All officers and directors	P50.9 million	P45 million	P5.9 million	-0-
	<b>2016 (Total)</b>			
Felipe U. Yap, Chairman ) Bryan U. Yap, President ) Ramon T. Diokno, CFO ) Thomas S. Consolacion, VP & ) Resident Manager ) Ma. Lourdes B. Tuason, Vice ) Pres./Treasurer )	P33.6 million	P31 million	P2.6 million	-0-
All officers and directors	P49 million	P43.3 million	P5.1 million	-0-
	<b>2017 (Estimate)</b>			
Executive officers listed above	P33.6 million	P31 million	P2.6 million	-0-
All officers and directors	P49 million	P43.3 million	P5.1 million	-0-

### **Compensation of Directors/Committee Members**

Directors are paid a per diem of P10,000.00 each for attendance of every regular or special meeting in accordance with the Corporation's By-Laws. For committee meetings attended, non-executive member-directors are paid a per diem of P5,000.00 to P10,000.00 each.

### **Voting Trusts and Change in Control**

There are no voting trusts involving the Company's shares nor has there been any change in the control of the Company in the last five (5) years.

### **Pension Plan**

The Parent Company and DMTC have funded, noncontributory, defined benefit retirement plans covering substantially all regular employees while DDCP and Shipside, Inc. have unfunded benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2015, 2014 and 2013.

### **Warrants, Options, Compensation Plans, Issuance or Modification of Securities**

Under the share-based plan, the Company's officers and employees and those of its subsidiaries may be granted options to purchase shares of stock of the Company. The aggregate number of shares to be granted under the plan should not exceed five percent (5%) of the total number of shares of the Company's outstanding capital stock.

An individual may be granted an option to purchase not more than five percent (5%) of the total number of shares set aside at the date of the grant and may exercise the option up to a maximum of twenty percent (20%) of the total number of option shares granted per year. Options are valid for five (5) years and are exercisable from the date of the approval of the grant by the SEC.

On November 19, 2007, the Company's Board approved the grant of the 17th Stock Option Awards (Awards) to selected employees, directors and officers of the Company and Subsidiaries in accordance with the board-approved Revised Stock Option Plan ("RSOP"). The Awards cover a total of 420,000,000 common shares consisting of 252,000,000 class "A" and 168,000,000 class "B" shares from the company's unissued capital stock, exercisable at the price of P0.32 per share, within 5 years from the date of SEC approval of the same. The option price of P0.32 per share was computed based on a new formula in the RSOP, that is, "the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of the approval of the Grant by the Company's Board. The SEC approved the Awards and the Revised Stock Option Plan on February 1, 2008; the pertinent listing application was approved by the PSE on February 29, 2008.

The 17 Stock Option Award expired on January 30, 2013.



## **\*Security Ownership**

### **Security Ownership of Certain Record and Beneficial Owners**

Owners of more than 5% of the Company's securities as of March 31, 2017 (other than PCD) were as follows:

Title of Class	Name/Address of Record Owner	Name of Beneficial Owner/ Relationship to Issuer	Citizenship	A / B Shareholdings	%	Total Shareholdings	%
A & B	*F. Yap Securities, Inc. U-2301 & 2302, 23/F, PSE Centre, Exchange Rd., Ortigas Center, Pasig City	F. Yap Securities, Inc./ Principal Stockholder	Filipino	8,026,423,213 9,327,164,280	26.05 45.40	14,990,886,35 0	29.18
A & B	** First Metro Investment Corp. Makati City	First Metro Investment Corp./ Principal Stockholder	Filipino	2,720,445,426 799,642,268	8.83 3.89	3,520,087,694	6.85
A	***Philex Mining Corporation, Brixton St., Pasig City	Philex Mining Corporation/ shareholder	Filipino	2,164,240,810 3,494,999	7.02 0.02	2,167,735,824	4.22

### **Equity Ownership of Foreigners**

As of March 31, 2017, none of the "A" shares and 15.24% of the "B" shares were held by foreigners.

### **Security Ownership of Management (March 31, 2017)**

Title of Class	Beneficial Owner (Directly Owned)	Position	Amount and Nature of Beneficial Ownership (A / B)	Citizenship	Percent of Classes (A / B)
A & B	Felipe U. Yap	Chairman of the Board	209,454,314 / 110,722,210	Filipino	0.76 / 0.62
A & B	Bryan U. Yap	Director / President	388,024,055 / 41,293,338	-do-	1.42 / 0.23
B	Marilyn V. Aquino	Director	19,917,356 / 11,137,741	-do-	0.073 / 0.062
A & B	Jose G. Cervantes	Director	123,364 / 369,767	-do-	nil
A & B	***Ray C. Espinosa	Director	1,000,000 / 500,000	-do-	nil
A & B	Ethelwoldo E. Fernandez	Director/Corp. Sec.	3,048,474 / 811,204	-do-	0.01/nil
A & B	Regis V. Puno	Director	10,000 -	-do-	nil
A & B	***Val Antonio B. Suarez	Director	1	-do-	nil
A & B	Cresencio C. Yap	Director	10,559,618 / 18,404,560	-do-	0.038 / 0.103
A	Ramon T. Diokno	Chief Finance Officer	443,168 / -	-do-	nil
A & B	Ma. Lourdes B. Tuason	Vice Pres./Treasurer	19,025,823 / 13,092,177	-do-	0.069 / 0.073
A & B	Odette A. Javier	Vice Pres./Asst Corp Sec	8,780,297 / 4,665,592	-do-	0.032 / 0.026
A & B	Rene F. Chanyungco	Vice President	3,882,141 / 4,568,095	-do-	0.014 / 0.026
A & B	Abigail Y. Ang	Vice President	5,697,283 / 7,039,747	-do-	0.020 / 0.039
A & B	Pablo T. Ayson, Jr.	Vice President	866,516 / 2,720,074	-do-	0.003 / 0.015
A & B	Cherry H. Tan	Asst. Vice President	3,932,893 / 2,613,089	-do-	0.014 / 0.014
A & B	Knestor Jose Y. Godino	Vice Pres./HR	989,090 / 659,693	-do-	nil
A & B	Vladimir B. Bumatay	Asst. Vice President/Legal	8,748 / 12,135	-do-	nil
A & B	Aggregate as a group		675,763,141 / 218,609,422		2.47 / 1.23

- \* - Power to dispose of shares is vested in: F. Yap Securities - Pacita K. Yap; Voting rights/proxies for F. Yap Securities have been granted to Mr. Felipe U. Yap.
- \*\* - Power to dispose of shares is vested in their respective Board of Directors; Voting rights/proxies have been granted to: Atty. Regis V. Puno.
- \*\*\* - Power to dispose of shares vested in the Board of Directors of Philex Mining Corporation; Voting rights/ proxies have been granted to Marilyn V. Aquino.
- \*\*\*\* - Independent Directors

There is no arrangement which may result in a change in the control of the Company and there has been no such change since January 2017.

### **Plan of Operation for 2017**

The company raised P500 million by way of a private placement in the first quarter of 2017 which amount will be used towards further exploration and initial development of the Copper/Gold Project and settlement of outstanding debt. The Copper/Gold Project is an area adjacent to the current Victoria Project. The company has drilled over 35 kilometers in the area. Drilling continues to increase the resource/reserve with a view to completing a bankable feasibility study as soon as possible.

In addition to its gold bullion production, the Company intends to start copper concentrate production in the second half of 2017.

### **Management's Discussion and Analysis of Financial Condition and Results of Operations for 2016, 2015 & 2014**

#### **2016**

Consolidated revenues rose 26% to P1.53 billion from P1.21 billion in 2015. Net loss was P758.0 million versus last year's loss of P859.4 million. The net loss included a pension expense pertaining to interest cost and current service cost of P128.9 million, net foreign exchange gain of P3.0 million and the Company's share in the net losses of associates of P6.7 million; last year's included a pension expense of P80.0 million, foreign exchange loss of P19.4 million and a share in the net losses of associates of P20.6 million.

### **MINING OPERATIONS**

Metal sales improved by 25% to P1.4 billion from the previous year's P1.1 billion on account of the higher gold production and metal prices. Gold production increased to 23,616 ounces (oz.) from 21,190 oz. the previous year. Silver production decreased to 39,144 oz. from 49,938 oz. Average gold price went up from US\$1,145.38/oz. last year to US\$1,248.06/oz. and that of silver from US\$15.45/oz. to US\$17.33/oz. Loss from operations amounted to P717.55 million compared with last year's loss of P777.04 million.

Ore milled was almost unchanged at 258,220 tonnes but average gold grade improved to 3.13 g/t compared with 2.83 g/t in 2015. Average silver grade dropped to 12.52 g/t from 15.39 g/t in 2015.

Operating costs went up by P229.0 million from last year's P1,923.0 million mainly due to increase in mining cost and depletion. Mining cost went up on account of the change in treatment of development costs (P177.0 million) from capital development to operating development; increase in labor cost (P39.8 million) and in the maintenance cost of mine machinery/equipment and mine

ventilation (P97.8 million). Total milling cost however fell by P16.6 million mainly due to the reduced usage of major consumables and supplies. Production tax went up by P5.6 million on account of the higher revenue. Depletion cost increased by P51.3 million due to full depletion in the current year of capital development accumulated in 2015. Depreciation expense went down by P23.4 million as some machineries and equipment became fully-depreciated. Overhead was reduced by P10.9 million due principally to the lower pension expense. Administration costs decreased by P33.7 million due to lower taxes and fees and other general supplies. Bullion handling and assaying increased by P1.5 million on account of the higher metal production.

Finance costs went down from P104.3 million to P93.4 million due largely to the lower interest expense from actuarial valuation of retirement liability.

The Peso weakened vs. the US\$, P47.53 to US\$1 compared with last year's P45.71 to US\$1, resulting in a foreign exchange loss of P23.0 million.

Other income (charges) totaled (P13.5) million against last year's P70.1 million, the loss in the current year being on account of the disposal of an available-for-sale (AFS) investment.

Net loss amounted to P847.4 million against last year's net loss of P840.8 million. Provision for (Benefit from) income tax is (P3.9) million versus last year's P11.8 million.

## **BALANCE SHEET MOVEMENTS**

Cash on hand and in banks increased to P86.2 million from P66.4 million. Receivables went down to P241.5 million from P306.8 million on account of collections. Parts and supplies inventories decreased to P430.0 million from P520.4 million due to utilization. Advances to suppliers and contractors were reduced to P335.9 million from P442.8 million as they were applied against billings.

AFS financial assets decreased to P187.7 million from P477.1 million mainly due to the disposal of some shares of stock of Prime Orion Philippines, Inc., an AFS investment. Other non-current assets increased by 8% to P77.2 million on account of deferred charges.

Trade Payables and Accrued Expenses rose to P1,538.2 million from P1,422.5 million on account of additional purchases of materials and services. A matured long-term debt and a trust receipt totaling P68.1 million were reclassified to short-term. Income tax payable increased to P5.6 million from P1.0 million due to the provision for income tax of subsidiary Shipside, Inc.

Retirement benefit liability went down by P99.5 million to P1,682.7 million following a re-measurement of retirement liability. Stock subscriptions payable decreased by 89% to P11.4 million from P107.8 million mainly due to the disposal of some POPI shares.

Re-measurement loss on retirement liability was reduced to P417.0 million from P521.3 million on account of an actuarial revaluation pursuant to Philippine Accounting Standards 19. Last year's unrealized loss on AFS financial assets amounting to P44.7 million turned to an unrealized gain of P38.3 million in connection with the disposal of the POPI shares and the improvement in the market value of other AFS investments. Deficit climbed to P2.47 billion from P1.73 billion on account of the consolidated loss for the year.

## **CAPITAL EXPENDITURES**

Total capital expenditures for the year reached P797.7 million, consisting of: mine development, P20.5 million; mine exploration and diamond drilling cost, P519.2 million; TSF 5A maintenance, P20.2 million; and machineries, equipment and other depreciable assets, P237.8 million.

## **SUBSIDIARIES**

Net Income is the key performance indicator used for the subsidiaries.

### **DIAMANT MANUFACTURING AND TRADING CORPORATION (DMTC)**

Net sales increased to P43.1 million from P34.9 million last year mainly due to an increase in trading business. Net income rose to P3.5 million from last year's P3.2 million.

### **DIAMOND DRILLING CORPORATION OF THE PHILIPPINES (DDCP)**

Gross revenue improved by 80.94% to P439.3 million due to higher drilling output in projects for Lepanto and for external customers. DDCP reported a net income of P14.0 million versus last year's P8.1 million.

### **LEPANTO INVESTMENT AND DEVELOPMENT CORPORATION (LIDC)**

The company had no revenue-generating activities in 2016. Last year, it registered a revenue of P43.6 million from the reclassification of its investment in Philippine Fire and Marine Insurance Corporation (Philfire) from 'Investment in an Associate' to 'AFS Investment' due to the loss of LIDC's significant influence over Philfire. LIDC owns 12.38% of the outstanding capital of Philfire and 100% of that of DMTC.

### **SHIPSIDE, INCORPORATED (SSI)**

Total revenue from operations was almost unchanged at P30.3 million. SSI posted a net income of P64.7 million due largely to the disposal of land. A net loss of P9.9 million was registered last year.

### **FAR SOUTHEAST GOLD RESOURCES, INC. (FSGRI)**

This year's net income amounted to P18.1 million versus last year's loss of P1.0 million, both of which arose from the revaluation of a foreign currency-denominated financial asset.

## **CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS**

There were no material off-balance sheet transactions, arrangements or obligations, including contingent obligations with unconsolidated entities of other persons created during the period.

The Company received a Suspension Order from the DENR in February 2017 but, as discussed under Material Cases, the Company timely filed an appeal which stayed the execution of the Order.

## 2015

Consolidated revenues dropped 18% to ₱1.22 billion from ₱1.48 billion in 2014. Net loss was ₱859.4 million versus last year's loss of ₱713.3 million. The net loss included a pension expense of ₱14.0 million, foreign exchange loss of ₱19.4 million and the Company's share in the net losses of associates of ₱20.6 million; last year's included a pension expense of ₱115.4 million, foreign exchange gain of ₱16.5 million and a share in the net losses of associates of ₱13.5 million.

### MINING OPERATIONS

Metal sales revenues totaled ₱1.15 billion compared with the previous year's ₱1.43 billion. The decline in revenue was due to the 14% drop in gold production aggravated by lower metal prices. Average price of gold sold was US\$1,145.38/oz. compared with US\$1,269.04/oz. last year. Average price of silver sold was US\$15.45/oz. versus US\$18.97/oz. in 2014. Loss from operations amounted to ₱777.0 million compared with last year's loss of ₱584.2 million.

As a result of selective mining, ore milled dropped to 259,120 tonnes from last year's 419,320 tonnes while average gold grade improved to 2.83 g/t compared with 2.08 g/t in 2014. Average silver grade was 15.39 g/t versus 12.28g /t in 2014.

Gold produced totaled 21,190 oz. compared with 24,617 oz. in 2014. Silver production amounted to 49,938 oz. against 44,431 oz. the previous year.

Operating costs went down by ₱89.5 million from last year due to the 44% decrease in tonnes ore mined, which translated to decreases in consumption of direct materials and supplies. However, mining cost increased by ₱5.8 million mainly due to power cost and services. Total milling cost fell by ₱75.1 million due to reductions in the following cost components: labor, ₱11.0 million; major consumables and supplies, ₱46.3; power, ₱16.9 million; and services, ₱0.9 million. Production tax went down by ₱5.6 million on account of the lower revenue. Depletion cost declined by ₱14.2 million due to lower tonnage mined while depreciation expense also went down by ₱20.2 million as some machineries and equipment became fully-depreciated. Overhead was reduced by ₱9.9 million due to reductions in materials and supplies, services, and freight and delivery. In contrast, administration costs increased by ₱34.2 million due to taxes, licenses and fees. Refining and other charges decreased by ₱5.6 million on account of the lower metal production.

Finance costs went up from ₱86.5 million to ₱103.8 million largely due to the interest expense on actuarial valuation of retirement liability.

The foreign exchange rate averaged ₱45.71 to \$1 compared with last year's average of ₱44.44 to \$1 resulting in a foreign exchange loss of ₱20.8 million this year versus last year's ₱3.0 million.

Other Income rose to ₱72.1 million from ₱18.3 million due mainly to the actuarial gain on retirement liability and higher rental income.

Net loss amounted to ₱840.8 million against last year's net loss of ₱668.6 million. Provision for income tax decreased to ₱11.8 million versus last year's ₱13.1 million.

### BALANCE SHEET MOVEMENTS

Cash on hand and in banks fell to ₱66.4 million from ₱385.2 million due to the utilization of the stock rights proceeds for working capital and the parent company's exploration program. Receivables



went up to P306.8 million to P264.6 million as non-trade receivables went up by P15.3 million and trade receivable by P26.9 million. Parts and supplies inventories decreased to P520.4 million from P556.8 million due to utilization. Other current assets increased by 5% to P614.5 million from P587.1 million due to accumulation of input value-added-tax from importations.

Available-for-sale (AFS) financial assets increased to P477.1 million from P188.1 million due to the rise in the fair value of quoted instruments and the reclassification to AFS of the investment in an associate. Investments and advances to associates fell to P566.8 million from P683.7 million on account of the aforesaid reclassification and the recognition of a share in the losses of subsidiaries. Mine exploration cost increased by P395.9 million on account of the parent company's exploration program and the pre-operating costs of Far Southeast Gold Resources, Inc. (FSGRI). Deferred Income Tax Assets went down to P431.7 million from P474.7 million mainly due to the reduction in retirement liability. Other Non-current assets decreased by P11.0 million due to reclassification of deferred charges to proper accounts.

Trade Payables and Accrued Expenses rose to P1,422.5 million from P1,248.4 million on account of additional credit availments from suppliers and/or contractors of equipment, parts and suppliers and services, and trust receipts arising from importations. Short-term debt of P111.6 million matured and was fully settled during the year. Income tax payable decreased by P0.9 million from P1.3 million due to settlement of taxes by subsidiary Diamond Drilling Corporation of the Philippines (DDCP).

Long-term borrowing, which is denominated in US dollars, increased to P47.0 million due to a foreign exchange revaluation. Liability for Mine Rehabilitation Costs went up from P53.8 million to P65.1 million to cover to the change in estimate and due to accretion. Retirement benefit liability went down by P159.1 million to P1,782.1 million following a re-measurement in retirement liability.

Capital Stock went up from P4.52 billion to P5.13 billion on account of the 1:5.5 Stock Rights Offering. Re-measurement Loss on retirement liability declined from P595.8 million to P521.3 million due to actuarial gain. Unrealized loss on AFS financial assets decreased by P206.8 due to the rise in the fair value of quoted instruments. Deficit climbed by P858.9 million on account of the net loss for the year.

## **CAPITAL EXPENDITURES**

Total capital expenditures for the year reached P960.1 million, consisting of: mine development, P267.6 million; mine exploration and diamond drilling cost, P407.9 million; Tailing Storage Facility maintenance, P27.7 million; and machineries, equipment and other depreciable assets, P256.9 million.

## **SUBSIDIARIES**

Net Income is the key performance indicator used for the subsidiaries.

Diamant Manufacturing and Trading Corporation increased its net sales to P34.9 million from P17.9 million last year mainly due to an increase in trading business. Net income amounted to P3.2 million versus last year's loss of P1.7 million net income.

Revenues of DDCP improved by 82% to P242.8 million due to higher drilling output in projects for Lepanto and for external customers. DDCP reported a net income of P8.1 million against last year's P9.0 million.

Lepanto Investment and Development Corporation registered a net revenue of ₱14.2 million compared with last year's net loss of ₱852 thousand on account of the reclassification of its investment in Philippine Fire and Marine Insurance Corporation (Philfire). The said investment was reclassified from 'Investment in an Associate' to 'AFS Investment' due to the loss of LIDC's significant influence over Philfire. LIDC owns 12.38% of the outstanding capital of Philfire and 100% of that of DMTC.

Shipside, Incorporated's revenues decreased by ₱1.4 million to ₱30.6 million due mainly to lack of revenue from lumber (from ₱1.8 million last year to nil) and lower hauling revenue. Net loss increased from ₱4.3 million last year to ₱9.9 million.

FSGRI registered a net loss amounting to ₱987 thousand versus last year's income of ₱12.7 million, both of which were due to revaluation of financial assets.

## **CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS**

There were no material off-balance sheet transactions, arrangements or obligations or contingent obligations, and other relationships of the company with unconsolidated entities of other persons created during the period. Neither were there events or any known trends that will trigger direct or contingent financial obligations that are material to the company or otherwise materially impact the Company's sales.

Concerning the renewal of Mineral Production Sharing Agreement (MPSA) No. 001-90-CAR, the Company received in December 2015 the Arbitral Tribunal's Final Award confirming that the Free and Prior Informed Consent and Certification Precondition requirements under the IPRA may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. Notwithstanding the final and non-appealable nature of the award, the DENR has gone to court asking that the award be vacated. The Company is taking all steps necessary to cause the enforcement of the Final Award.

## **2014**

Consolidated revenues dropped 30% to P1.48 billion from P2.11 billion in 2013. Net loss amounted to P713.28 million versus last year's loss of P326.59 million. This year's net loss includes a pension expense of P115.4 million, a foreign exchange gain P16.5 million and a share in net losses of associates of P13.5 million while last year's included a pension expense of P116.6 million, foreign exchange gain of P60.9 million and a share in net losses of associates of P4.7 million.

## **MINING OPERATIONS**

Revenue from sale of metals totaled P1.43 billion compared with the previous year's P2.02 billion. The decline in revenue was due to the 26% decline in gold production and 35% decline in silver production, aggravated by the lower metal prices. Average price of gold sold was US\$1269.04/oz. compared with US\$1386.75/oz. last year. Average price of silver sold was US\$18.97/oz. vs. US\$23.03/oz. in 2013. Loss from operations amounted to P583.2 million compared with last year's loss of P288.4 million.

Total tonnes milled reached 419,320 tonnes against last year's 690,450 tonnes. Average gold grade was 2.08g/t versus 1.73g/t in 2013. Average silver grade was 12.28 g/t in 2013 versus 11.30g/t in 2013.

Gold produced totaled 24,618 oz. compared with 33,240 oz. in 2013. Silver production amounted to 44,431 oz compared with 67,815 oz. the previous year.

Operating costs went down by P302.0 million from last year mainly due to the 39% decrease in tonnage, which translated to decreases in consumption of materials and supplies. Mining cost fell by P97.0 million even as the costs of labor increased by P7.8 million and power, by P2.1 million. Milling cost fell by P100.1 million as the following cost components were reduced: power, P19.5 million; major consumables, P67.0 million; supplies, P15.7 million; services, P1.0 million. The labor component however increased by P3.1 million. Production tax went down by P11.8 million on account of lower revenues. Depletion cost decreased by P66.4 million on account of lower tonnage mined while Depreciation expense rose by P10.7 million on account of the rehabilitation and acquisition of new equipment. Overhead went down by P36.9 million due to reductions in materials, supplies, services, building maintenance, freight and delivery. Administration costs decreased by P2.8 million. Refining and other charges however went up by P2.5 million on account of higher costs relating to the transport of bullion.

Finance costs went up from P69.0 million to P86.6 million on account of interest cost on retirement liability and short term loans.

The foreign exchange rate averaged P44.44 to \$1 compared with last year's average of P42.47 to \$1. A foreign exchange loss of P3.0 million was recorded this year versus last year's loss of P34.9 million.

Other Income comprising of Interest, Income from change in estimate of Mine Rehabilitation, Income from Service Fees, non-operating and other income rose to P17.4 million from P87 thousand due mainly to the said change in estimate and service fees.

Net loss reached P668.6 million compared with last year's net loss of P375.8 million. Provision for income tax increased to P13.1 million versus last year's negative provision of P16.3 million.

## **BALANCE SHEET MOVEMENTS**

Cash-on-hand and in banks increased to P385.1 million from P88.0 million on account of the proceeds of the stock right offering collected in December and collections from trade receivables. Receivables went up from P109.7 million to P264.6 million, consisting mostly of non-trade receivable which went up by P191.9 million while trade receivable went down due to collections by P36.6 million. Advances to suppliers and contractors went down to P426.6 million from P453.9 million as billings were charged against the advances. Other current assets increased by 7% to P587.1 million due to the increase in creditable input VAT.

Available for sale (AFS) financial assets increased to P188.1 million from P142.3 million due to the rise in the fair value of quoted instruments. Investments and Advances to Associates rose to P683.7 million from P559.3 million on account of fresh investments. Deferred Income Tax Assets went up to P474.7 million from P406.1 million largely on account of a re-measurement of the retirement benefits liability. Other Non-current assets increased by P43.8 million due to deferred charges.

Trade Payables and Accrued Expenses rose to P1,248.1 million from P1,042.2 million on account of additional availments of credits from suppliers and contractors of equipment, parts and supplies and services, trust receipts arising from importations and advances from related parties.

Current portion of long-term borrowings went up by P12.0 million due to fresh loans. Income Tax payable increased by P0.7 million from P0.6 million due to a subsidiary's income.

Long term borrowings increased to P44.7 million due to the renegotiation of a maturing loan. Liability for Mine Rehabilitation Costs went up from P50.1 million to P53.8 million due to a change in estimate. Retirement benefit obligation went up by P379.0 million due to the re-measurement in pension costs.

Additional Paid-in Capital went up from P3.55 Billion to P4.34 Billion on account of the Stock Rights Offering. A further re-measurement loss on the retirement fund, from P337.1 million to P595.7 million, was recorded pursuant to PAS 19 on account of the re-measurement of retirement benefits liability. Deficit went up by P718.4 million on account of the net loss for the year.

## **CAPITAL EXPENDITURES**

Total capital expenditures for the year reached P737.9 million as follows: mine development and special projects, P276.2 million; exploration and diamond drilling cost, P323.7 million; Tailing Dam maintenance P41.7 million; and Mine machinery and equipment, P96.3 million.

## **SUBSIDIARIES**

The key performance indicator used for the subsidiaries is Net Income.

Lepanto Investment and Development Corp reported a net loss of P852.3 thousand compared with last year's loss of P668.4 thousand. Shippside Incorporated recorded a net loss of P4.3 million and against last year's net loss of P471.6 thousand. Diamond Drilling Corporation of the Philippines (DDCP) reported a net income of P9.0 million versus last year's income of P10.8 million. Diamant Manufacturing and Trading Corporation (DMTC) registered a loss of P1.7 million against last year's loss of P2.0 million. Far Southeast Gold Resources, Inc. reported an income of P12.7 million versus last year's income of P45.9 million.

## **CONTINGENT OBLIGATIONS AND KNOWN TRENDS OR EVENTS**

There were no material off-balance sheet transactions, arrangements or obligations, including contingent obligations with unconsolidated entities of other persons created during the period, nor are there any known events that may trigger any direct or contingent material financial obligations.

The Company applied in June 2014 for the renewal of MPSA No. 001-90-CAR. An issue arose as to the applicability of certain provisions of the Indigenous Peoples' Rights Act to such renewal, which issue has been submitted to arbitration. Pending and in connection with the arbitration proceedings, the Company filed a petition for interim reliefs with the Regional Trial Court. On 18 March 2015, the court issued a writ of preliminary injunction, enjoining the respondents, i.e., the Department of Environment and Natural Resources (DENR), Mines and Geosciences Bureau (MGB), National Commission of Indigenous Peoples (NCIP) and the NCIP Regional Hearing Office- Cordillera Administrative Region from performing any act that would (a) disrupt, disturb or impede the operations of Lepanto Consolidated Mining Company and Far Southeast Gold Resources, Inc. (jointly referred to as "Petitioners") in the area covered by the MPSA; and acts that would (b) hinder, prevent or delay the Petitioners from exercising their rights and/or from discharging their obligations under the MPSA in any manner whatsoever, until such time that a final and executory award is issued with respect to the arbitration proceedings commenced by the Petitioners; and directing the respondents to perform all acts

necessary and proper to maintain and protect the validity and/or enforceability of the Petitioners' vested rights under the MPSA during the pendency of the arbitration proceedings.

\* - KEY PERFORMANCE INDICATORS-LCMC (applicable to the period 2015-2017)

*Tonnes Milled which indicate the amount of ore taken for processing, Milled Head is the amount of gold per ton milled and Gold production which is the final product of the operations. Metal sales, Cost and Expenses and Net Income round up the review process on how the company is performing vis-à-vis the performance of the same period last year. Average Gold price for the period adds another parameter that needs watching notwithstanding that the company has no direct influence on its movement.*

### **Compliance with Leading Practices on Corporate Governance**

Lepanto has revised its Corporate Governance Manual to comply with SEC regulations and institutionalize the principles of good governance in the entire organization. Pursuant to the said Revised Manual, the Company's Board of Directors have constituted the following committees: Audit Committee; Compensation and Remuneration Committee and the Nomination Committee. The Board of Directors is composed of highly qualified and competent individuals who excel in their respective fields. The members of the Board assess the Board's performance pursuant to good corporate governance principles.

The performance and qualifications of nominees are reviewed by the Nomination Committee. All directors and senior officers regularly attend seminars on corporate governance. The Company's Board of Directors formalized existing good governance practices by approving in 2014 various policies/codes, namely: Conflict of Interest Policy; Related Party Transactions Policy; Insider Trading Policy; Health Policy; and Whistleblower Policy.

Through regular board and committee meetings, compliance with the principles of good governance are monitored. Furthermore, the Audit Committee Charter has been revised to comply with SEC Memorandum Circular No. 4, Series of 1990, pursuant to which the performance of the Committee shall be regularly reviewed.

The performance of managers is also reviewed periodically and senior officers report to the Board of Directors. Regular meetings are held in the head office and in the mine to keep concerned officers apprised of any developments concerning production, finances, safety programs, community relations and environmental programs, and good governance, marketing, legal and human resource matters as well as of the company's compliance with pertinent regulations.

No deviation from the Company's Manual on Corporate Governance has been noted by the Company.

### **CORPORATE GOVERNANCE**

**Item 13. Corporate Governance Program** - Per SEC Circular Memorandum No. 20 paragraph 3 – publicly-listed companies shall not be required to post on their websites the Consolidated Changes in the ACGR for 2016 on or before January 10, 2017. Likewise, they shall not be required to attach the same to their 2016 Annual Report (SEC Form 17-A).

## **Financial Statements**

Attached as Exhibit "A" hereof, are the Company's Audited Financial Statements for 2016 covered by the Statement of Management's Responsibility and the Auditor's Report signed by Mr. Jaime F. Del Rosario, with the following exhibits:

- Exhibits "B" - Schedule A - Financial Assets
- "C" - Schedule B - Amounts Receivable from Directors, Officers, etc.
- "D" - Schedule C - Amounts Receivable from Related Parties
- "E" - Schedule D - Intangible Assets – Other Assets
- "F" - Schedule E - Long-Term Debt
- "G" - Schedule F - Indebtedness to Related Parties
- "H" - Schedule G - Guarantees of Securities of Other Issuers
- "I" - Schedule H - Capital Stock

## **Reports on Form 17-C**

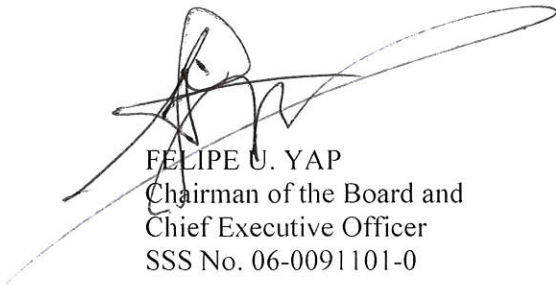
<u>Date of Report</u>	<u>Subject</u>
January 18, 2016	Election of New Director
February 15, 2016	Setting of Annual Stockholders' Meeting and Retirement of VP Controller
April 18, 2016	Results of Annual Stockholders' Meeting
May 14, 2015	Use of Proceeds as of April 2015
May 16, 2016	Results of Organizational Meeting
September 27, 2016	Clarification of News Report
September 30, 2016	DENR recommendation to suspend mining operations
October 03, 2016	Press Release




SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Makati City on April 10, 2017.


Lepanto Consolidated Mining Company  
Issuer




FELIPE U. YAP  
Chairman of the Board and  
Chief Executive Officer  
SSS No. 06-0091101-0




BRYAN U. YAP  
President and  
Chief Operating Officer  
SSS No. 33-3067339-5



RAMON T. DIOKNO  
Chief Finance Officer  
SSS No. 03-2133095-4



ODETTE A. JAVIER  
Vice President/ Asst. Corp. Secretary  
SSS No. 03-7641344-4



TEOFILO C. SACPA  
Chief Accountant  
SSS No. 01-1458040-3


SUBSCRIBED AND SWORN TO before me this 10th day of April 2017 at Makati City, affiant, who are personally known to me, exhibiting to me their SSS ID nos. indicated above.

Doc. No. 177 :

Page No. 36 :

Book No. I :

Series of 2017.



MARVIN LESTER N. DE PAZ  
Notarial Appointment No. M-459  
Notary Public for Makati City  
Until 31 December 2017  
21<sup>st</sup> Floor Lepanto Building  
8747 Paseo de Roxas, 1226 Makati City  
Roll No. 63424  
IBP No. 1055074; 12-28-16; PPLM  
PTR No. 5918342; 01-11-17 Makati City  
MCLE Compliance No. V-0021547; 05-13-16

**EXHIBIT "J"**

LEPANTO CONSOLIDATED MINING COMPANY  
 LEPANTO MINE DIVISION  
 2609 Lepanto, Mankayan, Benguet  
 Website: www.lepantomining.com

**Certification of Ore Reserves**  
**As of January 01, 2017**

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Ore Reserve	Category	Tonnes	g/t Au	% Cu	M ozs. Au	M lb. Cu
VICTORIA @ 2.2 g/T Au	Proved	1,101,000	4.89	-	0.173	-
	Probable	117,000	5.02	-	0.019	-
	<b>Sub-total</b>	<b>1,218,000</b>	<b>4.90</b>	<b>-</b>	<b>0.192</b>	<b>-</b>
TERESA @ 2.2 g/ T Au	Proved	130,000	3.29	-	0.014	-
	Probable	1,000	2.36	-	0.000	-
	<b>Sub-total</b>	<b>131,000</b>	<b>3.28</b>	<b>-</b>	<b>0.014</b>	<b>-</b>
Enargite-Related @ 1.00% Cu	Proved	4,060,000	2.28	1.548	0.298	138.450
	Probable	3,110,000	2.72	1.642	0.272	112.661
	<b>Sub-total</b>	<b>7,170,000</b>	<b>2.47</b>	<b>1.589</b>	<b>0.570</b>	<b>251.111</b>
<b>Grand Total</b>		<b>8,519,000</b>	<b>2.83</b>	<b>-</b>	<b>0.776</b>	<b>-</b>

Ore Reserve is defined as that part of a *Measured* and *Indicated* Mineral Resource which could be mined, inclusive of dilution, and from which valuable or useful minerals could be recovered economically under conditions prevailing at the time of reporting. It is derived from estimates of Mineral Resources modified by economic, metallurgical, marketing, legal, environmental, social and government factors. Ore Reserves are sub-divided into *probable* and *proved* categories.

The parameters applied in the estimation of Ore Reserve are as follows:

Parameters	Reserve Estimation
Grade estimate	Based on the kriged resource estimate grade at raw vein width, the resource grade estimate was diluted with a dilution shell based on vein width. Enargite was estimated manually using prismoidal averaging and no top-cut was used. To provide for sampling/distribution adjustments in the Enargite resource, a factor of 0.81 is applied to the Cu grade while a factor of 0.90 is applied to Au.
Tonnage estimate	Estimated for Victoria & Teresa based on the 2017 Resource estimates depleted with resources mined in 2016
Mining width estimate	Minimum of 1.00 meter unless accessible and economically mineable
Dilution	0.50 meter irrespective of vein width
Minimum ore reserves grade (Cut-off grade)	2.2 g/t Au for Victoria & Teresa 1.00% Cu for Enargite

Mining dilution is applied against the mineral resource blocks that are either classified as Measured or Indicated. A 0.25 meter dilution skin is applied against the resource blocks regardless of vein width. The dilution skin is calculated at zero Au grade value. The 2.2 g/t Au minimum grade, after dilution, serves as the lower limit to which proved or probable ore reserve category blocks are considered as an ore reserve.



Management  
System  
ISO 14001:2004  
www.tuv.com  
ID 910506019





LEPANTO CONSOLIDATED MINING COMPANY  
LEPANTO MINE DIVISION  
2609 Lepanto, Mankayan, Benguet  
Website: [www.lepantomining.com](http://www.lepantomining.com)

#### Forward-Looking Statements

Certain statements contained in this certification and verification are "forward-looking statements".

These include, without limitation:

Estimates of reserves, and statements regarding future exploration results and reserve replacements;

When expectation or belief is expressed, as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, our forward-looking statements are subject to risks, uncertainties, and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by those forward-looking statements. Such risks include, but are not limited to the price of gold and copper, currency fluctuations; geological and metallurgical assumptions; operating performance of equipment, processes and facilities; labor relations; timing of receipt of necessary government permits or approvals; domestic laws or regulations, particularly relating to the environment and mining; domestic and international economic and political conditions; the ability of Lepanto Mine Division, Lepanto Consolidated Mining Company to obtain or maintain necessary financing; and other risks and hazards associated with mining operations.

#### Estimates of Proved and Probable Reserves are Uncertain

Estimates of proven and probable reserves are subject to considerable uncertainty. Such estimates are, to a large extent, based on interpretations of geologic data obtained from drill holes and other sampling techniques. Gold producers use feasibility studies to derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the predicted configuration of the ore body, expected recovery rates of metals from the ore, comparable facility, equipment, and operating costs, and other factors. Actual cash operating costs and economic returns on projects may differ significantly from original estimates. Further, it may take many years from the initial phase of drilling before production is possible and, during that time, the economic feasibility of exploiting a discovery may change.







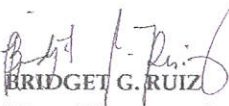
LEPANTO CONSOLIDATED MINING COMPANY  
LEPANTO MINE DIVISION  
2609 Lepanto, Mankayan, Benguet  
Website: www.lepantomining.com

CERTIFICATION

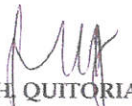
We, BRIDGET G. RUIZ AND RUBEN H. QUITORIANO, Filipinos, of legal ages, and with office address at the Lepanto Mine Division, Lepanto, Mankayan, Benguet, being the Mineral Resource - Ore Reserve Engineer and Mine Engineering and Geology Manager respectively of Lepanto Mine Division, Lepanto Consolidated Mining Company, a corporation duly organized and existing under Philippine laws with office address at the 20<sup>th</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Metro Manila, after being duly sworn to, hereby certify THAT:

1. We respectively conducted and supervised the conduct of an objective examination and evaluation of Ore Reserve Status of Lepanto Mine Division as of 01 January 2017 with a Summary Report ("CERTIFICATION") pertaining thereto as hereto attached and made an integral part hereof; and
2. The information contained therein was made in accordance with the generally accepted Ore Reserve Estimation Procedures in the Philippine Mining Industry.
3. We take full responsibility as to the correctness and accuracy of the said report.

Mankayan, Benguet: 10 February 2017


  
BRIDGET G. RUIZ

Mineral Resource - Ore Reserve Engineer  
Licensed Mining Engineer  
PRC Lic. No. 0002795  
PTR No. BGT 5078527  
Mankayan, Benguet

  
RUBEN H. QUITORIANO  
Mine Engineering and Geology Manager  
Licensed Mining Engineer  
PRC Lic. No. 0002245  
PTR No. BGT 5078522  
Mankayan, Benguet

SUBSCRIBED AND SWORN to before me this 07 day of February 2017 in Baguio City, Philippines, affiant having exhibited to me their respective Social Security System Nos., 01-19358384 and 01-0721390-7.

Doc. No. 116;  
Page No. 24;  
Book No. LXVI;  
Series of 2017.

  
ATTY. OMAR R. EVANGELISTA  
Notary Public  
Until December 31, 2018  
N.A. No. 39-NC-17-R  
43-B Tacay Road, Pinsao Proper, Baguio City  
Roll No. 40195/05-03-95  
PTR No. 2946042/01-03-17/Bgo.  
IBP O.R. No. 1056802/01-03-17/Bgo-Beng  
MCLE Compliance No. V-88627347-03-14



Management  
System  
ISO 14001:2004  
www.tuv.com  
ID 910506219





# LEPANTO CONSOLIDATED MINING COMPANY

LEPANTO MINE DIVISION

2609 Lepanto, Mankayan, Benguet

Website: www.lepantomining.com

## VERIFICATION

I, ROBERT F. WAGTINGAN, Filipino, of legal age, with address at La Trinidad, Benguet, hereby certify that:

1. I am a Mining Engineer duly registered with the Professional Regulation Commission of the Philippines with License number 0002006;
2. I am a registered Competent Person as the term is defined under the Philippine Mineral Reporting Code, with registration number EM 02006-021/11;
3. I am not an employee of and do not own any beneficial shares of stock of Lepanto Consolidated Mining Company ("Lepanto"), a corporation duly organized and existing under Philippine laws with office address at the 21<sup>st</sup> Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City, Metro Manila;
4. I was engaged by LMD, LCMC to conduct an independent study on the Ore Reserve Estimate as of January 2017 prepared by LMD, LCMC's Mineral Resource - Ore Reserve Engineer Ms. BRIDGET G. RUIZ under the supervision of Lepanto Mine Division, Lepanto Consolidated Mining Company's Mine Engineering and Geology Manager Mr. RUBEN H. QUITORIANO;
5. The scope of work is limited to with the review of the gold mineralization of the Victoria - Teresa within the Lepanto mining claims and does not take into account the other copper and gold deposits within the company's property occurring within the tenements. The total ore reserve estimated as of January 1, 2017 amounting to 8,519,000 metric tonnes at 2.83 g/t Au and gold content of .776 M oz. Au compared to 8,793,000 metric tonnes at 2.91 g/t Au and gold content of 0.823 M oz. Au as of January 1, 2016. The 2017 reserve were classified into *Proved reserve* of 5,291,000 tonnes at 2.85 g/t Au and *Probable reserve* of 3,228,000 tonnes at 2.80 g/t Au;
6. Based on the said findings, I hereby grant my concurrence thereto and confirm that that the same were made in accordance with the required guidelines set out in the Philippine Mineral Reporting Code in the conduct of review and evaluation;
7. At the time of this certification, to the best of my knowledge, all technical information provided or otherwise referred to therein are correct and not misleading.
8. I hereby consent to the publication of LMD, LCMC's 2017 Ore Reserve summary Certification in Lepanto's prospectus or any other means as determined by the Philippine Stock Exchange.

La Trinidad, Benguet, February 27, 2017.

**ROBERT F. WAGTINGAN**

Registered Mining Engineer, PRC Lic. No. 0002006

PTR No. BGT 5079719 issued Feb. 07, 2017

CP Reg. No. EM 02006-021/11

SUBSCRIBED AND SWORN to before me this 27 day of February 2017 in Baguio City, Philippines,  
affiant exhibiting to me his SSS No. 0001 - 0526081 - 3.

Doc. No. 1149;

Page No. 24;

Book No. LXVI;

Series of 2017.

**ATTY. OMAR R. EVANGELISTA**

Notary Public

Until December 31, 2018

N.A. No. 39-NC-17-R

43-B Tacay Road, Pinsao Proper, Baguio City

Roll No. 40195/05-03-05

PTR No. 294604/201-03-12/180

IBP O.R. No. 105680/201-03-17/Bgo-Beng

MCLE Compliance No. 10002754/7-03-14

CERTIFIED

www.liv.com

ID 9106056219





# LEPANTO CONSOLIDATED MINING CO.

Lepanto Building, 8747 Paseo de Roxas, 1226 City of Makati, Philippines

SECURITIES AND EXCHANGE COMMISSION  
Secretariat Building, PICC Complex  
Roxas Boulevard, Metro Manila

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Lepanto Consolidated Mining Company** 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 free from material misstatement, whether due to fraud or error.

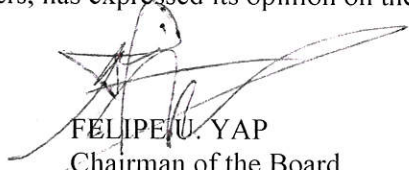
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidated the Company or to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

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


The Board of Directors reviews and approves the 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 financial statements of the Company 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.


Signature:

  
FELIPE U. YAP  
Chairman of the Board  
SSS#06-0091101-0

Signature:

  
BRYAN U. YAP  
President  
SSS#33-3067339-5

Signature:


  
RAMON T. DIOKNO  
Chief Finance Officer  
SSS#03-2133095-4

Signed this 20<sup>th</sup> day of March 2017.



SUBSCRIBED AND SWORN TO before me this 20<sup>th</sup> day of March 2017 at Makati City, affiant exhibiting to me their SSS ID nos. indicated above.

Doc. No. 135 :  
Page No. 27 :  
Book No. 1 :  
Series of 2017.



**MARVIN LESTER N. DE PAZ**  
Notarial Appointment No. M-459  
Notary Public for Makati City  
Until 31 December 2017  
21<sup>st</sup> Floor Lepanto Building  
8747 Paseo de Roxas, 1226 Makati City  
Roll No. 63424  
IBP No. 1055074; 12-28-16; PPLM  
PTR No. 5918342; 01-11-17 Makati City  
MCLE Compliance No. V-0021547; 05-13-16

**Lepanto Consolidated  
Mining Company  
and Subsidiaries**

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

and

Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders  
Lepanto Consolidated Mining Company

### Opinion

We have audited the consolidated financial statements of Lepanto Consolidated Mining Company 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 comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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



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

#### *Recoverability of Property, Plant and Equipment*

The Group has property, plant and equipment amounting to ₱6.2 billion, which includes mine and mining properties of ₱5.9 billion as at December 31, 2016, which is about 38% of the Group's consolidated total assets. The Group is required to perform an impairment testing of its property, plant and equipment if there are indicators of impairment. The Group's property, plant and equipment belongs to the Parent Company cash generating unit.

The Group is adversely affected by the continued decline in precious and base metal prices in the market. In the event that an impairment indicator is identified, the assessment of the recoverable amount, specifically the value-in-use, of the property, plant and equipment requires significant judgment and involves estimation and assumptions about future production levels and costs, as well as external input such as commodity prices, discount rate and foreign currency exchange rates. Hence, such assessment is a key audit matter in our audit. See Note 9 to the consolidated financial statements.

#### *Audit Response*

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include future production levels and costs, as well as external input such as commodity prices, discount rates and foreign currency exchange rates. We compared the key assumptions used against external data such as analysts' reports, benchmarks and ore reserves estimates. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of property, plant and equipment.

#### *Recoverability of Mine Exploration Costs*

The ability of the Group to recover its mine exploration costs would depend on the commercial viability of the reserves. The carrying values of mine exploration costs amounted to ₱6.3 billion which is about 38% of the Group's consolidated total assets as at December 31, 2016. The substantial amount of this account, the level of additions during the year and the significant management judgment required in assessing whether there is any indication that the mine exploration costs may be impaired are key areas of focus in our audit. See Note 12 to the consolidated financial statements.



### *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 whether there are impairment indicators affecting the recoverability of the mine exploration costs and inquired into the status of these projects and their plans on operations. We obtained the summary of the status of each exploration project as of December 31, 2016, as certified by the Group's technical group head. We reviewed contracts and agreements, and the budget for exploration costs. We inspected the licenses, permits and correspondence 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 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. Reserves are key inputs to depletion and decommissioning provisions. As discussed in Note 9 to the consolidated financial statements, the Group's mine and mining properties amounting to ₱5.9 billion as of December 31, 2016 are amortized using units of production method. This matter is significant to our audit because the estimation of mineable ore reserves in Makanyan mine requires significant estimation from management.

### *Audit Response*

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

### **Other Information**

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

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

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



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the Philippines, 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 Audit of the Consolidated Financial Statements**

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

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

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





- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jaime F. del Rosario.

SYCIP GORRES VELAYO & CO.



Jaime F. del Rosario

Partner

CPA Certificate No. 56915

SEC Accreditation No. 0076-AR-4 (Group A),

May 1, 2016, valid until May 1, 2019

Tax Identification No. 102-096-009

BIR Accreditation No. 08-001998-72-2015,

March 24, 2015, valid until March 23, 2018

PTR No. 5908689, January 3, 2017, Makati City

March 20, 2017



# LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 4)	P86,234	P66,387
Receivables (Note 5)	241,474	306,755
Inventories (Note 6)	430,008	520,387
Advances to suppliers and contractors (Note 7)	335,866	442,810
Other current assets (Note 8)	641,493	614,741
<b>Total Current Assets</b>	<b>1,735,075</b>	<b>1,951,080</b>
<b>Noncurrent Assets</b>		
Property, plant and equipment - net (Note 9)	7,195,819	6,974,495
Mine exploration costs (Note 12)	6,302,261	6,521,173
Available-for-sale (AFS) financial assets (Note 10)	188,027	477,155
Investments in and advances to associates (Note 11)	561,205	566,831
Deferred income tax assets - net (Note 18)	419,371	431,716
Other noncurrent assets	77,173	71,441
<b>Total Noncurrent Assets</b>	<b>14,743,856</b>	<b>15,042,811</b>
<b>TOTAL ASSETS</b>	<b>P16,478,931</b>	<b>P16,993,891</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 13)	P1,538,233	P1,422,554
Short-term borrowings and other interest-bearing liabilities (Note 14)	68,065	-
Income tax payable	5,561	891
<b>Total Current Liabilities</b>	<b>1,611,859</b>	<b>1,423,445</b>
<b>Noncurrent Liabilities</b>		
Advances from Far Southeast Services Limited (FSE; Note 30)	5,933,221	5,843,343
Long-term borrowings (Note 14)	-	47,060
Liability for mine rehabilitation cost (Note 15)	64,748	65,095
Retirement benefits liability (Note 16)	1,682,674	1,782,137
Deferred income tax liabilities - net (Note 18)	224,894	229,036
Deposit for future subscriptions	69,200	69,200
Stock subscriptions payable	11,443	107,784
<b>Total Noncurrent Liabilities</b>	<b>7,986,180</b>	<b>8,143,655</b>
<b>Total Liabilities</b>	<b>9,598,039</b>	<b>9,567,100</b>
<b>Equity attributable to the equity holders of the Parent Company:</b>		
Capital stock (Note 19)	5,134,706	5,134,706
Additional paid-in capital	4,336,231	4,336,231
Remeasurement loss on retirement benefits liability	(416,988)	(521,258)
Net unrealized gain (loss) on AFS financial assets (Note 10)	38,665	(44,735)
Deficit	(2,469,320)	(1,728,477)
	6,623,294	7,176,467
Non-controlling interests (NCI; Note 20)	257,598	250,324
<b>Total Equity</b>	<b>6,880,892</b>	<b>7,426,791</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P16,478,931</b>	<b>P16,993,891</b>

See accompanying Notes to Consolidated Financial Statements.



**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands, Except Loss per Share)

	Years Ended December 31		
	2016	2015	2014
<b>REVENUES</b> (Note 33)			
Sale of metals - net (Note 29)	<b>₱1,431,928</b>	₱1,146,416	₱1,428,634
Service fees and other operating income	<b>102,128</b>	66,486	50,804
	<b>1,534,056</b>	1,212,902	1,479,438
<b>COST OF SALES</b> (Note 22)	<b>(1,876,404)</b>	(1,525,139)	(1,777,188)
<b>COST OF SERVICES</b> (Note 23)	<b>(113,848)</b>	(200,659)	(124,560)
<b>OPERATING EXPENSES</b> (Note 24)	<b>(234,233)</b>	(248,916)	(195,063)
<b>FINANCE COSTS</b> (Note 27)	<b>(101,634)</b>	(110,901)	(90,956)
<b>FOREIGN EXCHANGE GAINS (LOSSES) - net</b>	<b>3,062</b>	(19,417)	16,543
<b>SHARE IN NET LOSSES OF ASSOCIATES</b> (Note 11)	<b>(6,752)</b>	(20,579)	(13,481)
<b>OTHER INCOME - net</b> (Note 28)	<b>52,515</b>	71,363	15,897
<b>LOSS BEFORE INCOME TAX</b>	<b>(743,238)</b>	(841,346)	(689,370)
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 18)			
Current	<b>30,364</b>	6,407	5,023
Deferred	<b>(40,033)</b>	11,623	18,893
	<b>(9,669)</b>	18,030	23,916
<b>NET LOSS</b>	<b>(₱733,569)</b>	(₱859,376)	(₱713,286)
<b>Net income (loss) attributable to:</b>			
Equity holders of the Parent Company	<b>(₱740,843)</b>	(₱858,981)	(₱718,366)
NCI (Note 20)	<b>7,274</b>	(395)	5,080
	<b>(₱733,569)</b>	(₱859,376)	(₱713,286)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Item that will be reclassified to profit or loss in subsequent periods:</i>			
Net unrealized gain on AFS financial assets (Note 10)	<b>₱83,400</b>	₱206,781	₱55,154
<i>Item that will not be reclassified to profit or loss in subsequent periods:</i>			
Remeasurement gain (loss) on retirement benefits liability (Note 16)	<b>148,956</b>	106,443	(369,530)
Income tax effect (Note 16)	<b>(44,686)</b>	(31,933)	110,859
	<b>104,270</b>	74,510	(258,671)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>187,670</b>	281,291	(203,517)
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(₱545,899)</b>	(₱578,085)	(₱916,803)
<b>Total comprehensive income (loss) attributable to:</b>			
Equity holders of the Parent Company	<b>(₱553,173)</b>	(₱577,690)	(₱921,883)
NCI (Note 20)	<b>7,274</b>	(395)	5,080
	<b>(₱545,899)</b>	(₱578,085)	(₱916,803)
<b>BASIC/DILUTED LOSS PER SHARE</b> (Note 21)	<b>(₱0.0140)</b>	(₱0.0170)	(₱0.0160)

See accompanying Notes to Consolidated Financial Statements.



**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands)

	Years Ended December 31		
	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	(₱743,238)	(₱841,346)	(₱689,370)
Adjustments for:			
Depletion, depreciation and amortization (Note 9)	750,892	708,741	734,467
Gain on disposal of property, plant and equipment and other investments (Note 28)	(116,025)	(2,699)	(32)
Finance costs (Note 27)	101,634	110,901	90,956
Realized loss on disposal of AFS financial assets (Notes 10 and 28)	63,868	—	—
Unrealized foreign exchange losses - net	40,849	(5,824)	1,255
Movement in retirement benefits liability	(25,845)	(135,170)	(45,969)
Share in net losses of associates (Note 11)	6,752	20,579	13,481
Gain on reversal on deferred income tax liability	3,549	—	—
Interest income (Note 28)	(110)	(503)	(360)
Gain on disposal of investment in associates	—	(1,427)	—
Gain on change in estimate	—	—	(13,916)
Loss on disposal of equity instruments	—	—	2,638
Dividend income (Note 10)	—	—	(75)
Operating income (loss) before working capital changes	82,326	(146,748)	93,075
Decrease (increase) in:			
Receivables	65,170	(43,126)	(154,872)
Inventories	19,683	36,402	(46,472)
Advances to suppliers and contractors	83,987	3,254	27,327
Other current assets	(26,752)	(27,569)	(35,735)
Increase in trade and other payables	111,630	241,763	234,821
Net cash flows from operations	336,044	63,976	118,144
Interest received	110	503	360
Income taxes paid	(25,694)	(6,857)	(4,295)
Net cash flows from operating activities	310,460	57,622	114,209
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Mine exploration costs	(526,501)	(393,431)	(229,993)
Property, plant and equipment (Notes 9 and 26)	(213,782)	(543,818)	(495,801)
Investments in associates (Note 11)	—	—	(136,605)
Advances to an associate:			
Extension of advances	(757)	—	(2,035)
Collection of advances	—	2,281	—
Proceeds from disposal of:			
Property, plant and equipment	171,591	4,132	5,991
AFS financial assets (Note 10)	308,292	—	—
Investment in associates (Note 11)	—	12,285	—
Dividends received	—	—	75
Decrease in subscription payable	(96,341)	—	—
Decrease (increase) in other noncurrent assets	(6,851)	10,979	(43,816)
Net cash flows used in investing activities	(364,349)	(907,572)	(902,184)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Changes in advances from FSE	89,878	130,827	125,201
Proceeds from issuance of shares	—	614,445	959,212
Availment of additional loans	—	—	64,250
Payments of:			
Interest	(16,142)	(105,016)	(33,259)
Borrowings	—	(109,201)	(30,190)
Dividends	—	—	(11)
Net cash flows from financing activities	73,736	531,055	1,085,203
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>19,847</b>	<b>(318,895)</b>	<b>297,228</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>66,387</b>	<b>385,282</b>	<b>88,054</b>
<b>CASH AT END OF YEAR (Note 4)</b>	<b>₱86,234</b>	<b>₱66,387</b>	<b>₱385,282</b>

See accompanying Notes to Consolidated Financial Statements.



# LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Amounts in Thousands)

	Capital Stock (Note 19)			Attributable to Equity Holders of the Parent Company			Deficit	Sub-total	NCI (Note 20)	Total
	Issued	Subscribed	Sub-total	Additional Paid-in Capital	Remeasurement Gain (Loss) on Retirement Benefits Liability	Net Unrealized Gain (Loss) on AFS Financial Assets (Note 10)				
Balances at January 1, 2016	₱5,136,596	(₱1,890)	₱5,134,706	₱4,336,231	(₱521,258)	(₱44,735)	(₱1,728,477)	₱7,176,467	₱250,324	₱7,426,791
Net income (loss)	—	—	—	—	—	—	(740,843)	(740,843)	7,222	(733,621)
Other comprehensive income	—	—	—	—	104,270	83,400	—	187,670	52	187,722
Total comprehensive income (loss)	—	—	—	—	104,270	83,400	(740,843)	(553,173)	7,274	(545,899)
Balances at December 31, 2016	₱5,136,596	(₱1,890)	₱5,134,706	₱4,336,231	(₱416,988)	₱38,665	(₱2,469,320)	₱6,623,294	₱257,598	₱6,880,892
Balances at January 1, 2015	₱5,136,596	(₱616,341)	₱4,520,255	₱4,336,237	(₱595,768)	(₱251,516)	(₱869,496)	₱7,139,712	₱250,719	₱7,390,431
Issuance/subscription of shares	—	614,451	614,451	(6)	—	—	—	614,445	—	614,445
Net loss	—	—	—	—	—	—	(858,981)	(858,981)	(395)	(859,376)
Other comprehensive income	—	—	—	—	74,510	206,781	—	281,291	—	281,291
Total comprehensive income (loss)	—	—	—	—	74,510	206,781	(858,981)	(577,690)	(395)	(578,085)
Balances at December 31, 2015	₱5,136,596	(₱1,890)	₱5,134,706	₱4,336,231	(₱521,258)	(₱44,735)	(₱1,728,477)	₱7,176,467	₱250,324	₱7,426,791
Balances at January 1, 2014	₱4,346,350	(₱2,007)	₱4,344,343	₱3,552,937	(₱337,097)	(₱306,670)	(₱151,130)	₱7,102,383	₱245,639	₱7,348,022
Issuance/subscription of shares	790,246	(614,334)	175,912	783,300	—	—	—	959,212	—	959,212
Net income (loss)	—	—	—	—	—	—	(718,366)	(718,366)	5,080	(713,286)
Other comprehensive income (loss)	—	—	—	—	(258,671)	55,154	—	(203,517)	—	(203,517)
Total comprehensive income (loss)	—	—	—	—	(258,671)	55,154	(718,366)	(921,883)	5,080	(916,803)
Balances at December 31, 2014	₱5,136,596	(₱616,341)	₱4,520,255	₱4,336,237	(₱595,768)	(₱251,516)	(₱869,496)	₱7,139,712	₱250,719	₱7,390,431

See accompanying Notes to Consolidated Financial Statements.



# LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. General Information and Authorization for Issue of the Consolidated Financial Statements

#### Lepanto Consolidated Mining Company

Lepanto Consolidated Mining Company (Parent Company; the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 8, 1936, primarily to engage in the exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products. On January 29, 1985, the SEC approved the extension of the Parent Company's corporate term for another 50 years after the expiration of its original term on September 8, 1986.

The Company's shares are listed and traded on the Philippine Stock Exchange (PSE).

On January 14, 1997, the Company was registered with the Board of Investments (BOI) under Executive Order (EO) No. 226 as a new export producer of gold bullion on a preferred non-pioneer status. This registration entitled the Company to a four (4) year income tax holiday (ITH), which can be further extended for another three (3) years subject to compliance with certain conditions, and lower tariff rates on acquisition of capital equipment. It is required to maintain a base equity of at least 25% as one of the conditions of the registration.

On April 1, 1997, the Company started the commercial operations of its gold mine (Victoria Project) located in Mankayan, Benguet, Philippines and suspended its copper mining operations. Consequently, in October 1997, the Company temporarily ceased operating its roasting plant facilities in Isabel, Leyte, Philippines for an indefinite period. The roasting plant facility was registered with the Philippine Economic Zone Authority (PEZA) on December 17, 1985 pursuant to the provisions of Presidential Decree No. 66, as amended, and EO No. 567 as a zone export enterprise to operate a roasting plant for the manufacture of copper calcine at the Isabel Special Export Processing Zone.

On March 30, 2000, the Company registered its copper flotation project with the BOI as a new producer of copper concentrates on a preferred non-pioneer status. This registration entitled the Company to a four (4) year ITH, subject to compliance with certain conditions, simplified customs procedures, additional deduction for labor expense and unrestricted use of consigned equipment for a period of ten (10) years. It is required to maintain a base equity of at least 25% as one of the conditions of the registration. The copper flotation project was suspended at the end of 2001; the BOI registration was cancelled on July 11, 2006.

On April 10, 2001, the BOI approved the Company's request for ITH bonus year for a period of one year from April 2001 to March 2002 for its gold bullion project. On June 21 and September 21, 2005, the Company obtained the necessary approval for the ITH bonus periods of April 2002 to March 2003 and April 2003 to March 2004, respectively.

The Company currently operates the Victoria Mine in Mankayan, Benguet Philippines.





On January 5, 2004, the Company was registered with the BOI under EO No. 226 as new export producer of gold bullion on a non-pioneer status for its Victoria II (renamed Teresa) Project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH with the same incentives that were granted on their registration with BOI on January 14, 1997. The Teresa Project commenced its commercial operations in April 2004.

On November 21, 2006, the Company was registered with the BOI under EO No. 226 as new export producer of copper-gold concentrate on a non-pioneer status for its copper-gold flotation project located also in Mankayan, Benguet, Philippines. This registration entitles the Company to ITH for four (4) years, which can be further extended for another three (3) years subject to compliance with certain conditions, and duty-free importation of equipment, spare parts and accessories for five (5) years.

On May 20, 2009, the BOI approved the Company's request for ITH bonus year for the period April 2008 to March 2009 for its Teresa Project.

The registrations mentioned above enable the Parent Company to avail of the rights, privileges and incentives granted to all registered enterprises.

The Company has its principal office at the 21st Floor, Lepanto Building, Paseo de Roxas, Makati City.

#### Diamond Drilling Corporation of the Philippines (DDCP)

DDCP is a wholly owned subsidiary by the Parent Company and was incorporated and registered with the SEC on August 8, 1971, primarily to provide technical, engineering and management services for the purpose of engaging in mining, mineral or oil exploration, construction or other business activity, particularly but not limited to drilling, boring and sinking holes for the purposes of mineral exploration.

In 1994, DDCP's Articles of Incorporation was amended to include in Article II the following secondary purpose: to engage in the business of exploration, development, processing and marketing of minerals that may be found anywhere in the Philippines either by original acquisition, joint venture or operating agreements with other holders of existing mining rights. On April 21, 2008, the stockholders of the DDCP passed a resolution authorizing it to engage directly in the business of mining or otherwise make investments in mining projects.

DDCP primarily provides drilling services to the Parent Company and Manila Mining Corporation (MMC), an associate.

DDCP's principal office is at 344 South Superhighway, Brgy. Sun Valley, Parañaque City.

#### Shipside, Incorporated (SI)

SI, a Company existing and incorporated in the Philippines and registered with SEC on November 13, 1958, is a wholly owned subsidiary by the Parent Company and was originally organized to engage in handling all kinds of materials, products and supplies in bulk and maintaining and operating terminal facilities such as pier and warehouses.

With the expiration in 1985 of its twenty-five (25) year Grant of Development Right to construct and operate pier and wharfage facilities in Poro, San Fernando, La Union, SI included in its activities the leasing of its properties which include apartments/guesthouses and warehouses. Pier-related activities continued to be limited to handling materials and supplies.



On July 18, 2008, the SEC approved the extension of SI's corporate term for another fifty (50) years after the expiration of its original term on November 13, 2008.

SI's principal office is located at 21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Lepanto Investment & Development Corporation (LIDC)

LIDC, a wholly owned subsidiary of the Parent Company, was incorporated and registered with the SEC on April 8, 1969, primarily to act as a general agent, broker or factor of any insurance company, whether domestic or foreign, or as a commercial broker, real estate dealer or broker, agent or factor of any person, partnership, corporation or association engaged in any lawful business, industry or enterprise.

LIDC's principal office is located at 21st Floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

Far Southeast Gold Resources, Inc. (FSGRI; the Project)

FSGRI was incorporated, primarily to operate mines and prospect, explore, mine and deal with all kinds of ores, metals and minerals. The Company was incorporated and registered with the Philippine SEC on February 2, 1989.

FSGRI, a 60%-owned subsidiary of the Parent Company and 40%-owned by Gold Fields Switzerland Holding AG, a company incorporated in Switzerland.

The Parent Company will continue to provide financial and administrative support to FSGRI. As at December 31, 2016, it is still in the pre-operating stage.

Deferred exploration costs incurred for all exploration projects are expected to be recovered upon the start of commercial operations. Despite technical difficulties in developing the ore body, the current improving trend in metal prices and integration of recent breakthroughs in both mining and milling technologies enhance the economic feasibility of the Project. This project is considered one of the priority mining projects of the Philippine Government.

FSGRI's principal office is located at 19th Floor, Lepanto Building, Paseo de Roxas, Barangay Bel-Air, Makati City.

Diamant Manufacturing and Trading Corporation (DMTC)

DMTC, which was incorporated and registered with the SEC on September 7, 1972, is a wholly owned subsidiary of LIDC. DMTC is primarily engaged in manufacturing, distributing, selling and buying machinery and equipment of all kinds and descriptions, general merchandise and articles of every nature, particularly but not limited to diamond core and non-core bits, reamer shells, casing bits, diamond circular segmental and diamond gang saws, tubular and other products allied to the diamond core drilling industry.

On June 26, 2012, SEC approved the Company's application for change in name from Diamant Boart Philippines, Inc. to Diamant Manufacturing and Trading Corporation.

DMTC's principal office is located at Km. 14 344 West Service, Brgy. Sun Valley, Parañaque City.

Authorization for Issue of the Consolidated Financial Statements

The 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 issue by the Board of Directors (BOD) on March 20, 2017.



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

### Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS financial asset measured at fair value in the consolidated statements of financial position. The consolidated financial statements are presented in Philippine Peso, the Group's functional and presentation currency in compliance with accounting principles generally accepted in the Philippines. All values are rounded to the nearest thousand (₱000), except when otherwise indicated.

The specific accounting policies followed by the Group are disclosed in the following section.

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the Philippines. The Parent Company prepared its financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the exemption from the fair value requirement of Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement*, on long-term commodity hedging contracts entered into by the Parent Company and outstanding as of January 1, 2005, which was permitted by the Philippine SEC (see Note 30).

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2016 and 2015. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

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

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

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

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.



The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Where the Group's interest is less than 100%, the interest attributable to outside shareholders is reflected in NCI.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent of the Group and to the 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 Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

If the Group loses control over a subsidiary, it derecognizes the 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.

Subsidiaries are deconsolidated from the date on which control ceases.

#### *Subsidiaries*

Subsidiaries are entities over which the Parent Company has control.

#### *NCI*

Where the ownership of a subsidiary is less than 100%, and therefore a NCI exists, any losses of that subsidiary are attributed to the NCI even if that results in a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCI;
- Derecognizes the cumulative translation differences, recognized in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.



The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries:

Subsidiaries	Nature of Business	2016		2015	
		% of Ownership		% of Ownership	
		Direct	Indirect	Direct	Indirect
DDCP	Service	100	—	100	—
SI	Service	100	—	100	—
LIDC	Investment	100	—	100	—
FSGRI *	Mining	60	—	60	—
DMTC <sup>a</sup>	Manufacturing/Selling	—	100	—	100

\*Pre-operating subsidiary

<sup>a</sup>Held by the Group through LIDC

### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that the Group adopted the following new accounting pronouncements starting January 1, 2016. The adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception*
- 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 - Agriculture: Bearer Plants*
- Amendments to PAS 27, *Separate Financial Statement - Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
  - Amendment to PFRS 5, *Noncurrent 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'*



#### Standards and Interpretations Issued but not yet Effective

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

#### *Effective 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.

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

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

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

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

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

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





*Effective January 1, 2018*

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

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

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

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

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

The Group is currently assessing the impact of adopting this standard on its consolidated financial statements.



- PFRS 9, *Financial Instruments*

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

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

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

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

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

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



- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22, *Foreign Currency Transactions and Advance Consideration*

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

*Effective January 1, 2019*

- PFRS 16, *Leases*

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

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

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

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

*Deferred effectivity*

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

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



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

### Summary of Significant Accounting Policies

#### Presentation of Consolidated Financial Statements

The Group has elected to present all items of recognized income and expense in one single consolidated statement of comprehensive income.

#### Cash

Cash includes cash on hand and with banks.

#### 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 and Measurement*

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the trade date.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets and liabilities at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. Financial assets under PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS financial assets. The Group classifies its financial instruments upon initial recognition. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. The Group's financial assets are in the nature of loans and receivables and AFS financial assets. Also, under PAS 39, financial liabilities are classified as at FVPL or other financial liabilities. The Group's financial liabilities are in the nature of loans and borrowings, trade and other payables.

As at December 31, 2016 and 2015, the Group does not have financial instruments at FVPL and HTM investments.

#### *Subsequent Measurement*

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

#### *Loans and Receivables*

Loans and receivables 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 designated as AFS financial assets or designated as at FVPL. This accounting policy relates to the consolidated statements of financial position captions "Cash" and "Receivables", which arise primarily from sale and other types of receivables. Loans and receivables are classified as current when these are expected to be realized within one (1) year, after the end of the reporting period or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent.



Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortization, if any, is included in “Finance costs” caption in the consolidated statement of comprehensive income. The losses arising from impairment of receivables are recognized in “Provision for impairment losses on receivables” account on “Operating expenses” caption in the consolidated statement of comprehensive income. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts (see accounting policy on Impairment of Financial Assets).

#### *AFS Financial Assets*

AFS financial assets include investments in equity and debt securities. Equity investments classified as AFS financial assets are those which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in OCI and credited in the “Unrealized gain (loss) on AFS financial assets” until the investment is derecognized, at which time the cumulative gain or loss is recognized in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from “Unrealized gain (loss) on AFS financial assets” to profit or loss.

The Group evaluates its AFS financial assets whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets in active markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for foreseeable future until maturity.

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.

For a financial asset reclassified from AFS financial assets category, any previous gain or loss on that asset that has been recognized in equity and is amortized to profit or loss over the remaining life of the investment using the EIR and the fair value carrying amount of the date of reclassification becomes its new amortized cost. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

The Group’s AFS financial assets pertain to its investment in equity shares as at December 31, 2016 and 2015.

#### *Loans and Borrowings, and Trade and Other Payables*

Issued financial instruments or their components, which are not designated as at FVPL, are classified as loans and borrowings, and trade and other payables where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The



components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole, the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, loans and borrowings, and trade and other payables are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss and OCI. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are also recognized in the consolidated statements of comprehensive income. Loans and borrowings, and trade and other payables are classified as current when these are expected to be settled within one (1) year after the end of reporting period or within the Group's normal operating cycle, whichever is longer. All others are classified as noncurrent liabilities.

This accounting policy applies primarily to the Group's trade and other payables, borrowings and other interest bearing liabilities.

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

#### *Fair Value Measurement*

The Group measures financial instruments at fair value at each reporting period. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at fair value less costs of disposal. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 31.

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 by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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





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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statement 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 - Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3 - Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### *“Day 1” Profit or Loss*

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

#### *Embedded Derivatives*

Embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives are measured at fair value, and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group has opted not to designate any embedded derivative transactions as accounting hedges. Consequently, changes in fair values are recognized directly through the consolidated statements of comprehensive income. The Group assesses whether embedded derivatives are required to be separated to the host contracts when the Group first become a party to the contract. Reassessment of embedded derivatives is only done when there are change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of FVPL.



### Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Assets Carried at Amortized Cost*

The Group first assesses whether impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines 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 asset with similar credit risk characteristics and collectively assesses them 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The factors in determining whether objective evidence of impairment exist, include, but are not limited to, the length of the Group's relationship with the debtors, their payment behavior and known market factors. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty; breach of contract such as default or delinquency in interest or principal payments; the granting to the borrower a concession that the lender would not otherwise consider; 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 there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g. receivables) has been incurred, the amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original EIR. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in the consolidated statements of comprehensive income. Receivables together with the associated allowance 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 comprehensive income.

Impairment losses are estimated by taking into consideration the following information: current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one (1) year.



If, in a subsequent period, the amount of the estimated impairment loss decreases or increases because of an asset occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

#### *AFS Financial Assets*

For AFS financial assets, the Group assesses at each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than twelve (12) months for quoted equity securities. When there is evidence of impairment, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognized-is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS financial assets, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest continues to be accrued at the original EIR on the reduced carrying amount of the asset and is recorded as part of "Interest income" in profit or loss. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

#### Derecognition of Financial Assets and Financial Liabilities

##### *Financial Asset*

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

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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



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

#### *Financial Liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or 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. The difference in the respective carrying amounts of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or the liabilities assumed is recognized in the consolidated statements of comprehensive income.

#### Offsetting Financial Instruments

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

#### Business Segment

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

For management purposes, the Group is organized into three (3) major operating segments (mining, services and others) according to the nature of products and the services provided with each segment representing a strategic business unit that offers different products and serves different markets. The entities are the basis upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 33.

#### Inventories

Inventories include parts and supplies. These are carried at the lower of cost or net realizable value (NRV). Any provision for obsolescence is determined by reference to specific items of stock. Cost of parts and supplies on hand are determined using moving average method. Parts and supplies in-transit is valued at invoice cost. NRV is the value of the inventories when sold at their condition at the end of the reporting period. In determining the NRV, the Group considers any adjustments necessary for obsolescence.

#### Advances to Suppliers and Contractors

Advances to suppliers and contractors are non-financial assets arising from payments made by the Group to its suppliers and contractors before goods or services have been received or rendered. These are classified as current since these are expected to be offset against future short-term billings and are recognized in the books at amounts initially paid.



#### Other Current Assets

The Group's other current assets include various prepayments, deferred costs and excess creditable input VAT. These are classified as current since the Group expects to realize or consume the assets within twelve (12) months after the end of the reporting period.

#### *Input Value-Added Tax (VAT)*

Input VAT represents the VAT paid on purchases of applicable goods and services, net of output tax, which can be claimed for refund or recovered as tax credit against future tax liability of the Group upon approval by the Philippine Bureau of Internal Revenue (BIR) and/or the Philippine Bureau of Customs.

Input VAT on capitalized assets is subject to amortization and any excess may be utilized against output VAT, if any, beyond twelve (12) months from the reporting period or can be claimed for refund or as tax credits with the Philippine Department of Finance. This is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position and stated at its estimated NRV.

#### Investments in and Advances to Associates

The Group's investments in associates are accounted for using the equity method. These are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group.

Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any allowance for impairment losses. Goodwill relating to an associate included in the carrying amount of the investment and is not tested for impairment individually.

The carrying amount of an investment in associate also includes other long-term interests in an associate, such as loans and advances. Advances and loans granted by the Group are in the nature of cash advances or expenses paid by the Group on behalf of its associates. These are based on normal credit terms, unsecured, interest-free and are recognized and carried at original amounts advanced.

The consolidated statements of comprehensive income reflect the Group's share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The following are the Group's associates with the corresponding percentage of ownership:

	Percentage of Ownership	
	2016	2015
MMC	19.60%	19.60%
Philippine Fire and Marine Insurance Corporation (PhilFire) (see Note 11)	—	12.38%

The financial statements of the associates are prepared for the same financial reporting period as the Parent Company. Where necessary, adjustments are made, bringing the accounting policies in line with those of the Group.



The Group discontinues the use of equity method from the date when the investment ceases to be an associate, such as:

- a) when the investment becomes a subsidiary,
- b) If the retained interest in the former associate or joint venture is a financial asset, the Group shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition, as a financial asset in accordance with the relevant standards. The Group shall recognize the profit or loss the difference in:
  - i. the fair value of any retained interest and any proceeds from disposing of a part interest in the associate; and
  - ii. the carrying amount of the investment at the date the equity method was discontinued.
- c) The Group shall account for all amounts previously recognized in OCI in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets.

Investment in Philfire has been reclassified to AFS financial assets in 2015 (see Note 11).

#### Property, Plant and Equipment

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

The initial cost of property, plant and equipment comprises its purchase price or construction cost, any directly attributable costs of bringing the asset into operation, the initial estimate of the rehabilitation obligation, and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is aggregate amount paid and the fair value of any other consideration given to acquire the asset. Such cost includes the cost of replacing part of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to expense in the period when the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. Major maintenance and major overhaul costs that are capitalized as part of property, plant and equipment are depreciated on a straight-line basis over the shorter of their estimated useful lives, typically the period until the next major maintenance or inspection, and the estimated useful lives of the related property, plant and equipment.

Land is stated at cost, less any impairment in value.

Borrowing costs incurred for the construction of any qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are charged to expense.

Construction in-progress is recorded at cost and the related depreciation starts upon transfer to the appropriate account of the completed project.





Mine and mining properties also consist of the fair value attributable to mineral reserves and the portion of mineral resources considered to be probable of economic extraction at the time of an acquisition. When a mine construction project moves into the production phase, the capitalization of certain mine construction costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions, improvements or new developments, underground mine development or mineable reserve development.

Depreciation on assets are calculated using the straight-line method to allocate the cost of each property, plant and equipment less its residual value, if any, over its estimated useful life, as follows:

Type of asset	Estimated useful life in years
Buildings and improvements	2-15
Plant machinery and equipment	2-20
Office furniture and fixtures	3-5

Mine exploration and development costs of mineral properties already in operations are capitalized as mine and mining property and are included in “Property, plant and equipment” account.

Depletion of mine and mining properties is computed based on ore extraction over the estimated volume of proved and probable ore reserves as estimated by the Parent Company’s mine engineer or geologist and certified by a competent person.

The estimated recoverable reserves, depreciation and depletion methods applied are reviewed at the end of reporting period to ensure that the estimated recoverable reserves, depreciation and depletion methods are in line with expected pattern of consumption of the future economic benefits from PPE. If there has been significant change, the method shall be changed to reflect the changed pattern.

The property, plant and equipment’s residual values, if any, and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the property, plant and equipment’s carrying amount is greater than its estimated recoverable amount.

When assets are sold or retired, the cost and related accumulated depletion and depreciation, and accumulated impairment in value are removed from the accounts. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

Fully-depreciated property, plant and equipment are maintained in the accounts until these are no longer in use.

#### Mine Exploration Costs

Pre-license costs relate to costs incurred before the Group has obtained legal rights to explore in a specific area. These costs are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation expenditure is deferred as asset when future economic benefit is more likely than not be realized. These costs include materials and fuels used, surveying costs, drilling costs and payments made to contractors. The Group capitalizes any further evaluation costs incurred to exploration and evaluation assets up to the point when a commercial reserve is established.



In evaluating whether expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the possibility of future benefits depends on the extent of exploration and evaluation that has been performed.

Once commercial reserves are established, exploration and evaluation assets are tested for impairment and transferred to mine and mining properties. No amortization is charged during the exploration and evaluation phase. If the area is found to contain no commercial reserves, the accumulated costs are expensed.

#### Other Noncurrent Assets

Other noncurrent assets of the Group include the Mine Rehabilitation Fund (MRF) and funds to satisfy environmental obligations, deferred charges, intangible asset and various deposits. These are classified as noncurrent since the Group expects to utilize the assets beyond 12 months from the end of the reporting period.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the amortization expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

The Group's accounting software is calculated using the straight line method over its estimated useful life of five (5) years.

#### Impairment of Nonfinancial Assets

##### *Inventories*

The Group determines the NRV of inventories at each end of the reporting period. If the cost of the inventories exceeds its NRV, the asset is written down to its NRV and impairment loss is recognized in the consolidated statement of comprehensive income in the period the impairment incurred. In case the NRV of the inventories increased subsequently, the NRV will increase carrying amount of inventories but only to the extent of the impairment loss previously recognized.



#### *Property, Plant and Equipment and Other Nonfinancial Assets*

Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists, as when the carrying amount of an asset exceeds its recoverable amount, the asset or CGU is written down to its recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU to which it belongs. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Management has assessed its CGUs as being individual mines, which is the lowest level for which cash inflows are largely independent of those of other assets. Impairment losses are recognized in profit or loss. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated based on the life-of-mine plans. The estimated cash flows are based on expected future production, metal selling prices, operating costs and forecast capital expenditure, and cash flows beyond eight years are based on life-of-mine plans.

Value in use does not reflect future cash flows associated with improving or enhancing an asset's performance, whereas anticipated enhancements to assets are included in fair value less cost to sell calculations.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset/CGU in prior years. Such a reversal is recognized in the statement of profit or loss and other comprehensive income as other income.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

#### *Investments in Associates*

After application of the equity method for investment in associates, the Group determines whether it is necessary to recognize an additional impairment loss of the Group's investments in its associates. The Group determines at the end of the reporting period whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associate and



the acquisition cost and recognizes the amount in the consolidated statements of comprehensive income. Recoverable amount is determined as the higher between fair value less cost to sell and value in use.

#### *Mine Exploration Costs*

An impairment review is performed, either individually or at the CGU level, 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 financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation 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 and constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as part of finance costs in the statement of comprehensive income.

##### *Liability for Mine Rehabilitation*

Mine rehabilitation costs will be incurred by the Group either while operating, or at the end of the operating life of, the Group's facilities and mine properties. The Group assesses its liability for mine rehabilitation at each reporting date. The Group recognizes a liability for mine rehabilitation where it has a legal and constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mines and tailings dams; dismantling operating facilities; closing plant and waste sites; and restoring, reclaiming and revegetating affected areas.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining operation's location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred as a result of the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are recognized as part of the related inventory item. Additional disturbances which arise due to further development/construction at the mine are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) that is created on an ongoing basis during



production are provided for at their net present values and recognized in profit or loss as extraction progresses.

Changes in the estimated timing of rehabilitation or changes to the estimated future costs are dealt with prospectively by recognizing an adjustment to the rehabilitation liability and a corresponding adjustment to the asset to which it relates, if the initial estimate was originally recognized as part of an asset measured in accordance with PAS 16.

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of comprehensive income.

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

Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of comprehensive income as part of finance costs.

For closed sites, changes to estimated costs are recognized immediately in the statement comprehensive income.

The Group recognizes neither the deferred tax asset in respect of the temporary difference on the decommissioning liability nor the corresponding deferred tax liability in respect of the temporary difference on a decommissioning asset.

Rehabilitation trust funds committed for use in satisfying environmental obligations are included within “Other noncurrent assets” in the consolidated statement of financial position.

#### Stock Subscriptions Payable

Stock subscriptions payable pertains to the Group’s unpaid subscription to shares of stock of other entities. These are recognized and carried in the books at the original subscription price in exchange of which, the shares of stock will be issued.

#### Revenue Recognition

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

#### *Sale of Metals (i.e., Gold and Silver)*

Income from the sale of metals (i.e., gold and silver bullions) is recognized upon production. Net revenue is measured based on shipment value price based on quoted metal prices in the London Bullion Market, for both gold and silver, weight and assay content, less smelting and treatment charges. Contract terms for the Group’s sale of gold and silver bullion allow for a price adjustment based on final assay results of the metal in concentrate by the customer to determine the content.



The terms of metal sales contracts with third parties contain provisional pricing arrangements whereby the selling price is based on prevailing spot prices on a specified future date after shipment to the customer (the “quotation period”). Mark-to-market adjustments to the sales price occur based on movements in quoted market prices up to the date of final settlement, and such adjustments are recorded as part of revenue. The period between provisional invoicing and final settlement can be between one (1) and six (6) months. Provisional shipment up to 98% of total value for gold and silver based on provisional prices is collected upon shipment, while the remaining 2% for gold and silver is collected upon the determination of the final shipment value based on final weight and assay for metal content and prices during the applicable quotational period less applicable smelting and treatment charges.

#### *Service Fees*

Service fees are recognized upon performance of the services.

#### *Interest Income*

Interest income is recognized as it accrues using EIR method.

#### *Rental Income*

Rental income arising from operating leases on land is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

#### *Other Income*

Other income are miscellaneous income and expenses which are not directly related to the Group’s regular results of operations. These include interest income, gain on disposal of assets and gain due to retrenchment.

#### Cost and Expenses

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

#### Capital Stock and Additional Paid-in Capital (APIC)

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in the consolidated statements of changes in equity as a deduction from proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to APIC.

Where the Parent Company purchases its own shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity attributable to the Parent Company’s stockholders 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 attributable to the Parent Company’s stockholders.

#### Deposit for Future Stock Subscriptions

This pertains to the amount of cash and advances from stockholders 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.





#### Deficit

Deficit represents accumulated losses of the Group.

#### OCI

OCI comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the profit or loss for the year in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Earnings (Loss) Per Share (EPS)

Basic EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared and stock rights during the year.

Diluted EPS amounts are calculated by dividing the net income (loss) attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares. The Group has no dilutive potential common shares as at December 31, 2016 and 2015.

#### 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 at the date of inception. The arrangement is assessed to determine whether fulfilment is dependent on the use of a specific assets and the arrangement conveys a right to use the assets, even if those assets are not explicitly specified in an arrangement. The Group is not a lessor in any transactions, it is only lessee. 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 fulfilment 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 date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

##### *Operating Lease - Group as a Lessee*

Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

#### Employee Benefits

The net defined retirement benefits 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 retirement benefits liability or asset
- Remeasurements of net defined retirement benefits liability or asset

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

Net interest on the net defined retirement benefits liability or asset is the change during the period in the net defined retirement benefits 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 retirement benefits liability or asset. Net interest on the net defined retirement benefits liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets, and any change in the effect of the asset ceiling (excluding net interest on defined retirement benefits liability) are recognized immediately in OCI in the period in which they 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 and is shown as a separate item in equity under “Remeasurement loss on retirement benefits liability”.

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 they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined retirement benefits liability, 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 expenditure required to settle a defined retirement benefits liability is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### *Termination Benefit*

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

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



*Employee Leave Entitlement*

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Foreign Currency Transaction

Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transaction qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate of exchange at the end of the reporting period. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Income Taxes

*Current Income Tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the end of the reporting period.

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

*Deferred Income Tax*

Deferred income tax is provided, using the balance sheet method, on all temporary differences at the end of the reporting period 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, except:

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

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination



and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

Deferred income tax relating to items recognized in OCI or equity is recognized in OCI or equity and not in profit or loss.

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

#### Dividend Distribution

Dividend distribution to the Parent Company's stockholders and NCI is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved or declared by the Group's BOD.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingencies, if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

#### Events After the End of the Reporting Period

Events after the end of the reporting period that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the end of the reporting period that are not adjusting events are disclosed when material.



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### 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 disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments assumptions used in arriving at the estimates to change. The effects of any change in judgments and 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 involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

#### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and each of its Subsidiaries has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates.

The functional currency of the individual companies within the Group has been determined by the management based on the currency that most faithfully represents the primary economic environment in which the individual company operates and it is the currency that mainly influences the underlying transactions, events and conditions relevant to the individual companies within the Group.

#### *Classification of Financial Instruments*

The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of a financial asset, a financial liability or an equity instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

The Group has no intention of selling its investments in stocks in the near term. These are being held indefinitely and may be sold in response to liquidity requirements or changes in market condition. Accordingly, the Group has classified its investments in stocks as AFS financial assets.

The Group has no plans to dispose its AFS financial assets within 12 months from the end of the reporting period.

#### *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 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.

*Assessing Existence of Significant Influence*

In assessing whether significant influence still exists, the Group considered not only its percentage ownership but other factors such as the board seat representations it has in the associate's governing body and its interchange of managerial personnel with the associate, among others.

As at December 31, 2016, the Group assessed that it has significant influence over MMC and has accounted for the investment as an associate (see Note 11).

*Bill and Hold Sales*

The Group recognized sale on deliveries classified as bill and hold when there is transfer of risk and reward from the Group to the buyer due to the following:

- It is probable that delivery will be made;
- The item is on hand, identified and ready for delivery to the buyer at the time the sale is recognized;
- The buyer specifically acknowledges the deferred delivery instructions; and
- The usual payment terms apply.

*Mine Exploration Costs*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of a resource is itself an estimation process that requires varying degrees of uncertainty depending on sub-classification and these estimates directly impact the point of deferral of exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available. Mine exploration costs amounted to ₱6,302,261 and ₱6,521,173 as at December 31, 2016 and 2015, respectively (see Note 12).

*Revenue Recognition*

The Parent Company recognizes revenue from sale of metals (i.e. gold and silver bullions and copper concentrates) at the time these are delivered to buyer smelters. Revenue is measured based on shipment value based on quoted metal prices in the London Bullion Market or Shanghai Gold Exchange, for gold and silver, and weight and assay for metal content net of smelting and treatment charges. Provisional shipment values up to ninety 98% bullion while the remaining balance is collected upon determination of the final shipment value based on final weights and assays for metal content and prices during the applicable quotational period less deduction for smelting and treatment charges. Total recognized revenue relating to sale of metals amounted to ₱1,431,928, ₱1,146,416 and ₱1,428,634, net of smelting and treatment charges of ₱3,882, ₱3,214 and ₱2,853, in 2016, 2015 and 2014, respectively (see Note 29).



### Estimates and Assumptions

The Group's consolidated financial statements prepared in accordance with PFRS require management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's consolidated financial statements. Actual results could differ from such estimates.

#### *Estimating Allowances for Impairment Losses on Receivables*

The provision for impairment losses on receivables is based on the Group's assessment of the collectability of payments from customers, employees, other third parties and associates. This assessment requires judgment regarding the outcome of disputes and the ability of each of the debtors to pay the amounts owed to the Group. The Group assesses individually the receivable based on factors that affect the collectability of the receivables, such as the length of the relationship of the Group with the debtor, the historical payment behavior, a review of the age and status of its receivable, the probability of insolvency of the counterparty, as well as its significant financial difficulties.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. The Group assessments take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Receivables, net of provision for impairment losses, amounted to ₱241,474 and ₱306,755 as at December 31, 2016 and 2015, respectively (see Note 5).

#### *Estimating Allowance for Inventory Obsolescence*

Parts and supplies inventories, which are used in the Group's operations, are stated at the lower of cost or NRV. Allowance due to obsolescence is established when there is evidence that the equipment where the parts and supplies were originally purchased for are no longer in service. Materials which are non-moving or have become unusable are priced at their recoverable amount.

Inventories carried at lower of cost or NRV, amounted to ₱430,008 and ₱520,387 as at December 31, 2016 and 2015, respectively (see Note 6).

#### *Estimating Impairment on Property, Plant and Equipment and Other Nonfinancial Assets*

The Group assesses impairment on property, plant and equipment and other nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.





In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions such as commodity prices, discount rates and foreign currency exchange rates that can materially affect the consolidated financial statements. Commodity prices and foreign exchange rates are based on the current and forecasts in different banks. Discount rate estimate is computed using the weighted average cost of capital.

An impairment loss would be recognized whenever evidence exists that the recoverable amount is less than the carrying amount. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

The recoverable amount of the asset is determined as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is determined as the amount that would be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties, net of direct costs of selling the asset. When value in use has been undertaken, fair value is estimated by discounting the expected future cash flows using a discount factor that reflects the market rate for a term consistent with the period of expected cash flows.

The aggregate net book values of property, plant and equipment amounted to ₱7,195,819 and ₱6,974,495 as at December 31, 2016 and 2015, respectively (see Note 9).

The carrying amount of other nonfinancial assets, which include advances to officers and employees, advances to suppliers, other current assets and other noncurrent assets amounted to ₱1,058,226 and ₱1,136,617 as at December 31, 2016 and 2015, respectively.

*Estimating Impairment of Investments in and Advances to Associates*

The Group assesses whether there are any indicators of impairment for investments in and advances to associates at the end of the reporting period. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the investment is written down to its recoverable amount.

Investments in and advances to associates amounted to ₱561,205 and ₱566,831 as at December 31, 2016 and 2015, respectively (see Note 11).

*Estimating Impairment on AFS Financial Assets*

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Fair value of AFS financial assets amounted to ₱188,027 and ₱477,155 as at December 31, 2016 and 2015, respectively (see Note 10).

*Estimating Recoverability of Mine Exploration Costs*

Mineral property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration, evaluation and pre-feasibility costs are charged to "Mine exploration costs" until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized to mine and mining properties. The Group reviews the carrying values of its mineral property interests whenever events or changes in circumstances indicate that their carrying



values may exceed their estimated net recoverable amounts. Mine exploration costs amounted to ₱6,302,261 and ₱6,521,173 as at December 31, 2016 and 2015, respectively (see Note 12).

As at December 31, 2016, mine exploration costs capitalized to mine and mining properties amounted to ₱745,413 (see Note 12).

#### *Estimating Mineral Reserves and Resources*

Mineral reserves and resources estimates for development projects are, to a large extent, based on the interpretation of geological data obtained from drill holes and other sampling techniques and feasibility studies which derive estimates of costs based upon anticipated tonnage and grades of ores to be mined and processed, the configuration of the ore body, expected recovery rates from the ore, estimated operating costs, estimated climatic conditions and other factors. Proven reserve estimates are attributed to future development projects only where there is a significant commitment to project funding and extraction and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. All proven reserve estimates are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including product prices, contract terms or development plans.

Estimates of reserves for undeveloped or partially developed areas are subject to greater uncertainty over their future life than estimates of reserves for areas that are substantially developed and depleted. As an area goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available. As those areas are further developed, new information may lead to revisions. The estimated recoverable reserves are used in the calculation of depletion, depreciation, amortization and testing for impairment, the assessment of life of mine, and forecasting the timing of the payment of provision for mine rehabilitation and decommissioning. As at December 31, 2016 and 2015, mine and mining properties presented under property, plant and equipment amounted to ₱5,899,019 and ₱5,628,542, respectively (see Note 9).

#### *Assessing Recoverability of Deferred Tax Assets*

The Group reviews the carrying amounts of deferred income tax assets at the end of the reporting period and reduces the amounts to the extent that it is no longer probable that sufficient future taxable profit and taxable temporary timing differences will be available to allow all or part of the deferred income tax assets to be utilized.

The Group has deferred income tax assets amounting to ₱419,371 and ₱431,716 as at December 31, 2016 and 2015, respectively (see Note 18). No deferred income tax assets were recognized for temporary differences amounting to ₱1,374,622 and ₱1,159,554 as at December 31, 2016 and 2015, respectively, since there is no assurance that the Group will generate sufficient future taxable income to allow all or part of its deferred income tax assets to be utilized (see Note 18).

#### *Retirement Benefit Expense*

The cost of defined retirement obligation as well as the present value of the defined benefit obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, expected rates of return on assets, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each end of the reporting period. As at December 31, 2016 and 2015, the retirement benefits liability of the Group amounted to ₱1,682,674 and ₱1,782,137, respectively. Net retirement costs



amounted to ₱136,857, ₱90,197 and ₱115,400 in 2016, 2015 and 2014, respectively (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 obligation. Further details about the assumptions used are provided in Note 16.

*Estimating Liability for Mine Rehabilitation Cost*

The ultimate cost of mine rehabilitation and decommissioning is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience. The expected timing of expenditure can also change, for example in response to changes in ore reserves or production rates. As a result, there could be significant adjustments to the provision for mine rehabilitation and decommissioning, which would affect future financial results.

The provision for mine rehabilitation and decommissioning costs is based on estimated future costs using information available at the end of the reporting period. To the extent the actual costs differ from these estimates, adjustments will be recorded and the profit or loss may be impacted. As at December 31, 2016 and 2015, provision for mine rehabilitation and decommissioning amounted to ₱64,748 and ₱65,095, respectively (see Note 15).

*Estimating Fair Values of Financial Assets and Liabilities*

PFRS requires that certain financial assets and liabilities be carried at fair value, which requires the use of accounting judgment and estimates. While significant components of fair value measurement are determined using verifiable objective evidence (e.g. foreign exchange rates, interest rates, volatility rates), the timing and amount of changes in fair value would differ with the valuation methodology used. Any change in the fair value of these financial assets and liabilities would directly affect the consolidated statements of comprehensive income.

*Estimating Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events (see Note 30).

#### 4. Cash

	2016	2015
Cash on hand	<b>₱1,384</b>	₱1,241
Cash with banks	<b>84,850</b>	65,146
	<b>₱86,234</b>	₱66,387

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

Interest income earned from cash in banks amounted to ₱110, ₱348 and ₱360 in 2016, 2015 and 2014, respectively.

The Group has United States dollar-(US\$) denominated cash in banks amounting to US\$601 and US\$796 as at December 31, 2016 and 2015, respectively (see Note 31).



## 5. Receivables

	2016	2015
Trade	<b>₱116,376</b>	₱74,894
Nontrade	<b>137,543</b>	235,016
Officers and employees	<b>3,694</b>	7,625
	<b>257,613</b>	317,535
Less allowance for impairment losses	<b>16,139</b>	10,780
	<b>₱241,474</b>	₱306,755

Trade receivables include the Parent Company's receivables arising from its shipments of gold and silver to refinery and smelter customer under the Refining Agreements (RA; see Note 29).

Nontrade and other receivables comprise mainly of receivables from subcontractors and other third parties, while receivables from officers and employees pertain to cash advances made by employees for the operations of the Group. Unliquidated receivables from officers and employees are collectible on demand or considered as salary deduction.

Trade, nontrade and receivables from officers and employees are non-interest bearing and are generally collectible on demand.

Most of the receivables of the Group consist of individually significant accounts and were therefore subject to the specific impairment approach. The Group recognized allowance for impairment losses amounting to ₱16,139 and ₱10,780 as at December 31, 2016 and 2015, respectively, covering those receivables specifically identified as impaired. Receivables which were not individually significant and individually significant loans for which no specific impairment were assessed were subjected to collective assessment. Based on the assessment done, the Group has not recognized any provision for receivables which were assessed collectively.

Provision for impairment losses on receivables amounting to ₱5,359, ₱257 and ₱314 were recognized by the Group in 2016, 2015 and 2014, respectively (see Note 24).

Movements of allowance for impairment losses are as follows:

	2016	2015
Balance at beginning of year		
Trade	<b>₱10,263</b>	₱10,249
Nontrade	<b>517</b>	537
Provision during the year (Note 24)	<b>5,359</b>	257
Write-off	—	(263)
Balance at end of year	<b>₱16,139</b>	₱10,780

The Group has US\$-denominated trade receivables amounting to US\$1,291 and US\$1,185 as at December 31, 2016 and 2015, respectively (see Note 31).



## 6. Inventories

	2016	2015
Parts and supplies:		
On hand (at NRV)	<b>₱430,008</b>	₱520,280
In-transit (at cost)	–	107
	<b>₱430,008</b>	<b>₱520,387</b>

Parts and supplies on hand include materials and supplies stored in Metro Manila, Bulacan, Mankayan and Leyte. Cost of parts and supplies on hand at NRV amounted to ₱477,339 and ₱565,164 as at December 31, 2016 and 2015, respectively.

Movements in allowance for inventory obsolescence on parts and supplies on hand in 2016 and 2015 are as follow:

	2016	2015
Balances at beginning of year	<b>₱44,777</b>	₱43,577
Provision during the year (see Note 22)	<b>2,554</b>	1,200
Balances at end of year	<b>₱47,331</b>	<b>₱44,777</b>

Parts and supplies inventories charged to profit and loss under “Consumables and supplies” account amounted to ₱325,662, ₱174,937 and ₱329,367 in 2016, 2015 and 2014, respectively (see Notes 22, 23 and 24).

## 7. Advances to Suppliers and Contractors

Advances to suppliers and customers are non-financial assets arising from advanced payments made by the Group to its suppliers and contractors before goods and services have been received or rendered. These are classified as current since these are expected to be offset against future short-term billings and are recognized in the books at the amounts initially paid.

Advances to suppliers and contractors are attributable to contracts generally requiring advance payments. Amounts deposited will be applied as part of the full payment of the contract price upon completion of the contract.

As at December 31, 2016 and 2015, the Group has advances to suppliers and contractors amounting to ₱335,866 and ₱442,810, respectively. These advances will be offset against future billings.

## 8. Other Current Assets

	2016	2015
Creditable input VAT	<b>₱594,898</b>	₱570,734
Prepaid expenses	<b>29,157</b>	18,821
Deferred costs	<b>14,302</b>	20,873
Others	<b>3,136</b>	4,313
	<b>₱641,493</b>	<b>₱614,741</b>

By virtue of Revenue Memorandum Order 9-2000 dated March 29, 2000, all sales of goods, property and services made by a VAT-registered person to the Parent Company, being a 100% exporter, are automatically zero-rated for VAT purposes effective August 8, 2001.



Input VAT represent VAT paid on purchases of applicable goods and services, net of output tax, which can be claimed for refund or recovered as tax credit against certain future tax liability of the Group upon approval by the BIR and/or the Philippine Bureau of Customs.

Prepaid expenses include advance payments for taxes, insurance, rent and other services.

Deferred costs represent withdrawal of tubings to be used in drilling operations. Costs of which are amortized based on meters drilled.

Others pertain to rental deposits that are refundable at the end of the lease term.

## 9. Property, Plant and Equipment - net

	2016					
	Mine and mining properties	Buildings and improvements	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in-progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱9,893,068	₱568,188	₱3,229,256	₱768,400	₱45,477	₱14,504,389
Additions	37,433	5,794	225,489	—	15,764	284,480
Transfers	—	4,700	17,063	—	(21,763)	—
Capitalized cost of mine and mining properties	745,413	—	—	—	—	745,413
Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 9)	(3,228)	—	—	—	—	(3,228)
Retirements/disposals	—	(5,811)	(221,932)	(54,931)	—	(282,674)
<b>Balances at end of year</b>	<b>10,672,686</b>	<b>572,871</b>	<b>3,249,876</b>	<b>713,469</b>	<b>39,478</b>	<b>15,248,380</b>
<b>Accumulated depletion, depreciation and amortization:</b>						
Balances at beginning of year	4,264,526	430,654	2,810,782	—	—	7,505,962
Depletion, depreciation and amortization	509,141	31,540	209,093	—	—	749,774
Retirements and disposals	—	(5,493)	(221,614)	—	—	(227,107)
<b>Balances at end of year</b>	<b>4,773,667</b>	<b>456,701</b>	<b>2,798,261</b>	<b>—</b>	<b>—</b>	<b>8,028,629</b>
<b>Allowance for impairment:</b>						
Balances at beginning and end of year	—	19,241	4,691	—	—	23,932
<b>Net book values</b>	<b>₱5,899,019</b>	<b>₱96,929</b>	<b>₱446,924</b>	<b>₱713,469</b>	<b>₱39,478</b>	<b>₱7,195,819</b>

	2015					
	Mine and mining properties	Buildings and improvements	Plant, machinery, equipment, and office furniture and fixtures	Land	Construction in-progress	Total
<b>Cost:</b>						
Balances at beginning of year	₱9,587,855	₱539,853	₱2,993,799	₱768,336	₱77,780	₱13,967,623
Additions	298,262	16,121	247,495	64	(20,647)	541,295
Transfers	(1,961)	12,214	1,403	—	(11,656)	—
Retirements/disposals	—	—	(13,441)	—	—	(13,441)
Adjustment to capitalized cost of mine rehabilitation and decommissioning (Note 9)	8,912	—	—	—	—	8,912
<b>Balances at end of year</b>	<b>9,893,068</b>	<b>568,188</b>	<b>3,229,256</b>	<b>768,400</b>	<b>45,477</b>	<b>14,504,389</b>
<b>Accumulated depletion, depreciation and amortization:</b>						
Balances at beginning of year	3,806,673	399,988	2,602,568	—	—	6,809,229
Depletion, depreciation and amortization	457,853	30,666	220,222	—	—	708,741
Retirements and disposals	—	—	(12,008)	—	—	(12,008)
<b>Balances at end of year</b>	<b>4,264,526</b>	<b>430,654</b>	<b>2,810,782</b>	<b>—</b>	<b>—</b>	<b>7,505,962</b>
<b>Allowance for impairment:</b>						
Balances at beginning and end of year	—	19,241	4,691	—	—	23,932
<b>Net book values</b>	<b>₱5,628,542</b>	<b>₱118,293</b>	<b>₱413,783</b>	<b>₱768,400</b>	<b>₱45,477</b>	<b>₱6,974,495</b>



Prior to 2005, the Group adopted the revaluation model and engaged an independent firm of appraisers to determine the fair value of its land classified under “property, plant and equipment” in the consolidated statement of financial position, which is equal to the amount in terms of money at which the property would exchange in the current real estate market, between willing parties both having knowledge of all relevant facts. The fair value was estimated using the market data approach, which is based on sales and listings of comparable property registered within the vicinity that considered factors such as location, size and shape of the properties.

In adopting the revaluation model, the Group applied the fair value as deemed cost exemption under PFRS 1, *First-time Adoption of PFRS*, to measure the Group’s land at fair value at January 1, 2004. In 2012, the Group closed out the revaluation increment amounting to ₱511,504 as at January 1, 2010 to retained earnings. The revaluation reserve pertains to the remaining deemed cost adjustment on its land when the Group transitioned to PFRS in 2005 (see Note 30).

Mine and mining properties include provision for mine rehabilitation and decommissioning amounting to ₱44,759 and ₱56,014 as at December 31, 2016 and 2015, respectively.

The rates used by the Parent Company in computing depletion are ₱1,967, ₱1,758 and ₱1,200 per ton in 2016, 2015 and 2014, respectively, as a result of the costs capitalized under “Mine and mining properties” for the development of the Victoria Project.

Construction in-progress pertains to various mining operations requirements that undergo in-house constructions and fabrications in Mankayan. As at December 31, 2016 and 2015, the Group transferred construction in-progress amounting to ₱21,763 and ₱11,656, respectively, to buildings and improvements, and plant, machinery, equipment, office furniture and fixtures.

As at December 31, 2016, the Group capitalized inventories amounted to ₱70,698 to “Plant, machinery, equipment and office furniture and fixtures”.

Fully depreciated property, plant and equipment are retained in the books until they are no longer in use. The cost of fully depreciated property, plant and equipment still being used in operations amounted to ₱2,893,429 and ₱2,263,356 as at December 31, 2016 and 2015, respectively.

## 10. AFS Financial Assets

The Group’s AFS financial assets consist of investments in:

	2016	2015
Quoted equity shares	<b>₱57,343</b>	₱346,471
Unquoted equity shares	<b>130,684</b>	130,684
	<b>₱188,027</b>	₱477,155

The following table shows the movement of “Net unrealized gain (loss) on AFS financial assets” shown as a separate component of equity.

	2016	2015
Balance at beginning of year	<b>(₱44,735)</b>	(₱251,516)
Unrealized gains on AFS financial assets during the year	<b>19,532</b>	206,781
Unrealized loss reclassified to profit or loss (Note 28)	<b>63,868</b>	—
Balance at end of year	<b>₱38,665</b>	(₱44,735)





AFS financial assets in quoted equity shares pertain to investment in common shares of various local public companies and golf club shares. Quoted shares are carried at fair value with cumulative changes in fair value presented as “Net unrealized gain (loss) on AFS financial assets”, a separate component in equity.

AFS financial assets in unquoted equity shares pertain to investments in private local companies and therefore have no fixed maturity date or coupon rate. Unquoted shares have been carried at cost less any impairment losses since fair value of AFS financial assets cannot be reliably determined as they have no available exit market price.

In 2014, SI disposed its quoted equity shares which pertain to 100,000 shares of Cebu Air, Inc. amounting to ₱4,685.

In 2014, the Parent Company, together with its subsidiaries, LIDC and SI, redeemed their quoted and unquoted equity shares pertaining to 24,525 shares of Philippine Long Distance Telephone Company amounting to ₱104.

Dividend income earned by the Group amounted to nil in 2016 and 2015 and ₱75 in 2014.

The Parent Company executed a deed of assignment in favor of LCMC Employee Pension Plan (“the Plan”) on December 22, 2016 covering 160,568,775 of 180,000,000 of its Prime Orion Philippines, Inc. shares for a total consideration of ₱308,292.

Further, the unrealized loss in OCI amounted to ₱63,868 which is reclassified to profit or loss in 2016 (see Note 28). The obligation to pay the balance of stocks subscriptions payable of ₱96,341 has been agreed and accepted by the Plan.

As at December 31, 2016, the Group has no intention to dispose its unquoted equity shares. The aggregate cost of these investments amounted to ₱130,684 as at December 31, 2016 and 2015.

#### *Loss of Significant Influence in Investment in Philfire*

During 2015, management assessed that the Group has no significant influence over its investment in Philfire due to the loss of representation in the BOD (see Note 11). As a result, the Group discontinued the use of equity method of accounting for its investment in Philfire and reclassified the investment in Philfire to AFS financial assets effective July 1, 2015. The carrying amount of the investment at the date the equity method was discontinued amounted to ₱81,982.

## **11. Investments in and Advances to Associates**

<b>2016</b>	<b>MMC</b>
<b>Acquisition cost:</b>	
<b>Balance at beginning and end of year</b>	<b>₱518,426</b>
<b>Accumulated equity:</b>	
<b>Share in net earnings (loss):</b>	
Balance at beginning of year	46,922
Net loss	(6,752)
Unrealized gain on AFS financial assets	369
<b>Balance at the end of year</b>	<b>40,539</b>
<b>Investments in associate</b>	<b>558,965</b>
<b>Advances to associate (Note 17)</b>	<b>2,240</b>
	<b>₱561,205</b>



2015	Makeway	MMC	PhilFire	Total
Acquisition cost:				
Balances at beginning of year	₱15,000	₱518,426	₱19,437	₱552,863
Disposals	(15,000)	–	(19,437)	(34,437)
Balances at end of year	–	518,426	–	518,426
Accumulated equity:				
Share in net earnings (loss):				
Balances at beginning of year	(7,830)	63,136	71,732	127,038
Net loss	–	(15,604)	(4,975)	(20,579)
Disposals	7,830	–	(63,069)	(55,239)
Unrealized loss on AFS financial assets	–	(610)	(3,688)	(4,298)
Balances at the end of year	–	46,922	–	46,922
Investments in associate	–	565,348	–	565,348
Advances to associate (Note 17)	–	1,483	–	1,483
	₱–	₱566,831	₱–	₱566,831

#### *Investment in Makeway*

Makeway is domestic corporation engaged primarily in the business of handling in bulk all kinds of materials, products, and supplies capable of being handled by any type of loading and unloading equipment. Its principal place of business is at 5th floor Lepanto Building, 8747 Paseo de Roxas, Makati City.

The Group has realized 30% ownership in Makeway as at December 31, 2014. The investment in Makeway is measured using the equity method and financial statements are prepared for the same financial reporting period as the Group.

During 2015, the Group disposed all of its investments in Makeway for a consideration of ₱12,285. As a result, the Group recognized a gain on disposal amounting to ₱5,115 (see Note 28).

#### *Investment in Philfire*

Philfire is a domestic corporation engaged primarily in the business of nonlife insurance. Its principal place of business is at 5th floor, Lepanto Building, 8747 Paseo de Roxas, Makati City.

As at December 31, 2016 and 2015, investment in Philfire is recognized under AFS financial asset.

The Group has 12.38% effective ownership in Philfire as at December 31, 2015. The investment in Philfire is measured using the equity method and prepares financial statement for the same financial reporting period as the Group. Due to loss of significant influence, the Group classified Philfire as AFS financial assets effective July 1, 2015 and the investment is measured at fair value.

In 2014, Philfire increased its capital stock by issuing additional 17,000,000 shares, but the Group did not subscribe to the additional capital stock which resulted in a further dilution in its interest in Philfire. Further, the Group assessed the loss of significant influence over Philfire due to the loss of significant representation in Philfire's board of directors.

#### *Investment in MMC*

The Group effectively has 19.60% ownership in MMC in 2016 and 2015. Thus, the Group assessed that it still has significant influence over MMC due to the following:

- The Group has four (4) out of nine (9) board seats and three (3) out of nine (9) representations; and
- The Group has at least nine (9) and three (3) managerial personnel serving as part of MMC's corporate management.



The Group measured the investment under the equity method and prepares financial statements for the same financial reporting period as the Group.

As at December 31, 2016, the fair value of MMC shares A and B amounted to ₱0.011 and ₱0.012, respectively. As at December 31, 2015, the fair value of MMC shares A and B amounted to ₱0.01. Fair market value of the investment in MMC amounted to ₱592,952 and ₱508,780 as at December 31, 2016 and 2015, respectively.

On April 30, 2014, the PSE BOD approved the application covering the Offer Shares of MMC. The Parent Company, LIDC, and SI exercised their respective preemptive rights corresponding to an aggregate additional investment of ₱136,605.

The following table illustrates summarized financial information of the Group's investments in associates:

<b>2016</b>	<b>MMC</b>	
<b>Assets:</b>		
<b>Current Assets</b>		<b>₱247,126</b>
<b>Noncurrent Assets</b>		<b>2,942,727</b>
<b>Total Assets</b>		<b>3,189,853</b>
<b>Liabilities:</b>		
<b>Current Liabilities</b>		<b>138,527</b>
<b>Noncurrent Liabilities</b>		<b>68,904</b>
<b>Total Liabilities</b>		<b>207,431</b>
<b>Net Assets</b>		<b>₱2,982,422</b>
<b>Net Loss</b>		<b>(₱34,449)</b>
<b>2015</b>	<b>MMC</b>	<b>PhilFire*</b>
<b>Assets:</b>		
<b>Current Assets</b>	<b>₱345,517</b>	<b>₱462,148</b>
<b>Noncurrent Assets</b>	<b>2,876,786</b>	<b>194,603</b>
<b>Total Assets</b>	<b>3,222,303</b>	<b>656,751</b>
<b>Liabilities:</b>		
<b>Current Liabilities</b>	<b>139,340</b>	<b>401,778</b>
<b>Noncurrent Liabilities</b>	<b>67,977</b>	<b>60,595</b>
<b>Total Liabilities</b>	<b>207,317</b>	<b>462,373</b>
<b>Net Assets</b>	<b>₱3,014,986</b>	<b>₱194,378</b>
<b>Net Loss</b>	<b>(₱79,618)</b>	<b>(₱28,180)</b>

\*June 30, 2015 balances

## 12. Mine Exploration Costs

	<b>2016</b>	<b>2015</b>
Balance at beginning of year	<b>₱6,521,173</b>	<b>₱6,125,219</b>
Additions	<b>526,501</b>	<b>395,954</b>
	<b>7,047,674</b>	<b>6,521,173</b>
Capitalized to mine and mining properties	<b>(745,413)</b>	<b>—</b>
Balance at end of year	<b>₱6,302,261</b>	<b>₱6,521,173</b>



Pursuant to the agreement between Gold Fields Limited, FSGRI and the Parent Company, ongoing exploration and pre-development expenses are being incurred on the Far Southeast Project (see Note 30).

Depreciation expense capitalized as part of mine exploration costs in 2016 and 2015 amounted to ₱13,560 and ₱23,863, respectively.

No allowance for impairment losses on mine exploration costs was recognized in 2016 and 2015.

### 13. Trade and Other Payables

	2016	2015
Trade	<b>₱987,508</b>	₱870,679
Accrued expenses and other liabilities	<b>293,569</b>	253,390
Trust receipts	<b>53,423</b>	110,358
Due to related parties (Note 17)	<b>56,084</b>	56,084
Employee related expenses	<b>50,894</b>	48,394
Payable to regulatory authorities	<b>29,543</b>	30,718
Unclaimed dividends	<b>26,695</b>	26,699
Accrued utilities	<b>32,815</b>	19,629
Accrued production tax	<b>7,702</b>	6,603
	<b>₱1,538,233</b>	₱1,422,554

Nature, terms and conditions of the Group's liabilities:

- Trade payables include import and local purchases of equipment and inventories such various parts and supplies used in the operations of the Group. These are non-interest bearing and are normally settled on sixty (60) days' terms.
- Accrued expenses and other liabilities are noninterest-bearing and are normally settled on a thirty (30) to sixty (60) days' term. These include other operating expenses that are payable to various suppliers and contractors.
- Trust receipts refer to arrangements of the Group with banks related to its importations of inventories and various equipment which are interest bearing and have an average term of ninety (90) to one hundred twenty (120) days.
- Employee related expenses include unclaimed wages, accrued vacation and sick leave and accrued payroll. These are non-interest bearing and are payable in thirty (30) days' term.
- Unclaimed dividends pertain to unpaid cash dividends declared by the Parent Company to its stockholders. These are non-interest bearing and are payable upon demand of the payee.
- Payable to regulatory agencies include withholding taxes and other government contributions related to employees of the Group. These are non-interest bearing and are normally remitted within ten (10) days from the close of each month.
- Accrued utilities pertain to unpaid billings for power, communication, light and water charges. These are non-interest bearing and are normally settled within thirty (30) to ninety (90) days.
- Accrued production taxes pertain to excise taxes on metal sales. These are non-interest bearing and are settled within fifteen (15) days after the end of each quarter.

Interest incurred on trust receipts and export advances amounted to ₱22,528, ₱21,165 and ₱22,942 in 2016, 2015 and 2014, respectively (see Note 27).



The Group has US\$-denominated trade and other payables amounting to US\$8,992 and US\$8,276 as at December 31, 2016 and 2015, respectively. The Group has Australian dollar (AU\$)-denominated trade and other payables amounting to AU\$1 and AU\$371 as at December 31, 2016 and 2015, respectively (see Note 31).

#### 14. Short-term and Long-term Debt and other Interest-bearing Liabilities

	2016	2015
Gold Delivery Agreement (US\$1,000 in 2016 and 2015)	<b>₱49,720</b>	₱47,060
Obtained from Local Bank US\$-denominated loans (US\$369 in 2016)	<b>18,345</b>	—
Total borrowings	<b>68,065</b>	47,060
Less current portion/short term-borrowings	<b>68,065</b>	—
	<b>₱—</b>	<b>₱47,060</b>

##### Gold Delivery Agreement (GDA):

In December 1998, the Parent Company entered into a Loan and Hedging Facilities Agreement (the Agreement) with NM Rothschild & Sons (Australia) Ltd. (Rothschild) and Dresdner Bank AG (Dresdner) which provides for borrowings up to US\$30 million and hedging facility up to 300,000 ounces of gold as may be agreed upon by the parties up to December 2002. A minimum hedging amount of 250,000 ounces was imposed to secure the payment of the loan. The loan was intended to finance the working capital requirements of the Victoria Project (see Note 1).

The loan was secured by real and chattel mortgages of all the Parent Company's present and future properties and its rights, title and interests under the Mineral Production Sharing Agreement (MPSA) with the Philippine Government in connection with the Victoria Project. The Agreement contains certain covenants which include, among others, payment of interest, the maintenance of certain financial and project ratios such as debt service, loan life, project life, total liabilities to net worth and current ratios; prohibition from incurring additional long-term indebtedness; limitation on certain advances or loans; and restrictions as to substantial asset sales, capital expenditures and cash dividends.

The Agreement was first amended in 2000, and further amended in 2002 principally with respect to the repayment of the loan. The 2002 deed of amendment provides for the extension of the loan agreement up to September 2007. As at December 31, 2004, the loans obtained from Rothschild and Dresdner have been fully paid.

In accordance with the hedging facility, the Parent Company entered into various forward gold contracts with Rothschild and Dresdner (Lenders) which provide for the buying or selling of gold in fixed quantities at certain fixed prices for delivery in various maturity dates in the future. Any gains or losses on the forward sales contracts are recognized upon closing of the pertinent contracts. At December 31, 2004, the Parent Company's forward gold contracts to sell 169,043 ounces of gold at an average price of US\$295 per ounce will mature on various dates in the future and are being rolled forward relative to the ongoing discussion with Lenders. These contracts had a negative mark-to-market valuation of US\$24 million based on the spot rate of US\$437 per ounce as at December 31, 2004.



The Parent Company does not recognize any derivative financial liability under the hedging contracts with Dresdner. After months of discussion and negotiations, the Parent Company and Dresdner agreed in December 2005 on a commercial resolution to their controversy which was formalized through a GDA that was signed on January 25, 2006. Under the GDA, a gold loan of about US\$14 million shall be repaid by way of minimum monthly installments starting from February 1, 2006 up to September 30, 2009 of the cash equivalent in US\$ of 200 ounces of gold computed at the spot price in the market and any remaining balance to be fully repaid by the final delivery on September 30, 2009. The Parent Company also has an option to settle by delivery of quantity of gold.

The GDA contains certain covenants, which include, among others, payment of interest, strict compliance with regulatory provisions regarding internal revenue taxes and environmental requirements, restrictions in the incurrence of indebtedness and certain derivative transactions, limitation in the disposal and transfer of assets and prohibitions in the purchase of issued shares, reduction in capital and issuance of shares other than for cash or make a distribution of assets or other capital to its stockholders.

As from September 28, 2010, the rights of Commerzbank AG (Commerzbank; formerly constituted as Dresdner Bank AG) under the GDA have been transferred to Statham Capital Corporation (Statham). Accordingly, Statham is substituted for Commerzbank as the financier under the GDA. An amendment to the GDA was entered into by the Parent Company. On October 5, 2010, a moratorium was agreed on, providing for the resumption of monthly deliveries of 200 ounces in January 2011 and a final delivery date of December 31, 2011. Total amount under the GDA is US\$10,027.

On February 10, 2011, another moratorium and restructure agreement was entered into by the Parent Company. This resulted in a reduction in the total outstanding liability, with the corresponding gain included in "Service fees and other operating income" in the consolidated statements of comprehensive income. In 2014, the Parent Company and Statham entered into another restructure agreement wherein the due date was extended to 2017. As at December 31, 2016 and 2015, the remaining obligation owing to Statham under the GDA amounting to US\$1,000 is payable on December 31, 2017.

The Parent Company filed a civil case against Rothschild for the declaration of the nullity of the forward gold contracts to sell 97,476 ounces of gold. Rothschild filed a motion to dismiss and this was denied by the Regional Trial Court (RTC) and subsequently by the Court of Appeals in December 2006. Rothschild elevated the matter to the Supreme Court (SC) in February 2007.

On November 28, 2011, the SC denied the Motion to Dismiss of Rothschild and upheld the jurisdiction of the RTC over the person of Rothschild in the case for nullity of hedging contracts filed by the Parent Company in 2005. The case is in trial stage, and the Parent Company has completed its presentation of evidence.

#### Bank Loans

Borrowings from a local bank are all clean loans with interest rates ranging from 5.00% in 2016 and 5.00% to 7.00% in 2015.

In September 2016, the Parent Company obtained credit accommodations from the Bank of Commerce which turned past due and had an outstanding principal balance in the total amount of US\$432, exclusive of interest and penalties as of May 31, 2016, evidenced by trust receipts. Total interest on the above mentioned loans for the years 2016 and 2015 amounted to ₱886 and ₱3,222, respectively (see Note 27).



## 15. Liability for Mine Rehabilitation Cost

	2016	2015
Balance at beginning of year	<b>₱65,095</b>	₱53,830
Effect of change in estimate (Note 9)	<b>(3,228)</b>	8,912
	<b>61,867</b>	62,742
Accretion of interest (Note 27)	<b>2,881</b>	2,353
Balance at end of year	<b>₱64,748</b>	₱65,095

The Parent Company makes a full provision for the future cost of rehabilitating the mine site and other future costs on a discounted basis amounting to ₱64,748 and ₱65,095 as at December 31, 2016 and 2015, respectively. Provision for mine rehabilitation and decommissioning represents the present value of future rehabilitation and other costs. 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 basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual costs will ultimately depend upon future market prices for the necessary works required which will reflect market conditions at the relevant time. Furthermore, the timing of the rehabilitation and expenditure of other costs is likely to depend on when the mine ceases to produce at economically viable rates, and the timing that the event for which the other provisions provided for will occur.

Discount rate used by the Parent Company is 4.63% and 4.37% in 2016 and 2015, respectively.

## 16. Retirement Plan

The Parent Company and DMTC have funded, noncontributory defined benefit retirement plans covering substantially all regular employees, while DDCP, FSGRI and SI have unfunded defined benefit retirement plans. Benefits are dependent on the years of service and the respective employee's compensation. The defined benefit retirement obligation is determined using the projected unit credit method.

The amounts of defined benefit retirement expense recognized in the consolidated statements of comprehensive income follow:

	2016			2015			2014		
	Funded	Unfunded	Total	Funded	Unfunded	Total	Funded	Unfunded	Total
Current service cost (Note 25)	<b>₱57,327</b>	<b>₱3,989</b>	<b>₱61,316</b>	₱66,347	₱6,858	₱73,205	₱58,869	₱1,158	₱60,027
Interest cost - net (Note 27)	<b>72,304</b>	<b>3,237</b>	<b>75,541</b>	80,254	2,623	82,877	53,567	1,806	55,373
Gain on retrenchment	—	—	—	(65,885)	—	(65,885)	—	—	—
	<b>₱129,631</b>	<b>₱7,226</b>	<b>₱136,857</b>	₱80,716	₱9,481	₱90,197	₱112,436	₱2,964	₱115,400

The Group has current service costs capitalized to mine exploration costs amounted to ₱906 in 2016 and nil in 2015 and 2014. Further, interest costs capitalized to mine exploration costs in 2016 and 2015 amounted to ₱202 and nil, respectively.





The amounts of remeasurement gain (loss) recognized in the consolidated other comprehensive income follow:

	2016	2015	2014
Remeasurement gain (loss) on retirement	<b>₱148,956</b>	₱106,443	(₱369,530)
Less deferred tax	<b>(44,686)</b>	(31,933)	110,859
Remeasurement gain (loss) on retirement liability, net of tax	<b>₱104,270</b>	₱74,510	(₱258,671)

The amounts of defined benefit retirement obligation recognized in the consolidated statements of financial position follow:

	Funded			Unfunded	
	Defined Benefit Liability	Fair Value of Plan Assets	Net Defined Benefit Liability	Defined Benefit Liability	Total
<b>2016</b>					
Balances at beginning of year	<b>₱1,867,725</b>	<b>₱159,309</b>	<b>₱1,708,416</b>	<b>₱73,721</b>	<b>₱1,782,137</b>
Interest cost/income	79,044	6,740	72,304	3,237	75,541
Current service cost	57,327	—	57,327	3,989	61,316
Benefits paid	(84,968)	(84,968)	—	(2,916)	(2,916)
Actuarial gain/loss:					
Change in financial assumptions	(92,154)	61,529	(153,683)	(7,098)	(160,781)

	Funded			Unfunded	
	Defined Benefit Liability	Fair Value of Plan Assets	Net Defined Benefit Liability	Defined Benefit Liability	Total
<b>2016</b>					
Change in demographic assumptions	(₱80,664)	₱—	(₱80,664)	₱—	(₱80,664)
Experience adjustment	85,369	—	85,369	7,119	92,488
Contributions	—	84,447	(84,447)	—	(84,447)
Balances at end of year	<b>₱1,831,679</b>	<b>₱227,057</b>	<b>₱1,604,622</b>	<b>₱78,052</b>	<b>₱1,682,674</b>

	Funded			Unfunded	
	Defined Benefit Liability	Fair Value of Plan Assets	Net Defined Benefit Liability	Defined Benefit Liability	Total
<b>2015</b>					
Balances at beginning of year	<b>₱2,077,348</b>	<b>₱202,078</b>	<b>₱1,875,270</b>	<b>₱66,005</b>	<b>₱1,941,275</b>
Interest cost/income	88,903	8,649	80,254	2,623	82,877
Current service cost	66,347	—	66,347	6,858	73,205
Benefits paid	(138,874)	(138,874)	—	(3,659)	(3,659)
Gains due to retrenchment	(65,885)	—	(65,885)	—	(65,885)
Actuarial gain/loss:					
Change in financial assumptions	(25,568)	(51,777)	26,209	(2,480)	23,729
Change in demographic assumptions	(263,415)	—	(263,415)	1,557	(261,858)
Experience adjustment	128,869	—	128,869	2,817	131,686
Contributions	—	139,233	(139,233)	—	(139,233)
Balances at end of year	<b>₱1,867,725</b>	<b>₱159,309</b>	<b>₱1,708,416</b>	<b>₱73,721</b>	<b>₱1,782,137</b>

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

The major categories of the Group's plan assets as a percentage of the fair value of total plan assets follow:

	2016	2015	2014
Cash and cash equivalents	<b>1.14%</b>	1.88%	1.80%
Equity investments:			
Quoted	<b>98.79%</b>	98.02%	98.13%
Unquoted	<b>0.07%</b>	0.10%	0.07%
	<b>100.00%</b>	100.00%	100.00%



The principal assumptions used in determining pension and post-employment benefits for the Group's plan assets in 2016, 2015 and 2014 follow:

	2016	2015	2014
Discount rate	4.23%	4.23%	4.28%
Expected rate of return on plan assets	4.23%	4.23%	4.28%
Salary increase rate	3.00%	3.00%	3.00%
Turnover rate	Across the board	Across the board	Across the board
	5% rate	5% rate	5% rate
Mortality rate	1983 US Group Annuity Mortality	1983 US Group Annuity Mortality	1983 US Group Annuity Mortality

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

	Increase (decrease)	2016	2015
Discount rates	+0.25%	(P44,588)	(P44,284)
	-0.25%	P44,917	P46,936
Salary increase rate	+1.00%	P53,349	P52,352

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

Less than one (1) year	P153,026
More than one (1) year to five (5) years	193,066
More than five (5) years to ten (10) years	794,142
More than ten (10) years to fifteen (15) years	489,503
More than fifteen (15) years to twenty (20) years	636,930
More than twenty (20) years	2,091,596
	<u>P4,358,263</u>

## 17. Related Party Disclosures

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its stockholders.



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

2016				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>Subsidiaries</b>				
<b>Receivables</b>				
DDCP	₱394,093	₱141,865	On demand; non-interest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	150	88,905	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	1,946	2,364	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	8,815	827	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SI	21,445	–	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Advances</b>				
FSGRI	–	94,140	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
<b>Payables</b>				
DDCP	365,683	138,495	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
SI	128,193	151,233	On demand; non-interest bearing and collectible in cash	Unsecured, no impairment, no guarantee
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<b>Rental</b>				
SSI	₱437	₱–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<b>Services</b>				
DDCP	374,686	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
SI	8,455	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<b>Revenue</b>				
DMTC	475	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no impairment, no guarantee
<b>Other Expense</b>				
SI	2,667	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	67	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DDCP	812	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee



2015				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Subsidiaries</i>				
<i>Receivables</i>				
DDCP	₱97,545	₱142,283	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
LIDC	200	88,755	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
DMTC	6,068	1,954	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
FSGRI	7,123	1,321	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
<i>Advances</i>				
FSGRI	–	94,140	On demand; noninterest-bearing and collectible in cash	Unsecured, no impairment, no guarantee
<i>Payables</i>				
SI	11,476	44,486	On demand; noninterest-bearing and are normally settled in cash	Unsecured, no guarantee
<i>Rental</i>				
SSI	301	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<i>Services</i>				
DDCP	213,670	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
SI	10,087	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<i>Sales</i>				
DMTC	198	–	Noninterest-bearing and are normally settled in cash on 30-days' term	Unsecured, no guarantee
<i>Other Expense</i>				
SI	2,984	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee
DMTC	470	–	Non-interest bearing and normally settled on 30-day term	Unsecured, no guarantee

- a. In the normal course of business, the Group grants and receives advances to and from its associates and stockholders, which are considered related parties. The corresponding receivables and payables arising from the said transactions, including operational support as at December 31, 2016 and 2015 are as follows:

2016				
	Amount/ Volume	Outstanding Balance	Terms	Conditions
<i>Associate</i>				
<i>Receivable:</i>				
			Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
MMC (Note 11)	₱757	₱2,240		
<i>Stockholders:</i>				
<i>Payables:</i>				
			Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no guarantee
Various (Note 13)		56,084		



	2015			
	Amount/ Volume	Outstanding Balance	Terms	Conditions
Associate <i>Receivable:</i>				
			Non-interest bearing and are normally settled in cash on 30-day term	Unsecured, no impairment, no guarantee
MMC (Note 11)	₱1,259	₱1,483		
Stockholders: <i>Payables:</i>				
			On demand; noninterest- bearing and collectible in cash	Unsecured, no guarantee
Various (Note 13)	—	56,084		

- b. On April 17, 2000, the Parent Company entered into a Trust Agreement with LIDC for the latter to serve as a second trustee for the Parent Company's retirement fund.

On March 31, 2003, the Parent Company entered into a separate Trust Agreement with LIDC whereby the latter ceased to be the second trustee of the Plans and instead to become the principal trustee. Prior to the Trust Agreement, the actual disbursements of the fund for the Plans, or payments to the retiree or beneficiaries had been the responsibility of a local bank as the principal trustee. The Parent Company has decided to terminate the services of the local bank and consolidated to LIDC the administration of the Plans.

The carrying amount and fair value of the retirement fund amounted to ₱227,057 and ₱159,309 as at December 31, 2016 and 2015, respectively (see Note 16).

The retirement fund consists of cash and cash equivalents, investments in quoted and unquoted equity securities which accounts for 1.14% and 98.79% and 0.07% of the trust fund, respectively (see Note 16).

The voting rights on the shares of stock rest on the trustees of the retirement fund, who are also the key management personnel of the Parent Company.

The Group made contributions to the trust fund amounting to ₱84,447 and ₱139,233 in 2016 and 2015, respectively (see Note 16).

- c. Compensation of key management personnel are as follows:

	2016	2015	2014
Short-term benefits	₱49,100	₱51,400	₱48,200
Post-employment benefits	10,100	10,100	10,100
	₱59,200	₱61,500	₱58,300



## 18. Income Taxes

Current provision for income tax in 2016 pertains to FSGRI's Minimum Corporate Income Tax (MCIT) and DDCP's, DMTC's and SI's Regular Corporate Income Tax (RCIT). In 2015, current provision for income tax in pertains to DMTC's and SI's MCIT and DDCP's RCIT. In 2014, the current provision for income tax pertains to DMTC's MCIT and DDCP's RCIT.

The components of the Group's deferred tax assets and liabilities at December 31, 2016 and 2015 follow:

	Deferred Tax Assets - net		Deferred Tax Liabilities - net	
	2016	2015	2016	2015
Accrual of:				
Retirement benefits liability	<b>₱317,714</b>	₱272,486	<b>₱9,167</b>	₱8,780
Liability for mine rehabilitation cost	<b>19,424</b>	19,529	—	—
Various expense	<b>4,956</b>	4,956	—	—
Provisions for:				
Inventory obsolescence	<b>11,723</b>	11,723	<b>312</b>	312
Impairment losses on property, plant and equipment	<b>7,180</b>	7,180	—	—
Impairment losses on receivables	<b>4,307</b>	2,771	<b>71</b>	71
Unrealized foreign exchange losses	<b>12,090</b>	1,839	—	—
Cash deposits from customers	<b>51</b>	51	—	—
Recognized directly in other comprehensive income:				
Retirement benefits liability	<b>143,385</b>	219,168	—	—
Deferred income tax assets	<b>520,830</b>	539,703	<b>9,550</b>	9,163
Revaluation increment in land	<b>(86,565)</b>	(90,447)	<b>(107,600)</b>	(119,187)
Cost of mine rehabilitation and decommissioning	<b>(13,428)</b>	(16,804)	—	—
Unrealized foreign exchange gains	<b>(1,466)</b>	(736)	<b>(126,844)</b>	(119,012)
Deferred tax liabilities	<b>(101,459)</b>	(107,987)	<b>(234,444)</b>	(238,199)
Net deferred tax assets (liabilities)	<b>₱419,371</b>	₱431,716	<b>(₱224,894)</b>	(₱229,036)

The Group did not recognize deferred income tax assets on certain NOLCO and MCIT because management believes that it is more likely than not that the carryforward benefits will not be realized in the near future.

	2016	2015
NOLCO	<b>₱1,348,420</b>	₱1,145,738
MCIT	<b>64</b>	1,674
Provisions	<b>18,974</b>	557
Others	<b>7,164</b>	11,585
	<b>₱1,374,622</b>	₱1,159,554



As at December 31, 2016 and 2015, the Group has NOLCO that can be claimed as deduction from future taxable income and income tax payable and MCIT that can be claimed as tax credit, respectively, as follows:

Year Incurred	Year of Expiration	NOLCO	MCIT
2014	2017	₱358,718	₱–
2015	2018	572,654	53
2016	2019	417,048	11
		<b>₱1,348,420</b>	<b>₱64</b>

Movements of NOLCO and excess MCIT for the years ended December 31 follow:

NOLCO	2016	2015
Balances at beginning of year	<b>₱1,145,738</b>	₱588,623
Additions	<b>417,047</b>	576,665
Applications	<b>(4,010)</b>	(5,971)
Expiration	<b>(210,355)</b>	(13,579)
Balances at end of year	<b>₱1,348,420</b>	₱1,145,738

MCIT	2016	2015
Balances at beginning of year	<b>₱1,674</b>	₱9,010
Additions	<b>11</b>	128
Expirations	<b>(1,621)</b>	(7,464)
Balances at end of year	<b>₱64</b>	₱1,674

The reconciliation of the Group's provision for income tax for the three years ended December 31, 2016 computed at the statutory tax rates to actual provision (benefit) shown in the consolidated statements of comprehensive income follow:

	2016	2015	2014
Tax at statutory income tax rates	<b>(₱222,971)</b>	(₱252,404)	(₱206,811)
Additions to (reductions in) income taxes resulting from tax effects of:			
Change in unrecognized deferred income tax assets	<b>64,333</b>	162,116	67,209
Accelerated deduction	–	87,345	(4,380)
Expired NOLCO and MCIT	<b>64,527</b>	11,741	135,511
Share in operating results of associates	<b>2,026</b>	6,174	(4,044)
Nondeductible expenses	<b>100,298</b>	2,253	71,911
Interest income subjected to final tax	<b>(14,565)</b>	(105)	(108)
Tax-exempt dividend income	–	–	(22)
Others	<b>(3,317)</b>	910	(35,350)
Tax at effective income tax rates	<b>(₱9,669)</b>	₱18,030	₱23,916



## 19. Capital Stock

The Parent Company's authorized share capital is ₱6.64 billion divided into 66.4 billion shares at ₱0.10 par value each, consisting of 39.8 billion Class "A" and 26.6 billion Class "B" common shares.

Only Philippine nationals are qualified to acquire, own, or hold Class "A" shares. The total number of Class "B" shares of stock subscribed, issued or outstanding at any time shall in no case exceed two-thirds (2/3) of the number of Class "A" shares or 40% of the aggregate number of Class "A" and Class "B" shares then subscribed, issued or outstanding.

	2016		2015	
	No. of shares	Amount	No. of shares	Amount
Issued				
Class "A"	<b>30,808,913,158</b>	<b>₱3,080,891</b>	30,808,913,158	₱3,080,891
Class "B"	<b>20,546,335,012</b>	<b>2,054,634</b>	20,546,335,012	2,054,634
	<b>51,355,248,170</b>	<b>5,135,525</b>	51,355,248,170	5,135,525
Subscribed				
Class "A"	<b>10,682,201</b>	<b>1,068</b>	10,682,201	1,068
Class "B"	<b>34,182</b>	<b>3</b>	34,182	3
	<b>10,716,383</b>	<b>1,071</b>	10,716,383	1,071
Total shares issued and subscribed	<b>51,365,964,553</b>	<b>5,136,596</b>	51,365,964,553	5,136,596
Less subscription receivable		<b>(1,890)</b>		(1,890)
		<b>₱5,134,706</b>		₱5,134,706

As at December 31, 2016 and 2015, subscriptions receivable amounted to ₱1.9 million was presented as a deduction to capital stock.

On August 15, 2005, the Parent Company's BOD approved the offer of 2,558,803,769 Class "A" shares and 1,705,868,182 Class "B" shares, or 1 share for every 5 shares held by shareholders as at September 21, 2005 from the Parent Company's unissued capital stock at the offer price of ₱0.20 per share. The offer of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-two thousand thirty-five (22,035) stockholders.

On July 17, 2006, the Parent Company's BOD approved the offer of 1,919,102,827 Class "A" shares and 1,279,401,137 Class "B" shares, or 1 share for every 8 shares held by shareholders as at August 16, 2006 from the Parent Company's unissued capital stock at the offer price of ₱0.20 per share. The sale of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-one thousand seven hundred eighty-eight (21,788) stockholders.

On November 19, 2007, the Parent Company's BOD approved the grant of the 17th Stock Option Awards (Awards) to selected employees, directors and officers of the Group in accordance with the BOD approved Revised Stock Option Plan ("RSOP"). The Awards cover a total of 420,000,000 common shares consisting of 252,000,000 Class "A" and 168,000,000 Class "B" shares from the Parent Company's unissued capital stock, exercisable at the price of ₱0.32 per share, within five (5) years from the date of SEC approval of the same. The option price of ₱0.32 per share was computed based on a new formula in the RSOP, i.e., the amount equivalent to 80% of the average closing price of the stock for the ten (10) trading days immediately preceding the date of the approval of the Grant by the Parent Company's BOD. The SEC approved the Awards and the RSOP on February 1, 2008.





On February 18, 2008, the Parent Company's BOD approved the offer of 2,467,419,971 Class "A" shares and 1,644,944,414 Class "B" shares, or one (1) share for every seven (7) shares held by shareholders as at March 25, 2008 from the Parent Company's unissued capital stock at the offer price of ₱0.25 per share. The offer of shares was exempt from registration. As at the end of that year, the Parent Company had twenty-one thousand four hundred thirty-nine (21,439) stockholders. By virtue of the 1:7 stock rights offering at the price of ₱0.25 per share approved by the Parent Company's BOD on February 18, 2008, the shares covered by the Awards increased by 36,000,000 Class "A" shares and 24,000,000 Class "B" shares. The average option price was accordingly adjusted to ₱0.3112 per share.

During the annual meeting of the stockholders on April 20, 2009, the shareholders approved the increase in the authorized capital stock from ₱3.35 billion to ₱6.64 billion. The stockholders also approved the one-time waiver of their pre-emptive right to subscribe to issues or dispositions of shares of the Parent Company in proportion to their respective shareholdings but only with respect to the issues or dispositions of shares in support of the increase in the authorized capital stock to ₱6.64 billion, provided that the shares to be issued to support such increase in the Authorized Capital Stock shall not exceed 20% of the stock subscribed, issued and outstanding after such issuance.

On October 18, 2010, the Parent Company's BOD approved the offer of 6,031,372,952 Class "A" shares and 4,020,909,888 Class "B" shares, or one (1) share for every 3.3 shares held by shareholders as at December 3, 2010 at the offer price of ₱0.30 per share to support the increase in the Parent Company's authorized capital stock from ₱3.35 billion to ₱6.64 billion. The offer was approved and confirmed by the SEC as an exempt transaction on November 9, 2010. As at the end of that year, the Parent Company had twenty-one thousand one hundred seventy-three (21,173) stockholders.

By virtue of the 1:3.3 stock rights offering at ₱0.30 per share approved by the Parent Company's BOD on October 18, 2010, the number of shares covered by the Awards, specifically those for the fourth and fifth years of the option, increased by 33,409,662 Class "A" and 22,273,108 Class "B" shares. Accordingly, the average option price was adjusted to ₱0.3086 per share.

There were no outstanding stock options as at December 31, 2016 and 2015.

On September 15, 2014, the BOD approved an offer to shareholders, on record as at November 12, 2014, the right to subscribe to one (1) share of common stock for every 5.5 shares held on such record date at the price of ₱0.20 per share from the Parent Company's unissued capital stock. Proceeds from the offering were utilized for the settlement of debts as well as for the exploration programs covering the Victoria, Enargite, and Honeycomb areas.

The Parent Company had twenty seven thousand and nine hundred fifty nine (27,959), twenty seven thousand and nine hundred seventy four (27,974), and twenty seven thousand and nine hundred seventy three (27,973) stockholders as at December 31, 2016, 2015 and 2014, respectively.



## 20. Non-controlling Interests

NCI represent third parties' interests in FSGRI.

Financial information of subsidiary that has material NCI is provided below:

	Principal Place of Business	2016	2015
FSGRI	Philippines	40.00%	40.00%

Equity attributable to material NCI:

	2016	2015
FSGRI	₱257,598	₱250,324

Net income (loss) and OCI attributable to material NCI:

	2016	2015
FSGRI	₱7,274	(₱395)

The summarized financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.

	2016	2015
Operating expenses	(₱761)	(₱4,624)
Other income	26,641	4,016
Finance income	17	23
Income (loss) before income tax	25,897	(585)
Benefit from income tax	(7,843)	(402)
Net income (loss)	18,054	(987)
Other comprehensive income	130	—
Total comprehensive income (loss)	₱18,184	(₱987)
Attributable to NCI	₱7,274	(₱395)

Summarized statements of financial position as at December 31:

	2016	2015
Current assets	₱673,054	₱744,963
Noncurrent assets	6,397,268	6,216,442
Current liabilities	(185,045)	(196,940)
Noncurrent liabilities	(6,065,037)	(6,139,349)
Total equity	₱820,240	₱625,116

Attributable to:	2016	2015
Equity holders of the Parent Company	₱377,061	₱374,792
NCI	257,598	250,324



Summarized cash flow information for the years ended December 31:

	2016	2015
Operating	<b>₱72,574</b>	₱1,221
Investing	<b>(176,298)</b>	(115,298)
Financing	<b>89,384</b>	131,425
Effect of exchange rate changes on cash	<b>10,960</b>	(7,673)
Net increase (decrease) in cash	<b>(₱3,380)</b>	₱9,675

## 21. Loss Per Share

Basic loss per share is calculated by dividing the profit attributable to equity holders of the Parent Company by the weighted average number of common shares in issue during the period.

In computing for the diluted loss per share, the Parent Company considered the effect of its potentially dilutive stock options outstanding as at December 31, 2016 and 2015. There were no outstanding stock options as of December 31, 2016 and 2015.

	2016	2015	2014
Net loss attributable to equity holders of the Parent Company	<b>(₱740,843)</b>	(₱858,981)	(₱718,366)
Weighted average number of common shares for basic loss per share	<b>51,355,248,170</b>	50,843,561,361	44,900,607,349
Adjusted weighted average number of common shares for diluted loss per share	<b>51,355,248,170</b>	50,843,561,361	44,900,607,349
Basic loss per share	<b>(₱0.0140)</b>	(₱0.0170)	(₱0.0160)
Diluted loss per share	<b>(₱0.0140)</b>	(₱0.0170)	(₱0.0160)

## 22. Cost of Sales

	2016	2015	2014
Depletion, depreciation and amortization	<b>₱678,998</b>	₱651,881	₱711,914
Personnel costs (Note 25)	<b>374,754</b>	330,746	361,250
Consumables and supplies (Note 6)	<b>287,305</b>	84,335	275,543
Utilities	<b>224,038</b>	212,641	192,003
Repairs and maintenance	<b>138,450</b>	89,468	77,600
Contractual services	<b>42,037</b>	45,025	43,262
Freight and handling charges	<b>31,893</b>	32,741	39,809
Production tax	<b>28,639</b>	22,928	19,633
Insurance expense	<b>15,490</b>	16,482	15,171
Taxes, duties and licenses	<b>12,716</b>	14,727	18,465
Professional fees	<b>12,645</b>	9,172	4,640
Outside services	<b>8,263</b>	6,699	15,689
Provision for inventory losses (Note 6)	<b>2,554</b>	1,200	142
Transportation and travel	<b>135</b>	78	—
Others	<b>18,487</b>	7,016	2,067
Total	<b>₱1,876,404</b>	₱1,525,139	₱1,777,188



### 23. Cost of Services

	2016	2015	2014
Personnel costs (Note 25)	<b>₱24,591</b>	₱76,380	₱44,596
Consumables and supplies (Note 6)	<b>31,449</b>	66,839	48,008
Professional fees	<b>25,736</b>	6,234	3,971
Depreciation and amortization	<b>14,096</b>	20,948	12,850
Utilities	<b>7,764</b>	7,281	2,502
Taxes, duties and license fees	<b>3,211</b>	2,018	1,970
Transportation and travel	<b>875</b>	9,124	2,219
Repairs and maintenance	<b>444</b>	5,451	1,693
Others	<b>5,682</b>	6,384	6,751
	<b>₱113,848</b>	₱200,659	₱124,560

### 24. Operating Expenses

	2016	2015	2014
Personnel costs (Note 25)	<b>₱100,235</b>	₱99,907	₱95,190
Depreciation and amortization	<b>21,065</b>	12,049	9,703
Taxes, duties and license fees	<b>12,946</b>	22,899	7,714
Outside services	<b>12,659</b>	12,721	12,244
Professional fees	<b>12,285</b>	7,583	5,491
Transportation and travel	<b>10,349</b>	10,431	11,102
Rentals	<b>7,830</b>	7,406	7,557
Insurance expense	<b>7,637</b>	2,754	2,826
Consumables and supplies (Note 6)	<b>6,908</b>	23,763	5,816
Representation and entertainment	<b>6,710</b>	7,863	5,415
Provision for impairment losses on receivables (Note 5)	<b>5,359</b>	257	314
Utilities	<b>4,759</b>	5,416	6,017
Security and janitorial fees	<b>4,227</b>	4,149	3,782
Repairs and maintenance	<b>3,175</b>	6,773	8,602
Consultancy and directors' fees	<b>2,994</b>	1,676	2,404
Stockholders' meeting and expenses	<b>2,177</b>	2,343	—
Bank charges	<b>1,231</b>	4,312	4,636
Contribution and donation	<b>48</b>	—	—
Settlement expenses	<b>—</b>	5,000	—
Others	<b>11,639</b>	11,614	6,250
	<b>₱234,233</b>	₱248,916	₱195,063

### 25. Personnel Costs

	2016	2015	2014
Cost of sales (Note 22)	<b>₱374,754</b>	₱330,746	₱361,250
Cost of services (Note 23)	<b>24,591</b>	76,380	44,596
Operating expenses (Note 24)	<b>100,235</b>	99,907	95,190
	<b>₱499,580</b>	₱507,033	₱501,036



Details of personnel costs follow:

	2016	2015	2014
Salaries and wages	<b>₱402,908</b>	₱414,442	₱408,708
Retirement benefits (Note 16)	<b>60,410</b>	73,205	60,027
Others	<b>36,262</b>	19,386	24,220
	<b>₱499,580</b>	₱507,033	₱492,955

## 26. Supplemental Disclosure to Statements of Cash Flows

Non cash investing activities pertain to additions to property, plant and equipment and AFS financial assets.

<b>Investing Activities</b>	2016	2015
Increase (decrease) in:		
AFS financial assets	<b>(₱308,292)</b>	₱81,982
Investments in and advances to associates	–	(81,982)
Property, plant and equipment	<b>812,883</b>	8,912
Liability for mine rehabilitation costs	<b>3,228</b>	(8,912)
Inventories	<b>(70,698)</b>	–
Mine exploration costs	<b>(745,413)</b>	–
Stock subscription payable	<b>96,341</b>	–
Trade and other payables	<b>211,951</b>	–

## 27. Finance Costs

	2016	2015	2014
Interest cost on retirement liability - net (Note 16)	<b>₱75,339</b>	₱82,877	₱55,373
Interest expense:			
Trust receipts and export advances (Note 13)	<b>22,528</b>	21,165	22,942
Short-term and long-term borrowings (Note 14)	<b>886</b>	3,222	7,628
Accretion of interest on mine rehabilitation costs (Note 15)	<b>2,881</b>	2,353	2,205
Others	–	1,284	2,808
	<b>₱101,634</b>	₱110,901	₱90,956



## 28. Other Income

	2016	2015	2014
Gain on disposal of property, plant and equipment - net	<b>₱116,025</b>	₱2,699	₱32
Realized loss on disposal of AFS financial assets (Note 10)	<b>(63,868)</b>	—	—
Gain on reversal of deferred income tax liability	<b>4,399</b>	—	—
Interest income	<b>110</b>	503	360
Gain due to retrenchment (Note 16)	—	65,885	—
Gain (loss) on disposals of equity instruments (Note 11)	—	5,115	(2,638)
Loss on deemed disposal of Philfire	—	(3,688)	—
Change in estimate of mine rehabilitation cost	—	—	13,916
Miscellaneous income	<b>(4,151)</b>	849	4,227
	<b>₱52,515</b>	<b>₱71,363</b>	<b>₱15,897</b>

## 29. Refining Agreements

The Parent Company entered into RA with Heraeus Limited (Heraeus) in 2005 for the refining of the former's gold and silver bullion production. Each shipment of materials under the agreement will consist of no less than twenty (20) kilograms of materials.

At settlement, the prices for all sales are as follows:

- Gold - the London Bullion Market Association PM fixing in US\$
- Silver - the London Bullion Market Association fixing in US\$

Heraeus shall settle the metal payables initially up to 98% of the provisional values less smelting and treatment charges while the remaining balance shall be paid after determining the final assayed gold and silver contents of refined materials for each shipment.

Smelting and refining charges include refining, transportation and insurance charges incurred by Heraeus. These charges are deducted from the amount receivable from Heraeus. In 2016, 2015 and 2014, smelting and refining charges amounted to ₱3,882, ₱3,214 and ₱2,853, respectively.

On January 1, 2008, the RA was renewed under the same terms. A further renewal was made on October 1, 2013, effective for two years. Heraeus confirmed purchase of gold and silver for the year 2015, also under the same and existing terms, in their letter dated April 1, 2015.

As at December 31, 2016 and 2015, the Group's embedded derivatives on provisionally priced sales are immaterial relative to the consolidated financial statements.



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**30. Commitments, Agreements, Contingent Liabilities and Other Matters**

- (a) The Parent Company's BOD approved its execution of an Option and Shareholders' Agreement ("Agreement") with Gold Fields Switzerland Holding AG ("GFS"), a wholly owned subsidiary of Gold Fields Limited, in relation to the development and operation of the Far Southeast Project.

The Agreement grants GFS an option to subscribe to new shares of stock of FSGRI representing a 20% interest in FSGRI within eighteen (18) months from the execution of the Agreement or ten (10) days from the issuance of a Financial or Technical Assistance Agreement (FTAA) over the Project area, whichever comes later. If the option is exercised by GFS, the Parent Company's interest in FSGRI will be reduced from 60% to 40%.

The Parent Company was paid a non-refundable option fee of US\$10 million. The option requires GFS to sole-fund pre-development expenses including exploration and a feasibility study of the Project and contribute US\$110 million into FSGRI. GFS must also contribute its proportionate share of the development cost at which point GFS will receive its 20% interest in FSGRI.

Advances from FSE to FSGRI are mainly for funding of its ongoing exploration activities. As at December 31, 2016 and 2015, the advances amounted to ₱5,933,221 and ₱5,843,343, respectively. These advances will be converted to equity upon Gold Field's exercise of the Option in accordance with the Agreement.

- (b) In an agreement entered into with Philippine Associated Smelting & Refining Corporation (PASAR) on April 21, 1983, the Parent Company committed to deliver to PASAR and PASAR committed to take in a minimum quantity of its calcine production from its roaster plant in accordance with the pricing and payment terms defined in the agreement. The agreement is for an indefinite period unless otherwise terminated or cancelled pursuant to agreed terms or by the parties' mutual consent. In 1998, the agreement was suspended for an indefinite period in view of the temporary cessation of the Parent Company's roaster plant operations.
- (c) On March 3, 1990, FSGRI entered into a MPSA with the Philippine Government through the Department of Environment and Natural Resources (DENR) and the Parent Company pursuant to Executive Order No. 279. Under the terms of the agreement, FSGRI shall pay the Philippine Government a production share of 2% on gross mining revenues and 10% on net mining revenues payable within thirty (30) days at the end of each financial reporting year and such will commence upon the start of FSGRI's commercial operations. The said government shares have been effectively revised by Republic Act. No. 7942 or the Philippine Mining Act, Sec. 84 of which states that the excise tax on mineral products provided under Sec. 151 of the National Internal Revenue Code shall be the government share under the MPSA.

The initial term of this agreement shall be twenty-five (25) contract years from the effective date, subject to termination as provided in the agreement, renewable for another period of twenty-five (25) years upon such terms and conditions as may be mutually agreed upon by the parties or as may be provided for by law.

In November 2011, pursuant to the Agreement with GFS, the Parent Company filed a letter of intent with the Mine and Geosciences Bureau to convert portions of MPSA No. 01-90-CAR, MPSA No. 151-2000-CAR and APSA No. 096 with an aggregate area of 424.3477 hectares into an FTAA.



On August 13, 2013, the BOD resolved to renew MPSA No. 01-90 that will be expiring in March 2015. FSGRI will join LCMC in its application for the renewal of the MPSA without prejudice to FSGRI's pending application for conversion to FTAA. The assignment documents whereby the two (2) parties exchanged properties, with FSGRI obtaining about 304.08 hectares of the MPSA and the Parent Company getting the balance remain pending with the DENR.

The Parent Company and co-contractor FSGRI (the "Applicants") filed a joint application for the renewal (the "Application") of MPSA 001-90-CAR with the Mines and Geosciences Bureau-Cordillera Administrative Region (MGB-CAR) on June 4, 2014. In a letter dated August 20, 2014, the MGB-CAR informed the applicants that they had substantially complied with the requirements for the renewal of the said MPSA and that the Application will be indorsed to the National Commission on Indigenous Peoples (NCIP) for appropriate action. The Applicants replied that the imposition of new requirements such as the Free and Prior Informed Consent or the endorsement of the Application to the NCIP impairs the contractors' vested rights under the MPSA, the Mining Act (MA) and the Constitution, including, but not limited to, the contractors' right under Section 32 of the MA to a renewal of the MPSA "under the same terms and conditions." Since, despite good faith efforts of the Applicants, the matter had remained unresolved as of mid-February 2015, a month prior to the expiry of the initial term of the MPSA, the Applicants initiated Arbitration proceedings against the Republic of the Philippines, represented by the DENR, pursuant to Sections 12.1 and 12.2 of the MPSA. Pursuant to the Republic Act (Rep. Act) No. 876, Arbitration Act, Rep. Act No. 9285, the Alternative Dispute Resolution (ADR) Act of 2004, and the Special ADR Rules, the applicants filed with the Regional Trial Court a Petition for Interim Measures of Protection whereby their prayed for the issuance of a writ of Preliminary Injunction against the DENR, MGB and the NCIP to be assured of uninterrupted operations during the pendency of the Arbitration.

In December 2015, the Applicants obtained the Arbitral Tribunal's Final Award upholding their position. Specifically, the Final Award confirmed that the Free and Prior Informed Consent and Certification Precondition requirements under the Indigenous Peoples' Rights' Act may not be validly imposed as requirements for the renewal of the MPSA, and the latter should be renewed under the same terms and conditions, without prejudice to changes mutually agreed upon by the parties. The matter is now subject of a Petition for Review with the Court of Appeals.

- (d) Under a memorandum of agreement entered into on October 18, 1991 by FSGRI and the Parent Company among residents of various barangays of Mankayan, Benguet, the municipal government of Mankayan, the Benguet provincial government, the DENR, FSGRI and the Parent Company (collectively as "Group"), among other things, are mandated to abide by certain commitments to the barangays as contained in the said agreement in return for the continued implementation of the Far Southeast Project. The agreement likewise provides that: (1) the implementation of the project is subject to the conditions imposed or may be imposed by the DENR specifically on certain environmental concerns; and the residents shall not hinder the implementation of the project and shall assist the Group and the DENR in the peaceful solution of conflicts relative to the Group's operations.

In April 1998, the Parent Company entered into a separate memorandum of agreement with the Office of Municipal Mayor and Sangguniang Bayan of Mankayan, DENR and MGB. Under the agreement, the Parent Company is mandated to establish and maintain a Monitoring Trust Fund and MRF amounting to ₱50 and ₱5,000, respectively. The funds are to be used for physical and social rehabilitation, reforestation and restoration of areas and communities





affected by mining activities and for pollution control, slope stabilization and integrated community development. The rehabilitation fund to be maintained by the Parent Company in a mutually acceptable bank, subject to annual review of MRF committee, is payable in four (4) equal quarterly payments of ₱1,250 up to March 1999. As at December 31, 2016 and 2015, the rehabilitation fund of ₱5,000, which does not meet the features provided under Philippine Interpretation IFRIC 5, is presented under “Other noncurrent assets” account in the consolidated statements of financial position.

- (e) The Parent Company is either a defendant or co-defendant in certain civil and administrative cases which are now pending before the courts and other governmental bodies. In the opinion of management and the Parent Company’s legal counsel, any adverse decision on these cases would not materially affect the Parent Company’s financial position as at December 31, 2016 and 2015, and results of operations for the years ended December 31, 2016, 2015 and 2014.
- (f) The Parent Company filed a petition with the Panel of Arbitrators of the MGB-Cordillera Autonomous Region (CAR), Baguio City for the cancellation of the mining claims of the Gaffneys after discovering that the Gaffneys’ 6 patentable mining claims were floating claims in violation of Section (Sec.) 28 of the Philippine Bill of 1902, hence void ab initio. However, the Panel of Arbitrators, relying on a 1991 decision of the 1st Division of the Supreme Court (SC) (“Poe Mining Association vs. Garcia”, 202 SCRA 222) which has already been discarded and overruled by the SC En Banc in the 1997 case “Itogon-Suyoc Mines, Inc. vs. DENR Secretary, et al.” (which states that “the requirement that a mining claim must have valid tie points, i.e., must be described with reference to a permanent object, cannot be dispensed with and non-compliance therewith renders the mining claims null and void) erroneously sustained the validity of the mining claims of the Gaffneys. The Panel further entertained the monetary counterclaim of the Gaffneys and awarded them damages notwithstanding that it has no jurisdiction whatsoever over money claims. This is clear in Sec. 77 of the Philippine Mining Act and in the case of “Jorge Gonzales and the Panel of Arbitrators vs. Climax Arimco Mining Corp., et al.”, G.R. No. 161957, where the SC, reiterating its ruling in “Philex Mining Corp. vs. Zaldivia”, 150 PHIL 547 (1972), stated that contractual violations such as fraud, misrepresentation, non-payment of royalties, compensation, validity of contracts and the like, are judicial questions that only the courts, not the Panel of Arbitrators, could hear and decide. The Parent Company appealed this ruling to the Mines Adjudication Board which affirmed the decision of the Panel of Arbitrators in June 2011 but ordered the MGB Central Offices to review and determine the reasonable amount of monetary awards to which the Gaffneys are entitled. Both parties filed motions for reconsideration. Acting on the said motions, the MAB affirmed its decision in respect of the validity of the mining claims, but reversed itself on the monetary awards, stating that monetary claims can only be determined through a competent court. Both parties appealed, the Parent Company in respect of the validity of the Gaffneys’ mining claims and the Gaffneys in respect of the jurisdiction of the Panel of Arbitrators over their monetary claims. The Gaffneys’ appeal was dismissed by the Court of Appeals and they have filed a motion for reconsideration. The Parent Company’s appeal was granted by the Court of Appeals, declaring as null and void the mining claims of the Gaffneys, which ruling has been affirmed with finality by the Supreme Court.
- (g) The Parent Company leases lands where its roasting plant and central warehouse is constructed. Lease agreement for the roasting plant, which expired in April 2016, was extended to another term of six (6) years while the other lease agreement covering the Parent Company’s warehouse will extend until February 2018. Rent expense recognized relating to the said agreements aggregated to ₱3,437, ₱3,243 and ₱3,101 in 2016, 2015 and 2014, respectively.



The minimum annual lease payments subsequent to reporting dates follow:

	2016	2015
Less than one (1) year	<b>₱3,406</b>	₱2,330
More than one (1) year but less than five (5) years	<b>11,171</b>	1,960
Total	<b>₱14,577</b>	₱4,290

The Parent Company leases out some of its properties which include land, a warehouse, guesthouses and other facilities to various entities. Rental income for 2016, 2015 and 2014 amounted to ₱4,304, ₱6,210 and ₱4,023, respectively. Lease term of the rent agreements are valid for one (1) year and are renewable at the discretion of the contracting parties.

- (h) As at December 31, 2016 and 2015, the Parent Company has no unused credit lines with various banks. These facilities can be availed of through short-term loans, opening of import letters of credit and outright purchase of negotiable bills.
- (i) In an execution sale held on December 12, 2001, DDCP acquired a 40% interest in the Guinaoang Project of Crescent Mining and Development Corporation (Crescent) which is covered by MPSA No. 057-096-CAR. The execution sale was done in connection with the case filed by DDCP before the RTC-Makati City against Pacific Falcon Resources Corporation (Pacific Falcon) for the payment of drilling services rendered at the Guinaoang Project amounting to US\$307,187. Per records of the MGB and the Joint Venture Agreement between Crescent and Pacific Falcon (formerly known as Trans Asian Resources Ltd.), Pacific Falcon has a 40% interest in the subject MPSA. DDCP had the pertinent certificate of sale registered with the MGB and requested the MGB for approval of the transfer to DDCP of Pacific Falcon's 40% interest in MPSA No. 057-096-CAR. The MGB having refused to effect such transfer, DDCP filed a motion with the RTC of Makati praying that an Order be issued directing the MGB and the DENR to amend the MPSA of Crescent to reflect DDCP's 40% interest therein, which the RTC granted, subject to the pertinent provisions of mining law and its Implementing Rules and Regulations ("IRR"). The DENR filed a petition for review of the said Order with the Court of Appeals but the same was dismissed for lack of merit. On the other hand, Crescent filed a Petition for Review with the Court of Appeals, claiming that the Decision of the RTC dated 23 April 2001 could no longer be executed because it was barred by prescription. The CA granted the petition. DDCP elevated the matter to the Supreme Court where it is pending resolution.
- (j) SEC Transitional Relief in PAS 39

The SEC, in its Notice (the Notice) dated November 30, 2006 pursuant to Resolution No. 493, provided transitional relief allowing certain commodity derivative contracts of mining companies be "grandfathered" and exempted from the fair value requirements of PAS 39.

The said exemption will apply only if the following requirements are met:

1. Commodity derivative contracts entered into and effective prior to January 1, 2005;
2. Commodity derivative contracts with original maturity of more than one (1) year; and
3. Commodity derivative contracts that would have qualified under PAS 39 hedge accounting rules had these been applied at inception of such contracts.

The Parent Company notified SEC that it is availing of the exemption from compliance with PAS 39 pursuant to the Notice on its letter to SEC dated December 19, 2006.



Had the Parent Company qualified and was not exempted from PAS 39, retained earnings will be reduced and liabilities will be increased as at January 1, 2005 by ₱1,280,000.

(k) Reclassification adjustment

1. The Parent Company and its subsidiary, SI, has restated its previous year financial statements to close out the revaluation increment in land account with the balance amounting to ₱511,504, to retained earnings. The revaluation increment pertains to the remaining balance of the deemed cost adjustment on land which arose when the Group transitioned to PFRS in 2005.

As at December 31, 2016 and 2015, the balance of retained earnings which will not be available for dividend distribution, includes the remaining balance of the deemed cost adjustment amounting to ₱471,529 and ₱511,504, respectively.

2. The consolidated financial statements reflected the proper accounting for the Group's revaluation increment in land.
3. As of December 31, 2016 and 2015, total cash investments received by FSGRI from its stockholders amounted to ₱173,000. This amount represents deposits for future stock subscriptions.

The deposits for future stock subscription is presented as a noncurrent liability in the 2016 and 2015 financial statements since the fixed number of shares corresponding to the amount ₱173,000 has not yet been determined to date.

(l) EO No. 79

On July 12, 2012, EO No. 79 was released to lay out the framework for the implementation of mining reforms in the Philippines. The policy highlights several issues that includes area of coverage of mining, small-scale mining, creation of a council, transparency and accountability and reconciling the roles of the national government and local government units. Management believes that EO 79 has no major impact on its current operations since the mine is covered by an existing MPSA with the government. Section 1 of EO No. 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 the processing of the Company's Application for Production Sharing Agreements given the provision of the EO on the moratorium on the granting of new mineral agreements by the government until a legislation rationalizing existing revenue sharing schemes and mechanisms shall have taken effect.

On March 7, 2013, the MGB has recommended with 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, MGB has started accepting mining applications for Exploration Permits (Eps) and Financial or Technical Assistance Agreement (FTAA) pursuant to DENR Administrative Order (DAO) No. 2013-11.



(m) DENR Issues on Mining Operations

In accordance with DENR Memorandum Order (DMO) No. 2016-01, *Audit of All Operating Mines and Moratorium on New Mining Projects*, the DENR conducted Mine Audit (“Audit”) of the Parent Company. On 22 August 2016, the Parent Company received an audit report (“Report”) signed by the Audit team leader, which Lepanto’s Vice President and Resident Manager co-signed, stating that “The Company substantially complied with the pertinent provisions of the Environmental and Mining laws, rules and regulations, thus No penalty is recommended by the Team.” Subsequently, the DENR transmitted to the Parent Company the results of the Audit, which included the Report and another conflicting report, albeit a draft, which recommended that a show cause be issued to the Parent Company for violation of certain laws. The Parent Company submitted its comments and other explanations to the Report in a letter dated November 3, 2016.

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### 31. Financial Risk Management Objectives and Policies

The Group’s principal financial instruments comprise cash and cash equivalents and interest-bearing borrowings. The main purpose of the Group’s financial instruments is to fund the Group’s operations. The Group has other financial instruments such as receivables, AFS financial assets and trade and other payables, which arise directly from operations. The main risks arising from the use of financial instruments are credit risk, foreign exchange risk, interest rate risk, equity price risk, commodity price risk and liquidity risk.

The Group’s BOD reviews and approves the policies for managing each of these risks and they are summarized below.

#### Credit Risk

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

All gold exports when priced are practically settled on cash basis. Parent Company’s existing contracts with gold refineries allow for advances of 98% of payable metals paid in two (2) working days from pricing. Full settlement is normally received within three (3) working days. For copper concentrates, Parent Company’s existing contracts with smelters allow for advances of 90% of payable metals paid within two (2) to five (5) working days from pricing. Full settlement, however, takes three (3) to six (6) months.

The Parent Company enters into marketing contracts only with refineries and smelters of established international repute. Since the Parent Company became a primary gold and copper concentrates producer, it has entered into exclusive marketing contracts with Heraeus for gold and Trafigura Beheer BV and Shanghang County Jinshan Trading Co., Ltd. for copper concentrates. The Group has a significant concentration of credit risk in relation to its trade receivables from Hereaus. Such risk is managed by securing the specific approval of the BOD before entering into contracts with refineries and by assessing the creditworthiness of such refineries.

The credit risk arising from these financial assets arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. The Group’s gross maximum exposure to credit risk is equivalent to the carrying values since there are no collateral agreements for these financial assets.



The table below shows the maximum exposure to credit risk without consideration to collaterals or other credit enhancements for the components of the consolidated statements of financial position as at December 31, 2016 and 2015.

	2016	2015
Cash with banks (Note 4)	<b>₱84,850</b>	₱65,146
Mine rehabilitation fund	<b>5,711</b>	5,441
Trade receivables (Note 5)	<b>116,376</b>	74,894
AFS financial assets (Note 10)		
Quoted instruments	<b>57,343</b>	346,471
Unquoted instruments	<b>130,684</b>	130,684
<b>Total credit risk exposure</b>	<b>₱394,964</b>	<b>₱622,636</b>

Aging analysis of the Group's financial assets as at December 31, 2016 and 2015 are summarized below:

2016	Neither Past Due Nor Impaired	Past Due But Not Impaired (30-180 days)	Past Due and Individually Impaired	Total
<b>Cash with banks</b>	<b>₱84,850</b>	<b>₱—</b>	<b>₱—</b>	<b>₱84,850</b>
<b>MRF</b>	<b>5,711</b>	<b>—</b>	<b>—</b>	<b>5,711</b>
<b>Trade receivables</b>	<b>97,815</b>	<b>4,449</b>	<b>14,112</b>	<b>116,376</b>
<b>AFS financial assets</b>				
<b>Quoted</b>	<b>57,343</b>	<b>—</b>	<b>—</b>	<b>57,343</b>
<b>Unquoted</b>	<b>130,684</b>	<b>—</b>	<b>—</b>	<b>130,684</b>
<b>Total</b>	<b>₱376,403</b>	<b>₱4,449</b>	<b>₱14,112</b>	<b>₱394,964</b>

2015	Neither Past Due Nor Impaired	Past Due But Not Impaired (30-180 days)	Past Due and Individually Impaired	Total
Cash with banks	₱65,146	₱—	₱—	₱65,146
MRF	5,441	—	—	5,441
Trade receivables	61,162	3,338	10,394	74,894
AFS financial assets				
Quoted	346,471	—	—	346,471
Unquoted	130,684	—	—	130,684
<b>Total</b>	<b>₱608,904</b>	<b>₱3,338</b>	<b>₱10,394</b>	<b>₱622,636</b>

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

- Cash with banks are assessed as high grade since the related amounts are deposited with the country's reputable banks duly approved by BOD.
- The carrying amount of MRF approximate their fair values since they are restricted cash with bank. MRF earns interest based on prevailing market rates repriced monthly. Cash with banks and other noncurrent assets are considered high-grade since these are deposited in reputable banks.
- Trade receivables, which pertain mainly to receivables from sale of ore, are assessed as high-grade. These are assessed based on past collection experience of full settlement within three days after invoice date with no history of default.
- Quoted equity shares are assessed as substandard grade due to the low performance of shares in the local stock market.



- Unquoted equity instruments are assessed as high grade as this pertain to the lone copper smelter in the country that operates in an industry which has a potential growth.

The above high grade credit quality financial assets pertain to financial assets with insignificant risk of default based on historical experience. Substandard grade credit quality financial assets pertain to financial assets with more than insignificant risk of default based on historical experience and/or counterparty credit standing.

#### Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in foreign currency exchange rates, interest rates, equity prices and other market changes.

#### *Foreign Exchange Risk*

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial statements and consolidated statements of cash flows. The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-Philippine Peso currencies.

The Group sells its product to the interstates national market. All metal sales are denominated in US\$. Dollar conversion of metal sales to Philippine Peso is based on the prevailing exchange rate at the time of sale. The Group also has purchase transactions denominated in AU\$.

The Group's US\$ and AU\$ denominated monetary assets and liabilities as at December 31, 2016 and 2015 follow:

	2016		2015	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
<u>Assets</u>				
Cash	US\$601	₱29,882	US\$796	₱37,460
Trade receivables	1,291	64,189	1,185	55,766
	<b>US\$1,892</b>	<b>₱94,071</b>	<b>US\$1,981</b>	<b>₱93,226</b>
<u>Liabilities</u>				
Trade payables and accrued expenses	US\$8,992	₱447,082	US\$8,276	₱389,469
	AU\$1	36	AU\$371	12,714
Borrowings	US\$1,369	68,067	US\$1,000	47,060
	<b>US\$10,361</b>	<b>515,149</b>	<b>US\$9,276</b>	<b>₱436,529</b>
	AU\$1	36	AU\$371	12,714
Net liabilities in US\$	<b>(US\$8,469)</b>	<b>(₱421,078)</b>	<b>(US\$7,295)</b>	<b>(₱343,303)</b>
Net liabilities in AU\$	<b>(AU\$1)</b>	<b>(₱36)</b>	<b>(AU\$371)</b>	<b>(₱12,714)</b>

As at December 31, 2016 and 2015, the exchange rate of the Philippine Peso to the US\$ is ₱49.72 and ₱47.06, respectively to US\$1 while the exchange rate of the Philippine Peso to the AU\$ is ₱35.78 and ₱34.27, respectively, to AU\$1.



The sensitivity to a reasonably possible change in the US\$ and AU\$ exchange rate, with all other variables held constant, of the Group's income before income tax as of December 31, 2016 and 2015 is as follows:

<b>2016</b>	<b>Change in foreign exchange rate</b>	<b>Sensitivity of pretax income</b>
<b>US\$</b>	<b>Strengthens by ₱0.65</b>	<b>₱5,505</b>
	<b>Weakens by 0.48</b>	<b>4,065</b>
<b>AU\$</b>	<b>Strengthens by ₱1.05</b>	<b>₱1</b>
	<b>Weakens by 0.98</b>	<b>1</b>
<b>2015</b>	<b>Change in foreign exchange rate</b>	<b>Sensitivity of pretax income</b>
<b>US\$</b>	<b>Strengthens by ₱0.23</b>	<b>₱1,678</b>
	<b>Weakens by 0.55</b>	<b>4,012</b>
<b>AU\$</b>	<b>Strengthens by ₱0.99</b>	<b>₱368</b>
	<b>Weakens by 0.82</b>	<b>305</b>

There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

#### *Interest Rate Risk*

The Group's exposure to the risk for changes in market interest rate relates primarily to its long-term borrowings with floating interest rates. The Group regularly monitors its exposure to interest rates movements. Management believes that cash generated from operations is sufficient to pay for its obligations under the loan agreements as they fall due.

Nominal interest rates vary from floating rate of three (3) month LIBOR plus fixed margin of 1% and Dollar prime plus margin of 3% for US\$ denominated long-term borrowings and one (1)-month PDST-F rate plus 3% minimum spread on Peso denominated long-term borrowings.

Based on the historical movement of the interest rates, management believes that the reasonably possible change for the next twelve (12) months would result to an increase (decrease) of one hundred (100) basis points for 2016 and 2015. There is no other impact on the Group's equity other than those already affecting the consolidated profit or loss.

Since the amount of long-term borrowings subject to interest rate risk is immaterial relative to the consolidated financial statements, management opted not to disclose the interest rate risk sensitivity analysis for 2016 and 2015.

#### *Equity Price Risk*

Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its AFS financial asset investment in POPI.

The Group's policy is to maintain its risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the consolidated statements of financial position.



Based on the historical movement of the stock exchange index, management's assessment of reasonable possible change was determined to be an increase (decrease) of 13.07% in 2016 and 15.29% in 2015, resulting to a possible effect in the equity of increase (decrease) of ₱3,756 in 2016 and an increase (decrease) of ₱35,642 in 2015.

#### *Commodity Price Risk*

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces.

The Group's policy is to maintain the risk to an acceptable level. Movement in metal price is monitored regularly to determine the impact on its consolidated statements of financial position.

Since the amount of financial assets and liabilities subject to commodity price risk is immaterial relative to the consolidated financial statements, management opted not to disclose commodity price risk sensitivity analysis for 2016 and 2015.

#### Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet maturing obligations from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from related parties. 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 capital inflows to match repayments of short-term debt. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues. Accordingly, its loan maturity profile is regularly reviewed to ensure availability of funding through an adequate amount of credit facilities with financial institutions.

The table below summarizes the maturity analysis of the Company's financial assets as at December 31, 2016 and 2015 that are used to manage the liquidity risk of the Company:

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
<b>2016</b>							
Cash in banks	₱84,850	₱—	₱—	₱—	₱—	₱—	₱84,850
Trade receivables	96,977	5,207	80	—	—	14,112	116,376
<b>Total</b>	<b>₱181,827</b>	<b>₱5,207</b>	<b>₱80</b>	<b>₱—</b>	<b>₱—</b>	<b>₱14,112</b>	<b>₱201,226</b>
	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
<b>2015</b>							
Cash in banks	₱65,146	₱—	₱—	₱—	₱—	₱—	₱65,146
Trade receivables	55,773	—	19,121	—	—	—	74,894
<b>Total</b>	<b>₱120,919</b>	<b>₱—</b>	<b>₱19,121</b>	<b>₱—</b>	<b>₱—</b>	<b>₱—</b>	<b>₱140,040</b>





The table below summarizes the maturity profile of the Group's financial liabilities as at December 31, 2016 and 2015 based on contractual undiscounted payments. Long-term debt consists of principal and future interest payments.

2016	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
Trade and other payables	₱1,197,766	₱282,315	₱70,456	₱46,309	₱2,755	₱3,283	₱1,602,884
Borrowings	—	—	—	68,065	—	—	68,065
	₱1,197,766	₱282,315	₱70,456	₱114,374	₱2,755	₱3,283	₱1,670,949

2015	On demand	Less than 3 months	3 to 6 months	6 to 12 months	1 to 2 Years	More than 2 years	Total
Trade and other payables	₱920,893	₱293,201	₱126,092	₱5,485	₱499	₱39,063	₱1,385,233
Borrowings	—	—	—	—	43,522	—	43,522
	₱920,893	₱293,201	₱126,092	₱5,485	₱44,021	₱39,063	₱1,428,755

#### Fair Values

PFRS defines fair value as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

#### *Cash and Cash Equivalents, Trade Receivables and Trade and Other Payables*

The carrying amounts of cash and cash equivalents, receivables and trade and other payables, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

#### *AFS Financial Assets*

Fair values of investments are estimated by reference to their quoted market price at the end of the reporting period. Unquoted equity securities are carried at cost, net of impairment in value, since fair value of these AFS securities cannot be reliably determined as these securities are not listed and have no available bid price.

#### *Loans Payable and Borrowings*

The outstanding short-term borrowings and long-term borrowings as at December 31, 2016 and 2015 bear floating rates that are repriced monthly and quarterly.

The fair value of the interest bearing long-term debt in 2015 and 2014 is based on the discounted value of future cash flows using the applicable rates for the similar types of loans. For floating rate long-term borrowings which are repriced quarterly, the fair value is determined by discounting the principal amount plus the next interest payment using the prevailing market rate for the period up to the next repricing date.

#### Financial Instruments

PFRS defines fair value as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.



### Fair Values of Financial Instruments

The following table shows the carrying values and fair values of the Group's financial instruments, whose carrying values does not approximate its fair values as at December 31 of each year:

	Carrying Values		Fair Values	
	2016	2015	2016	2015
<b>Other Financial Liability</b>				
Short-term debt	<b>P68,065</b>	–	<b>P68,065</b>	–

### *Cash, Receivables and Trade and Other Payables*

The carrying amounts of cash, short-term investments, trade receivables and trade and other payables approximate their fair values due to the short-term nature of these financial instruments accounts.

### *AFS Financial Assets*

The fair value of quoted equity instrument is determined by reference to market bid quotes at the end of the reporting period. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less any impairment losses.

### *Long-term Borrowings*

Fair value of long-term debt and other interest-bearing liabilities is estimated using the discounted cash flow methodology using the benchmark risk free rates for similar types of long-term debt and other interest-bearing liabilities.

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

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

The fair value hierarchy of the financial assets and liabilities as at December 31 of each year is presented as follows:

2016	Level 1	Level 2	Level 3	Total
AFS financial asset	<b>P57,343</b>	<b>P–</b>	<b>P130,684</b>	<b>P188,027</b>
Short-term debt	–	–	<b>(68,065)</b>	<b>(68,065)</b>
	<b>P57,343</b>	<b>P–</b>	<b>P62,619</b>	<b>P119,962</b>
2015	Level 1	Level 2	Level 3	Total
AFS financial asset	P346,471	P–	P130,684	P477,155
Long-term debt	–	–	(43,522)	(43,522)
	P346,471	P–	P87,162	P433,633

There were no transfers between levels of fair value measurement as at December 31, 2016 and 2015.



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### 32. Capital Management

The primary objective of the Group's capital management is to ensure that the Group maintains positive cash balance in order to support their businesses, pay existing obligations and maximize shareholder value. 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 obtain additional advances from stockholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended December 31, 2016 and 2015. The Group monitors capital using the consolidated financial statements.

As at December 31, 2016 and 2015, the Group's capital, which is composed of common shares and additional paid-in capital, amounted to ₱9,470,937.

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### 33. Segment Information

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group derives revenue from the following main operating business segments:

#### Mining Activities

This segment engages in exploration and mining of gold, silver, copper, lead, zinc and all kinds of ores, metals, minerals, oil, gas and coal and their related by-products.

#### Service

This segment derives its income from drilling, hauling and sawmilling services to its related and outside parties.

#### Others

This segment is engaged in the trading, manufacturing, investing and insurance broker activities of the Group.

Transfer prices between business segments are set on an arm's-length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

The Group operates and generates revenue principally in the Philippines. Thus, geographical segmentation is not required.



The following tables present certain information regarding the Group's operating business segments:

2016	Mining	Service	Others	Elimination	Total
<b>Revenue from external customers:</b>					
Sale of metals - net	₱1,431,928	₱—	₱—	₱—	₱1,431,928
Others	4,304	78,697	19,127	—	102,128
Inter-segment revenue	—	403,776	11,204	(414,980)	—
Segment revenue	1,436,232	482,473	30,331	(414,980)	1,534,056
Cost and operating expenses	(2,049,558)	(138,474)	(36,453)	—	(2,224,485)
Inter-segment expenses	(108,846)	(310,122)	(2,667)	421,635	—
Share in operating results of associates	—	—	—	(6,752)	(6,752)
Income (loss) before income tax	(722,172)	33,877	(8,789)	(97)	(697,181)
Finance cost, net of other income	(109,697)	(8,265)	71,905	—	(46,057)
Inter-segment expenses	6,427	295	—	(6,722)	—
Provision for income tax	20,268	(8,371)	(2,228)	—	9,669
Inter-segment provision for income tax	—	—	—	—	—
Net income (loss)	(₱805,174)	₱17,536	₱60,888	(₱6,819)	(₱733,569)

2016	Mining	Service	Others	Elimination	Total
Segment assets	₱16,041,601	₱576,711	₱778,648	(₱918,028)	₱16,478,932
Investments and advances to associate	960,819	—	110,499	(510,113)	561,205
Segment liabilities	(9,333,059)	(451,201)	(248,385)	434,606	(9,598,039)
Depreciation	701,425	41,273	7,076	—	749,774
Capital expenditures:					
Tangible fixed assets	6,286,235	164,914	16,490	54,819	6,522,458
Intangible assets	310,809	—	362,552	—	673,361
Cash flows arising from (used in):					
Operating activities	354,318	103,515	(109,892)	(26,521)	321,420
Investing activities	(413,405)	(107,199)	109,019	47,336	(364,249)
Financing activities	72,480	—	150	1,106	73,736

2015	Mining	Service	Others	Elimination	Total
<b>Revenue from external customers:</b>					
Sale of metals - net	₱1,146,416	₱—	₱—	₱—	₱1,146,416
Others	6,210	42,432	17,844	—	66,486
Inter-segment revenue	—	235,284	12,715	(247,999)	—
Segment revenue	1,152,626	277,716	30,559	(247,999)	1,212,902
Cost and operating expenses	(1,875,951)	(64,599)	(34,164)	—	(1,974,714)
Inter-segment expenses	(55,368)	(193,508)	(2,984)	251,860	—
Share in operating results of associates	—	—	—	(20,579)	(20,579)
Income (loss) before income tax	(778,693)	19,609	(6,589)	(16,718)	(782,391)
Finance cost, net of other income	(56,733)	(3,052)	830	—	(58,955)
Inter-segment expenses	5,806	297	58,403	(64,506)	—
Provision for income tax	(12,163)	(5,623)	(244)	—	(18,030)
Inter-segment provision for income tax	—	—	(18,763)	18,763	—
Net income (loss)	(₱841,783)	₱11,231	₱33,637	(₱62,461)	(₱859,376)

2015	Mining	Service	Others	Elimination	Total
Segment assets	₱16,440,319	₱619,266	₱720,854	(₱786,548)	₱16,993,891
Investments and advances to associate	960,062	—	110,499	(503,730)	566,831
Segment liabilities	(9,115,992)	(512,672)	(252,832)	314,396	(9,567,100)
Depreciation	684,929	17,620	6,192	—	708,741
Capital expenditures:					
Tangible fixed assets	6,069,296	98,551	23,537	54,819	6,246,203
Intangible assets	325,005	—	403,287	—	728,292
Cash flows arising from (used in):					
Operating activities	(91,221)	42,274	7,587	98,982	57,622
Investing activities	(803,508)	(73,237)	(7,117)	(23,710)	(907,572)
Financing activities	576,301	37,500	200	(82,946)	531,055



2014	Mining	Service	Others	Elimination	Total
Revenue from external customers:					
Sale of metals - net	₱1,428,634	₱—	₱—	₱—	₱1,428,634
Others	4,217	30,649	15,938	—	50,804
Inter-segment revenue	—	120,919	16,071	(136,990)	—
Segment revenue	1,432,851	151,568	32,009	(136,990)	1,479,438
Cost and operating expenses	(2,014,103)	(139,140)	(33,932)	90,980	(2,096,195)
Share in operating results of associates	—	—	—	(13,481)	(13,481)
Income (loss) before income tax	(581,252)	12,428	(1,923)	(59,491)	(630,238)
Finance cost, net of other income	(52,658)	(746)	(2,873)	—	(56,277)
Provision for income tax	(19,124)	(4,390)	(402)	—	(23,916)
Net income (loss)	(₱653,034)	₱7,292	(₱5,198)	(₱59,491)	(₱710,431)

2014	Mining	Service	Others	Elimination	Total
Segment assets	₱16,387,392	₱592,386	₱669,754	(₱740,432)	₱16,909,100
Investments and advances to associate	—	—	—	683,665	683,665
Segment liabilities	(9,116,894)	(532,087)	(235,012)	365,322	(9,518,671)
Depreciation	693,852	3,537	10,738	—	708,127
Capital expenditures:					
Tangible fixed assets	6,302,991	10,327	42,323	—	6,355,641
Intangible assets	324,941	403,287	250	—	728,478
Cash flows arising from (used in):					
Operating activities	(15,691)	11,712	(2,207)	—	(6,186)
Investing activities	(840,120)	(1,024)	(26,308)	—	(867,452)
Financing activities	126,775	—	25,706	—	152,481

### 34. Events After End of Reporting Period

#### a. DENR Issues on Mining Operations

On February 14, 2017, the Parent Company received Notice of Issuance of an Order (“Order”) from DENR suspending its mining operation under MPSA No. 001-90-CAR covering the area in Mankayan, Benguet and directing the Parent Company to implement appropriate mitigating measures within the period of not more than three (3) months from receipt of Order. The Order states that the Parent Company violated certain provisions of the following laws, rules and regulations:

- PD. No. 1586 entitled “Establishing an Environmental Impact Statement System including other Environmental Management related Measures and for other Purposes”;

DAO No. 2003-30 or the IRR of the Philippine Environmental Impact Statement System; and

- Rep. Act No. 7942, otherwise known as “The Philippine Mining Act of 1995”;

DAO No. 2010-21 or the “Revised Implementing Rules and Regulations of Rep Act. 7942, otherwise known as the Philippine Mining Act of 1995”; and

DAO No. 2000-98 or the Mine Safety and Health Standards.

On the same date, the Parent Company filed a Notice of Appeal with the Office of the President in accordance with Administrative Order No. 22, Series of 2011, which filing effectively stayed the execution of the Order. On March 15, 2017, the Parent Company filed its Memorandum on Appeal with the Office of the President, praying for the reversal of the



Order and that the same be declared null and void on the following grounds; i) the DENR Secretary is without authority or power to issue the Order; ii) assuming, without admitting, that the DENR Secretary has the power to issue the Order, her imposition of the penalty of suspension upon the Parent Company is without basis in fact and in law; and iii) the DENR Secretary violated the Parent Company's right to due process of law when the DENR issued the Order. As of March 20, 2017, the Parent Company did not received any response from DENR and Office of the President.

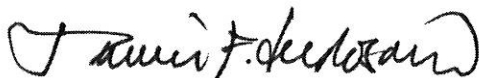


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE**

The Board of Directors and the Stockholders  
Lepanto Consolidated Mining Company and Subsidiaries  
21st Floor, Lepanto Building  
Paseo de Roxas, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Lepanto Consolidated Mining Company and Subsidiaries as at December 31, 2016 and 2015, and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 20, 2017. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jaime F. del Rosario  
Partner  
CPA Certificate No. 56915  
SEC Accreditation No. 0076-AR-4 (Group A),  
May 1, 2016, valid until May 1, 2019  
Tax Identification No. 102-096-009  
BIR Accreditation No. 08-001998-72-2015,  
March 24, 2015, valid until March 23, 2018  
PTR No. 5908689, January 3, 2017, Makati City

March 20, 2017



**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**ANNUAL AUDITED FINANCIAL REPORT**  
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**DECEMBER 31, 2016**

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**SCHEDULE I**  
**RECONCILIATION OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**PURSUANT TO SRC RULE 68, AS AMENDED AND**  
**SEC MEMORANDUM CIRCULAR NO.11**

As of December 31, 2016

(Amounts in thousands)

Unappropriated Retained Earnings, beginning		(P1,728,477)
Adjustments (see adjustments in previous year's reconciliation)		<u>(513,354)</u>
Unappropriated Retained Earnings, as adjusted, beginning		(2,241,831)
Add: Net loss actually earned/realized during the period	(740,791)	
Net loss during the period closed to Retained Earnings		
Less: Non-actual/unrealized income net of tax	—	
Equity in net income of associate/joint venture	6,752	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	1,466	
Fair value adjustment (mark-to-market gains)	—	
Fair value adjustment of investment property resulting to gain	—	
Adjustment due to deviation from PFRS/GAAP – gain	—	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	346,202	
Subtotal	<u>(386,371)</u>	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	—	
Adjustment due to deviation from PFRS/GAAP – loss	—	
Loss on fair value adjustment of investment property (after tax)	—	
Subtotal	<u>—</u>	
Net loss actually incurred during the period	(386,371)	
Add (Less):		
Dividend declarations during the period	—	
Appropriations of retained earnings during the period	(471,529)	
Reversals of appropriations	—	
Effects of prior period adjustments	—	
Treasury shares	—	
Subtotal	<u>(471,529)</u>	<u>(857,900)</u>
<b>TOTAL RETAINED EARNINGS, END</b>		
<b>AVAILABLE FOR DIVIDEND</b>		<u><u>P-†</u></u>

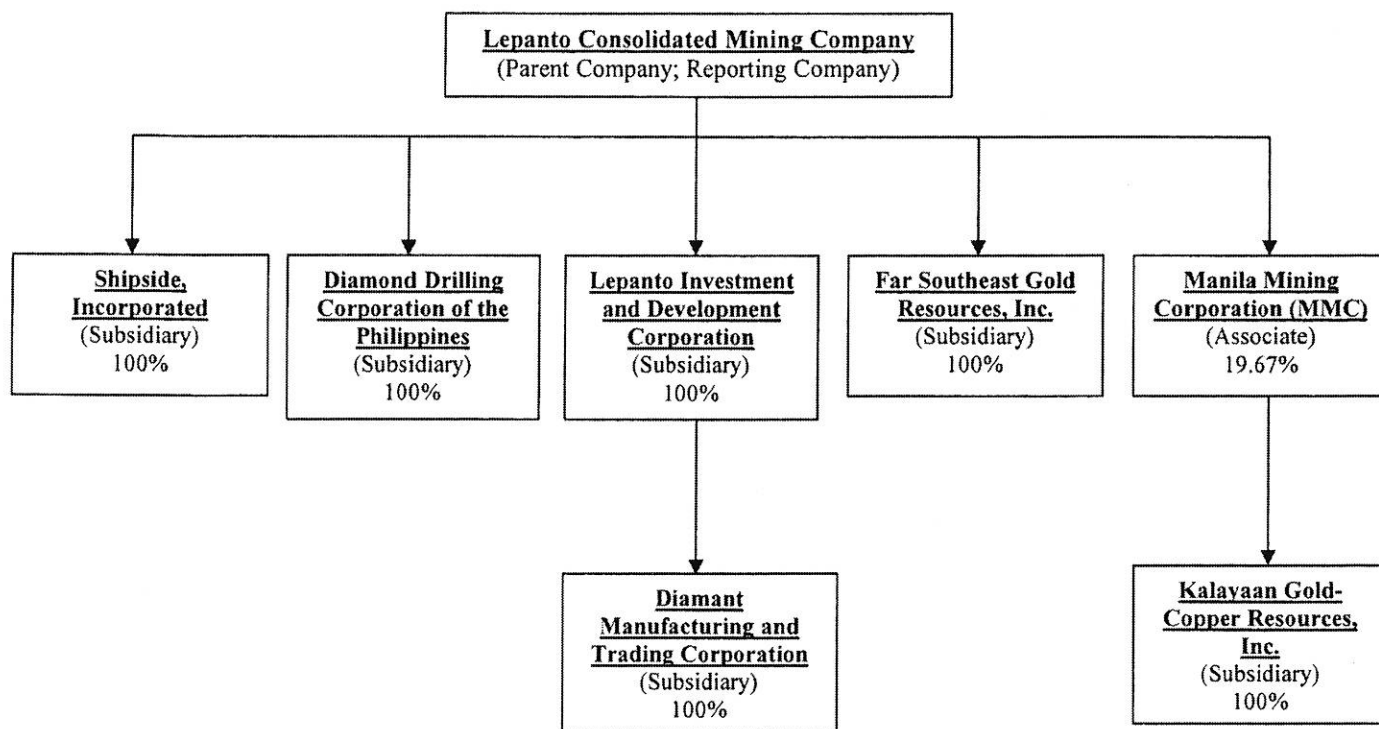
†Amount is zero since the reconciliation results to a deficit



**SCHEDULE II**  
**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**FINANCIAL RATIOS PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2016**

	2016	2015
<b><u>Profitability Ratios:</u></b>		
Return on assets	(4.38%)	(5.07%)
Return on equity	(10.25%)	(11.60%)
Gross profit margin	(29.74%)	(42.29%)
Net profit margin	(47.82%)	(70.85%)
<b><u>Liquidity and Solvency Ratios:</u></b>		
Current ratio	1.08:1	1.37:1
Quick ratio	0.20:1	0.26:1
Solvency ratio	(0.076:1)	(0.090:1)
<b><u>Financial Leverage Ratios:</u></b>		
Asset to equity ratio	2.39:1	2.29:1
Debt to equity ratio	1.39:1	1.29:1
Interest coverage ratio	0.02:1	0.14:1

**SCHEDULE III**  
**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2016**



**SCHEDULE IV**  
**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**TABULAR SCHEDULE OF EFFECTIVE STANDARDS**  
**AND INTERPRETATIONS UNDER THE PFRS**  
**PURSUANT TO SRC RULE 68, AS AMENDED**  
**DECEMBER 31, 2016**

I. List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as at December 31, 2016:

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as at December 31, 2016		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of vesting condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based payment transactions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for contingent consideration in a business combination			✓
	Amendments of PFRS 3: Scope for Joint Ventures			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 Financial Instruments with PFRS 4, Insurance contracts*			✓
<b>PFRS 5</b>	Noncurrent Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources	✓		
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
	Amendments to PFRS 7: Servicing contracts	✓		
	Amendments to PFRS 7: Applicability to the condensed interim financial statements			✓
<b>PFRS 8</b>	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of operating segments	✓		
	Amendments to PFRS 8: Reconciliation of the total reportable segments' assets to entity's assets	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PFRS 9</b>	Financial Instruments (2014 version)*	Not early adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not early adopted		
	Financial Instruments Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39*	Not early adopted		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Consolidated Financial Statements – Investment Entities	✓		
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Not early adopted		
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisition of Interest in Joint Operation	✓		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Investments Entities: Applying the Consolidation Exception	✓		
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendments to PFRS 13: Portfolio Exceptions	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts	✓		
<b>PFRS 15</b>	Revenue from contracts with customers	✓		
	Amendments to PFRS 15: Clarification to PFRS 15*	Not early adopted		
<b>PFRS 16</b>	Leases	✓		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
<b>PAS 2</b>	Inventories	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative*	Not early adopted		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Balance Sheet Date	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses*	Not early adopted		
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Revaluation method proportionate restatement of accumulated depreciation	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16: Agriculture: Bearer of Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Discount rate: regional market issue	✓		
	Amendments to PAS19: Defined Benefit Plans – Employee Contribution			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28: Sale or Contribution of Assets between and Investor and its Associate or Joint Venture*	Not early adopted		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting			✓
	Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial support			✓
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation method proportionate restatement of accumulated	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
<b>PAS 40</b>	Investment Property			✓
	Amendment to PAS 40: Clarifying the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property			✓
<b>PAS 41</b>	Agriculture			✓
	Amendments to PAS 41: Agriculture: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2016		Adopted	Not Adopted	Not Applicable
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 15</b>	Agreements for Construction of Real Estate			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

\*Standards or amendments which will be effective subsequent to December 31, 2016

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**FINANCIAL ASSETS**  
**DECEMBER 31, 2016**

Name of issuing entity and association of each issue	Number of shares or principal amounts of bonds and notes	Amount shown in the balances sheet (figures in thousands)	Income received and accrued
<b>AFS Financial Assets:</b>			
Prime Orion Philippines, Inc.	21,491,225	₱41,321,798	₱—
Philippine Associated Smelting & Refining Corp.	37,407,798	37,408	—
Filsyn Corp.	4,545,034	—	—
Philippine Fire and Marine Insurance Corp.	330,613	81,982	—
Manila Peninsula Hotel	1,304,632	10,395	—
Crown Fruits	20,000	—	—
Alabang Country Club Inc.	1	3,800	—
Canlubang Golf & Country Club Inc.	1	900	—
Club Filipino	1	170	—
Makati (Sports) Club Inc.	1	400	—
Manila Polo Club	1	13,000	—
PHILAM Properties Corp.	1	500	—
Others	1	8	—

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS**  
**(OTHER THAN RELATED PARTIES)**  
**DECEMBER 31, 2016**

Name and Designation of Debtor	Balance at Beginning period	Additions	Amounts Collected	Amounts Written off	Current	Not Current	Balance at end of period
NOT APPLICABLE							

**SCHEDULE C**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**AMOUNTS RECEIVABLE FROM RELATED PARTIES**  
**WHICH ARE ELIMINATED DURING THE**  
**CONSOLIDATION OF FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

Name and Designation of Debtor	Balance at Beginning of period	Additions	Amounts Collected / Settled	Amounts Written off	Current	Not Current	Balance at end period
DDCP	₱142,282,698	₱394,092,802	₱394,510,550	₱—	₱141,864,950	₱—	₱141,864,950
FSGRI	95,461,296	8,814,694	103,448,756	—	827,234	—	827,234
SSI	—	21,445,244	21,445,244	—	—	—	—
DMTC	1,953,719	1,945,951	1,535,252	—	2,364,418	—	2,364,418
LIDC	88,755,103	150,016	—	—	88,905,119	—	88,905,119

**SCHEDULE D**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2016**

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Intangible Asset	P-	P8,382,165	P1,117,622	P-	P-	P7,264,543

**SCHEDULE E**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**LONG TERM DEBT**  
**DECEMBER 31, 2016**

Title of Issue and type of obligation	Amount authorized by Indenture	Amount shown under the caption "Current Portion of long-term borrowings" in related balance sheet	Amount shown under the caption "Long-term borrowings- net of current portion" in related balance sheet
Statham Capital Corporation - <i>Gold Delivery Agreement</i>	P-	P49,720,000	P-
Bank of Commerce - <i>FCDU Loan Payable</i>	-	18,346,680	-



**SCHEDULE F**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES  
INDEBTEDNESS TO RELATED PARTIES  
(LONG-TERM LOANS FROM RELATED COMPANIES)  
DECEMBER 31, 2016**

Name of Related Party	Balance at beginning of period	Balance at end of period
NOT APPLICABLE		

**SCHEDULE G**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES  
GUARANTEES OF SECURITIES OF OTHER ISSUERS  
DECEMBER 31, 2016**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owed by person for which statement is filed	Nature of guarantee
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NOT APPLICABLE
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**SCHEDULE H**

**LEPANTO CONSOLIDATED MINING COMPANY AND SUBSIDIARIES**  
**CAPITAL STOCK**  
**DECEMBER 31, 2016**

The Parent Company's authorized share capital is ₱6.64 billion divided into 66.4 billion shares at ₱0.10 par value each, consisting of 39.8 billion Class "A" and 26.6 billion Class "B" common shares. As at December 31, 2016, total shares issued and outstanding is 51,365,964,553 held by 27,958 shareholders.

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversions and other rights	Related parties	No of shares held by Directors and Officers	Others
Common Stock						
Class A	39,840,000,000	30,819,595,359	—	30,920	675,763,141	30,143,801,298
Class B	26,560,000,000	20,546,369,194	—	783,523	218,609,422	20,326,976,249